

PHILIP II AGAINST THE CORTES AND THE CREDIT FREEZE OF 1575-1577*

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ABSTRACT

Numerous archival documents show how the suspension of payments by Philip II, in September 1575, on the contracts with Genoese bankers (*asientos*) induced a freeze of the domestic credit market in Castile through the bankers' intermediation for *asientos* and the credit interconnections. Commercial fairs stopped, banks failed and trade suffered while the king granted legal protection to the Genoese bankers. The evidence strikingly confirms that by his strategy, Philip II was able to remove the *de facto* ceiling on the domestic debt (*juros*) imposed by the fixed revenue commitment of the Castilian cities in the Cortes. The agreement with the bankers was signed in December 1577 immediately after the cities had agreed to the doubling of their commitment.

Keywords: debt funding, sovereign loan defaults, financial crises, commercial credit markets, war of attrition

JEL Code: N2, H63, H6, F34, F3

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RESUMEN

La documentación archivística muestra que el decreto de suspensión de consignaciones de 1575-77 paralizó el mercado de crédito de Castilla por la estrecha relación que había entre los asientos de los banqueros del rey y el crédito local. Durante esos años, las ferias dejaron de celebrarse, muchos bancos locales quebraron y el comercio sufrió una grave parálisis, pero el rey no dudó en proteger a sus banqueros de sus acreedores castellanos. La documentación confirma que gracias a esta estrategia, Felipe II logró romper el techo de su deuda pública (juros) que dependía de la contribución fiscal de las ciudades reunidas en las Cortes de Castilla. El acuerdo con los banqueros no se firmó hasta Diciembre de 1577, sólo inmediatamente después de que las ciudades hubiesen aceptado duplicar su contribución.

Palabras clave: deuda pública, bancarrotas, crisis financieras, mercados de crédito, guerra de desgaste

1. INTRODUCTION

In September 1575, Philip II stopped all due payments on his contracts with Genoese bankers, the *asientos*. This action triggered a financial and commercial crisis that turned out to be the most severe of his reign: for more than 2 years, it induced a near paralysis of the private credit markets in Castile and the suspension of the main commercial fairs in Medina del Campo. In this crisis, the critical element was not an action against lenders. In the historical context of the political and economic structure of Castile, Philip II used the suspension of payments as a financial weapon in his struggle against the main cities of Castile represented in the *Cortes*.

Why should a suspension of payments to the Genoese be caused by a conflict with the *Cortes*? In the political and fiscal context of Castile under Philip II, the *Cortes* controlled the majority of the «ordinary revenues», which provided the stable basis for the funding of the long-term domestic public debt, the *juros*. We showed in previous studies that each of the three suspensions of payments on *asientos* by Philip II (1557-1560, 1575-1577, 1596-1597) occurred when the level of ordinary revenues had become insufficient for the funding of more *juros* (Álvarez-Nogal and Chamley 2013, 2014, figure 2)¹. Our analysis was based on macroeconomic and political arguments. In this paper, we focus on the main crisis of 1575-1577 and include new evidence at the microeconomic level², which

¹ For previous works on *asientos* and stop of payments, see Álvarez-Nogal (2000, 2003, 2008).

² Our new material comes from two archives: the *Archivo General* of Simancas and the *Archivo Valencia de Don Juan* in Madrid.

very clearly supports our interpretation of the system of public finances of Philip II and its crises.

The Archives of Simancas, in addition to most of the documents related to the *asientos*, also contain papers of many individuals, savers, small investors and merchants who petitioned the Crown for help during the disturbances of the Castilian credit market after the *decreto* of 1575. These papers are preserved in the section *Consejo y Juntas de Hacienda* and do not appear to have been used by historians until now. The main bankers also petitioned the Crown for help. All these documents are essential for an understanding of the events during the financial crisis of 1575-1577 as no *asiento* contract was signed during the crisis. In addition to this wealth of papers, we also consulted the papers of Mateo Vázquez de Leça, one of the secretaries of Philip II, in the Archive *Valencia de Juan* located in Madrid. Within the limits of an article, we cannot refer to all the documents that we encountered, but one should stress their importance for an understanding of the finances of Philip II and of the financial crises.

Using all these documents, our political economy interpretation of the crisis differs from the previous studies of the financial crises of Philip II. None of them refers to the evidence that we present here³. They all focus on the interactions between the Crown and the bankers and neglect two critical elements that are related. First, the cities imposed a *de facto* ceiling on the *juros* through their tax contributions and the increase of these contributions was politically costly for the Crown. Second, a large part of the *asientos* was financed by the Genoese bankers through financial intermediation between savers in Castile and loans to the Crown. This financial intermediation provided Philip II with leverage against the cities that opposed higher taxes to fund military ventures abroad. The suspension of payments to the bankers trickled down the pyramid of credit to their Castilian depositors. The severe impact on credit and trade eventually led the cities to capitulate. After resisting for more than 2 years, the cities accepted and voted in the *Cortes* a doubling of their tax contributions. Philip II immediately lifted the suspension of payments to the bankers, on terms that had been agreed 9 months before.

The crisis of 1575-1577 throws light on the political situation of Castile. As in other parts of Europe at the time (Dincecco 2009; Grafe 2012, Ch. 1), the regime was not autocratic in fiscal affairs and, therefore, neither was it

³ Lovett (1980) makes many perceptive remarks but he worked more in the *Instituto Valencia de Don Juan* than in the archives of Simancas. He concludes: «the bankruptcy of 1575 took place because the bankers refused to advance any more money, and the king, in desperation, resumed for his own use the revenues assigned to pay royal debt». For Conklin (1998), the bankruptcies were declared by the bankers when the uncollateralised *asientos* reached a level equal to the penalty that the bankers could impose on the Crown. For Drelichman and Voth (2010, 2011), years after the contribution by Álvarez-Nogal and Chamley (2013, 2014), the 1575 crisis was triggered by a liquidity crisis. For an evaluation of the last study, see Álvarez-Nogal and Chamley (2015a, 2015b).

autocratic in political matters internal to Castile⁴. The central government did not have an administration to collect revenues. This task was delegated to the cities, the tax farmers and the *Casa de la Contratación* in Seville, which handled the revenues from the imports of precious metals.

The *Cortes* represented the eighteen main cities of Castile and their surrounding regions. They pledged by contracts of about 6 years a fixed contribution (*encabezamiento*) to the Crown. The *encabezamiento* was collected through sales taxes, the *alcabalas* that had a statutory rate of 10 per cent. The collection of the *alcabalas* was left to the management of the cities and the effective rate was much lower than the statutory rate. *Juros* were serviced by earmarked revenues, as in most countries before 1800, including England in the 18th century. The service of the *juros* that were written on the contribution of a particular city had a first claim on that contribution. Hence, cities kept control of the revenues for the service of their *juros* (which could nevertheless be traded throughout the realm) and these *juros* were the safest of the government bonds, with the lowest interest rate. Other *juros* were written on the revenues from tax farms or from the silver tax but they were not of the same quality and commanded a higher rate because these revenues were under the control of the central government and were more erratic (Ulloa 1977; Álvarez-Nogal and Chamley 2014).

For the Crown, the delegation of tax collection to the cities saved on administration costs and yielded a lower cost of the *juros* issued on cities. However, the fixed contribution by the cities generated a *de facto* ceiling on the service of these *juros*, and because the interest rate did not change much, on their stock. As the level of the debt rose with the economy and with government expenditures, eventually the contractual obligations of the cities had to be raised. At such times, a crisis took place.

In the early seventies, Philip II failed to increase other taxes (e.g. on flour) because of the opposition of the cities. Since an increase of the *encabezamiento* was long overdue, the cities would probably have accepted a moderate increase. Philip II, however, had decided on a course that would provide him with much more fiscal independence: in 1574, he declared a tripling of the *encabezamiento*. Cities and merchants resisted against the tax farmers who had to be sent to collect revenues that did not reach their target level. In any case, the new setting could not provide for the public debt the same credibility as an agreement in the *Cortes*.

When Philip II realised that this policy could not yield a permanent solution, he turned to his financial weapon and stopped the payments on *asientos* which led to the credit crisis. Eventually, the cities could not bear

⁴ This central issue has been highlighted by Jago (1981, 1985), and by the illuminating book of Fortea Pérez (1990). For anyone not familiar with the context, the short review of Fortea Pérez in Jago (1992) is a must. These works imply that the fiscal policy of Philip II cannot be analysed in the same way as that of a modern centralised state.

the economic cost and they demanded that the Crown come to an agreement with the bankers: they accepted a doubling of their contribution.

In the next section, we explain that although Philip II may have pretended that he did not understand much in financial affairs, he had actually become well versed in the workings of the credit market when he was the regent of Castile in charge of sending funds to his father, Charles V. He was familiar with the role of the bankers in credit markets and with the financial function of the commercial fairs at Medina del Campo. He knew how to use the credit markets as a weapon for his political goals: he had done so when he quarrelled with the Pope in 1556.

In Section 3, we analyse the relation between the activities of the Genoese bankers, the credit markets and the commercial fairs of Castile. We emphasise that Castilian residents had a large stake in the *asientos* through the intermediation of Genoese bankers and the chains of credit. We then show that the commercial fairs of Medina del Campo coordinated both commercial and financial trade. They acted as a contingent clock for many financial contracts (both private and public, including *asientos*). Letters of exchange were an essential vehicle for rolling over trade credit⁵. The commercial fairs needed the credit market and the credit market needed the commercial fairs. We provide and use a new documentation on the schedule of the fairs.

In Section 4, we analyse the policies of Philip II just before the *decreto* of September 1575 and the reasons for the suspension of payments.

In Section 5, we show the adverse impact of the suspension of payments of September 1575 on the Castilian credit markets, the fairs and on economic activity. The most recent worldwide financial crisis has brought considerable information on linkages in the credit markets and on the interactions between these markets and the markets for goods. A similar revelation of information has been left by the 1575-1577 crisis in the archives that provides abundant support for our political economy interpretation of the crisis. We show how the *decreto* initiated a process that led to the freeze of the credit market in Castile, the cancellation of the commercial fairs, and the reduction of economic activity.

The petitions to the Crown reveal that Philip II, consistent with his policy, far from punishing the bankers as the cities demanded, instead protected them from some of the consequences of the suspension of payments. In particular, as the crisis affected all credit, bankers could not collect some of their own loans from residents of Castile. We document that the Genoese bankers benefited from preferential legal treatment by the government against their own creditors and in their collection of private debts.

Section 6 is devoted to the end of the crisis.

⁵ The rolling over of short-term bills would become the dominant form of the public debt in 17th-century Netherlands, as shown by Gelderblom and Jonker (2011a, 2011b).

2. THE PREVIOUS EXPERIENCE OF PHILIP II WITH FINANCIAL MARKETS

Philip II was called the «Prudent King» as he thought out issues and kept his cards close to his chest. It was an important part of his strategy not to reveal all his thinking and to pretend not to understand finance (Parker 2010, pp. 179-180). However, before he became king he had dedicated much time to understanding the credit markets and their contribution to the finances of the Crown. He had been the regent of Spain since age 16, in 1543. One of his main tasks was the provision of funds for the wars of his father, Charles V, to whom he wrote in 1553:

the main foundation on which the war can be sustained is money and credit and without those, one cannot do anything (Carlos Morales 2003).

The young Prince of Castile endeavoured to understand the fiscal and financial system and, during the 1550s, he kept his father informed about his activities in that task and about the problems that he encountered.

On 6 November 1551, Prince Philip reinforced previous orders of Charles V on an interest cap by the prohibition of any interest charge for the letters of exchange within Castile⁶, and by other policy measures (Aguilera-Barchet 1988)⁷. The policy aimed at a lower interest for all loans but, unsurprisingly, it had the opposite impact: the credit market contracted and interest rates, including those on the Crown's short-term debt, rose and in some cases tripled, from 9-10 per cent to 31 per cent. On 7 October 1552, Philip explained to his father that merchant bankers in Castile had to take loans from foreign lenders with whom they had no previous association, at a higher interest, to the benefit of the foreigners (Carlos Morales 2003, pp. 288-289)⁸.

Between 1552 and 1554, Philip II was seeking a solution to the issue. He consulted merchant bankers such as Rodrigo de Dueñas, whom he appointed as finance counsellor, and Juan Delgadillo who was an exchange agent in Burgos (Carlos Morales 2003, pp. 291-292). Shortly before leaving for England to marry Mary Tudor, he was presented with a long study of the markets for commercial credit by Bernardino de Mendoza and Francisco de Almaguer, two main officials in the office that controlled the royal finances.

Philip II developed a network of officials (*factores*) with whom he had close relations, and who enabled him to bypass some bankers and get better

⁶ In 1534, Charles V, under pressure from the city delegates in the *Cortes* who had complained about the interest rates of the foreign bankers, had put an interest cap of 10 per cent on the credit market in Castile (Carlos Morales 2003, pp. 282, 288).

⁷ On 28 September 1552, a decree prohibited letters of exchange between Lyon and Castile, in order to favour the letter between Castile and Besançon, which was in the territories of the Crown.

⁸ Supplementary Material, Document 1.

credit terms. In 1556, he appointed Fernán López del Campo for Spain, Juan López Gallo for the Netherlands and Silvestre Cattaneo for Italy (Hernández Esteve 2010, pp. 32-33). López del Campo, in a report to the king, blamed the *pragmatica* of 1551 for the reduction in the number of traders at the fair of Medina del Campo from about 200 to 20, and in the volume of trade from 4 or 5 million ducats to half a million (Hernández Esteve 2010, p. 72). He recommended reestablishing the exchanges between Seville and the fairs in Castile and allowing credit between fairs, albeit with a maximum rate of 12 per cent. Following his advice, the regent of Castile (as Philip II was in Flanders at the time) promulgated another *pragmatica* on 5 March 1557, restoring the freedom of letters of exchange and relaxing some of the 1551 restrictions.

From his experience with the credit market, Philip II knew how to wield financial weapons to achieve his political objectives. In 1556, at the beginning of his reign when asserting his power was critical, he entered into a dispute with the Pope that turned into a test exercise for the later *decreto*. Philip II held Paul IV in the pincers of the military and the financial arms. The army of the Duke of Alba had come from Naples to besiege Rome. The Pope had asked, vainly, for help from Henry II, king of France. To take the city was risky when the sack of 1527 by the troops of his father had not been forgotten. Philip II forbade letters of exchange between Castile and Rome and ordered that all the citizens of Castile, many of them busy in financial affairs, should immediately leave the city (Carlos Morales 2003)⁹. The policy disturbed the transfers of ecclesiastical revenues from Castile, an important source of revenues, and the credit market of the papal territories. The Pope, unable to sustain high military expenditure, signed a peace treaty with Philip II on 12 September 1557 (Hernández Esteve 2010, pp. 50-51).

3. CREDIT MARKETS AND FINANCIAL POLICY: *ASIENTOS* AND FAIRS

Asientos were loan contracts signed between the Crown and a banker, or a relatively small group of bankers. Under Philip II, most of the bankers came from Genoa. They were well placed at the beginning of the «Spanish Road» to the Netherlands (Parker 1972) but they were much more than «foreign bankers»: they played the essential role as the period's «moneyed men», that is, the group that Dickson (1967) would describe as critical for the functioning of the capital market in England, 150 years later¹⁰. Genoese bankers were involved in many aspects of the credit markets in Castile. Some

⁹ *Archivo General de Simancas* (hereafter AGS), *Estado*, leg. 121. Letter from the regent Doña Juana to Philip II, 15/01/1557.

¹⁰ In the absence of an institutional centralised market, the role of individuals in facilitating transactions is no less important. See for example, the notaries in 18th century France (Hoffman *et al.* 2000).

of them were very close to Philip II and participated in meetings of the Council of Finance (Carlos Morales 2003, pp. 291-292). Then as now, the main task of bankers was not to supply their own funds but to connect borrowers and suppliers of funds. A central step in our argument is that the *asientos* were largely financed by the financial intermediation of Genoese bankers within Castile.

In a credit contract, the lender provided funds («*dar a cambio*») to the borrower who took the liability for future repayment («*tomar a cambio*»). A standard form of credit was the letter of credit that transferred money from one place to another, at a different time. The promise to deliver cash at another place could be rolled over back to the initial place. Short-term credit («*traer a cambio*») could be achieved by means of letters of exchange between different fairs or different places. The exchange rate differences performed like an interest that avoided usury laws. Hence, the circulation of credit that was the counterpart of trade in goods provided a natural setting for purely financial transactions.

We have examined all the *asiento* contracts for the years 1570-1575¹¹. Since *asientos* had an average maturity not longer than 5 years, most of the *asientos* affected by the suspension of payments of 1575 were signed in these years. These contracts contain clauses that attest to three types of interactions with the credit markets.

First, all the *asientos* in that period include a license that authorises the banker to collect interests in the credit markets as required for the business of the *asiento*. The license exempts the banker and his counterparts from the laws of Castile that could constrain interest charges.

Second, many contracts mention explicitly that the funds for the loan will be raised on the credit market, with the expression «a cambio» which was used at the time. This mention is often made as an excuse for the interest charge in the contract. In 1570, 88 per cent of the volume of the *asientos* included such a clause «tomar a cambio». For some contracts, called *factorias*, funds could be raised on the credit market. For this reason, the interest rate on the *asiento* could not be known at the moment of signing the contract and it was left open to be determined according to the market conditions.

For example, the *asiento* that Lorenzo Spinola signed on 1 February 1572 for the delivery of 120,000 ducats in Madrid (towards the construction of the monastery of San Lorenzo del Escorial), stated the sources of revenues for the repayment of the principal but it did not and could not provide specific dates as they came from the fleet. The Crown provided some funds in advance and for the rest, Lorenzo Spinola «had to present his bill for the cost of borrowing in the credit market»¹². The contract included the license for the free usage of letters of exchange at the market rate and it recognised that

¹¹ AGS, *Contadurías Generales* (hereafter CCGG), leg. 85 y 86.

¹² AGS, CCGG, leg. 85. *Asiento* with Lorenzo Spínola, 1/02/1572.

the interest payments on the loan would be adjusted to those of the market during the time of the loan operations¹³.

The third type of clause is a license for the banker to «anticipate», that is, discount in the credit market, the payment orders for his reimbursement, called *libranzas*. For the year 1570, 48 per cent of the volume of *asientos* allowed the banker to sell the *libranzas* at a discount. By selling the *libranzas* early, the banker could transfer the debt and the risk of the *asiento* to the buyer of the discounted *libranza* (Ruiz Martín 1987, p. 292; Hernández Esteve 2010, p. 71).

For example, on 22 December 1574, 8 months before the *decreto*, Pablo de Grimaldo signed an *asiento* to deliver in Madrid the very large amount of 829,925 ducats¹⁴ in cash in three instalments (1574, 1575 and 1576)¹⁵. The contract granted him the fixed rate of 16 per cent as compensation for the cost of interest in the credit market. The total of these payments was capped («*a buena cuenta*») at 1,615,741 ducats, which corresponds to the principal and an interest rate of 16 per cent for 7 years. It is likely that neither party intended, at the time of the signing, to use the maximum maturity of 7 years of the contract. The *asiento* specified that the banker could cash («*anticipiar y pagar adelantadamente*») the *libranzas* that he received early, by discounting them on the credit markets.

The three clauses that have been described provide *ex ante* evidence of the tight relations between *asientos* and credit markets. We will see more evidence, *ex post*, when creditors to the bankers complained after the suspension of payment.

3.1. Commercial Fairs as a Clock for Financial Contracts

Today, financial markets operate continuously and the overnight credit market is huge. At the time of Philip II, credit markets were decentralised and thin. The rolling over of loans through letters of credit was timed by commercial fairs that were widely spaced in time. The main fairs (*ferias*) of 16th-century Castile were held in Medina del Campo, at the intersection of a north-west axis and on the road between Toledo and Burgos (Ruiz Martín 2000, p. 278). The position was central between the main cities of the

¹³ A standard example is «during the time of the loan until its repayment, the license to take and give freely exchanges at the prices that they would agree upon from one fair to another». AGS, CCGG, leg. 85. *asiento* with Lorenzo Spínola, 1/02/1572. Another example is the following: «and for the cost they suffer in financing these through the carrying of the exchange («traer a cambio») on their own account (...), interests with those that run in the market from now and for the length of time that we receive this service». AGS, CCGG, leg. 85-1. *Asiento* with Benito Salvago and Camilo Çibo, 30/01/1570.

¹⁴ The amount is much larger than other *asientos* in 1575: the total amount of *asientos* in 1575, a year of high activity, was 5.4 million ducats.

¹⁵ AGS, CCGG, leg. 86. *Asiento* with Pablo de Grimaldo, 22/12/1574. Supplementary Material, Document 2. Since letters of exchange between *ferias* implied a high cost relative to other forms of credit, the Crown was entitled to make early payments.

northern *meseta* of Castile which had benefited from wool exports and were represented in the *Cortes* (Valladolid, Zamora, Avila, Salamanca, Segovia). As in other countries in Europe¹⁶, the fairs of Medina del Campo had been created in the 15th century. They received the continuous support of the kings and were granted the title of «General Fairs of the Realm» in 1491. Medina del Campo had become one of the most important markets of Europe. Merchants came from the main cities of Castile, from Flanders, France and Italy. The fairs were held twice a year, around May and October. They also acted as a hub for smaller nearby fairs that took place just before the main fair (Ruiz Martín 1987, p. 291).

The concentration of commercial transactions had its counterpart in financial transactions. Each fair had some bankers who specialised as a clearing house for letters of exchange and payment orders that connected the fairs with the main cities of Castile. As Luis Saravia de la Calle¹⁷ wrote in 1544, «they go from fair to fair and follow the court of the king from place to place with their table, boxes and books» (Colmeiro 1988 [1863], t. II, pp. 303-304, 501). The banker of a fair was committed by written mandate to follow the request of his contacts (Ruiz Martín 1970, p. 37). This function was recognised explicitly in the writing of some *asientos*: in October of 1573, the *asiento* of 400,000 ducats signed with Esteban Lomelin at the fair of Medina, which was taking place at that time, acknowledges a commission of 0.5 per cent to the banker of the fair¹⁸. The bankers of the fairs were also linked with several commercial banks in Madrid¹⁹ and with Genoese bankers, including many of the most important ones such as Nicolao de Grimaldo²⁰.

The fairs provided focal points for payment orders: credit contracts were often contingent on a particular fair. For example, an *asiento* in March 1570 states that

... Joan de Curiel promises and is committed to give and pay to the person of the people whom we have sent, and in cash the afore mentioned 100,000 ducats ... in the payments of the feria of May of the previous year in 1569, that is currently taking place²¹.

¹⁶ We cannot reference here the vast literature on commercial fairs in Europe, in particular the Champagne fairs that linked the economies of the north and the south of Europe in a yearly cycle of six fairs from the 12th century on.

¹⁷ A theologian and economist in Castile, author of *Instrucción de mercaderes* (1544).

¹⁸ AGS, CCGG, leg. 85. *Asiento*, 6/10/1573. The expression used in the contract was: «librados en banco con más cinco al millar por el contado». This sentence is repeated in many other *asientos*.

¹⁹ For example, the association «Gonzalo de Salazar y Juan de Carmona» and «Juan Luis Vitoria y Antonio Suárez Vitoria» (Ruiz Martín 1970, p. 40).

²⁰ Nicolao de Grimaldo came to the fair of Medina del Campo in 1575 and delegated his business to his grandson, Juan Bautista Doria, when he left for Madrid. AGS, CJH, leg. 154. Memorandum, 1576.

²¹ AGS, CCGG, leg. 85. *Asiento*, 2/03/1570. The document incidentally shows that the fair is «currently held» with a delay of 7 months.

TABLE 1
PLACE OF *ASIENTO* DISBURSEMENTS TO THE CROWN (SEE TEXT)

1	2	3	4	5	6
			Distribution in Castile (%)		
Year	Total ducats ('000s) (number of <i>asientos</i>)	Castile (%)	Fairs of Medina	Madrid	Rest of Spain
1570	1992 (15)	85	79	0	6
1571	3590 (19)	100	64	11	25
1572	6131 (33)	79	45	17	17
1573	2974 (16)	80	73	4	3
1574	6137 (27)	54	27	20	6
1575	5462 (24)	40	27	8	4

Sources: *Archivo General de Simancas, Contadurías Generales*, 85, 86.

In the *asiento* signed in 1566 by Nicolao de Grimaldo and Lorenzo Spínola for the delivery of 100,000 ducats in gold in Italy, the clock of the fairs is acknowledged by its imperfection:

and what will be paid in ferias should be calculated according to the actual date of payment, because Nicolao de Grimaldo and Lorenzo Spinola did not want to accept specified dates in the contracts as long delays could have occurred in these fairs²².

Table 1 presents data on all the *asientos* signed in the years 1570-1575. The total amounts for each year, converted in ducats and the number of *asientos* are listed in column 2. Column 3 reports the fraction of the amounts of disbursements to the Crown that were contingent on a fair in Castile. The next two columns present data on the distribution between the fairs of Medina del Campo and Madrid. Most of the disbursement outside of Castile took place in Flanders.

In addition to the business of the *asientos*, the fairs acted for the Crown as financial centres for other fund raisings, for some sales of the *juros*, and for the trade of *libranzas*. Hence, orderly fairs were essential for the management of the public debt and its timely payments, and, similarly, the running of the fairs depended on the timely payments of loans to the Crown.

Between 1567 and 1575, some of the biannual fairs of Medina del Campo were delayed for various reasons. During the 1560s, difficulties arose from

²² AGS, *Consejo y Juntas de Hacienda* (hereafter CJH), leg. 80. Copy of the *asiento* with Nicolao de Grimaldo y Lorenzo Spinola, no date (probably 1566). Supplementary Material, Document 3.

the revolt that started in 1567 in the Netherlands which was the main destination for exports of Castilian high-quality wool (Phillips and Phillips 1997). Some merchants who were connected with the American trade defaulted in Seville in 1567 and in Burgos in 1568. Both cities were also closely related through trade with Antwerp. The reduction of business forced the definitive closing of the satellite fairs of Villalón and Medina de Rioseco in 1568. In 1569, the English captured some ships belonging to important Burgos traders whose insurance had to be paid in Medina del Campo (Lapeyre 2008 [1955], p. 438). Delays continued in the 1570s: the October fairs of 1570 and 1571 were postponed to 1573.

In order to take advantage of the complementarities that are generated by market thickness, when a fair was delayed too long, it would be merged with another fair²³. Because of the contingent credit payments, it was important that all fairs should take place eventually. The Council of Finance (*Consejo de Hacienda*) received requests for the regulation per decree (*cédula*) of the holding of the fairs. These requests emphasised that due payments could not be made, including payments to the Crown, without the fairs²⁴. Hence, the king and his counsellors made efforts to minimise delays. For example in 1573, Melchor de Herrera, general treasurer of the king, convened with Hipólito Affaitadi and Jácome Bardi, two important merchant bankers of Medina del Campo, to stabilise the dates of the fairs²⁵. Because of the accumulated delays in 1572-1574, the king issued a *cédula* in May of 1574 ordering the holding of all back fairs between 15 October and 20 November of that year²⁶, and the cash payment of all debts without refinancing. The dates of the fairs are presented in Figure 1 and in Table A1 of the Appendix. For the years before 1575, all the fairs scheduled eventually took place.

The irregular inflow of silver from the Americas has been mentioned as a potential source of disturbance for the fairs (Mercado 1571, f. 14 v; Lapeyre 2008 [1955], p. 435). The fleet would usually arrive in August, but it could be delayed or cancelled. Figure 2 adds to Figure 1 the amount of the fleet's precious metal. In that figure, we cannot see a relation between these arrivals and the schedule of the fairs. In the first half of the 1560s, fairs were held regularly with little silver. The most important feature of the figure is the clear break in 1575-1577 during the suspension of payments when the flows of silver were not below trend. This break will be important in our argument, as we will see later.

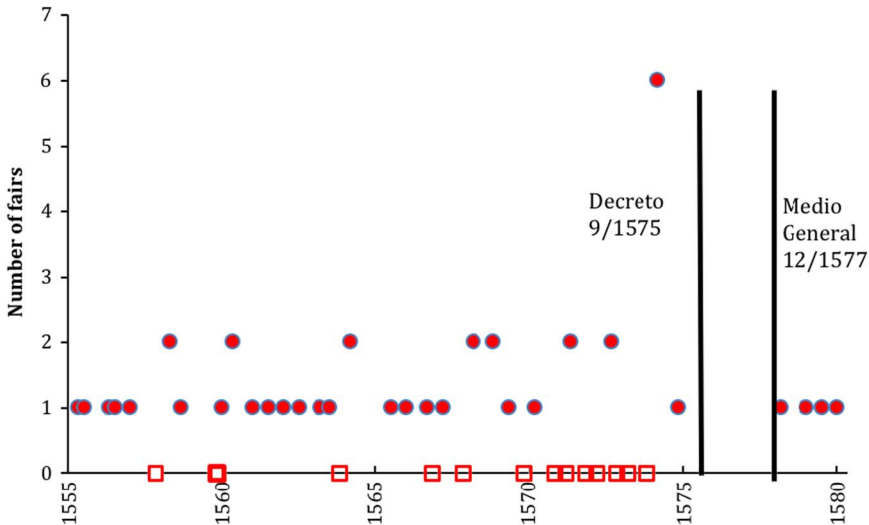
²³ They would explain the end of complementary payments in the neighbouring fairs of Villalón and Rioseco when all financial activities became concentrated in Medina del Campo (Lapeyre 2008 [reed. 1955], p. 437).

²⁴ AGS, CJH, leg. 164. No date, probably 1574. Supplementary Material, Document 4.

²⁵ «a causa de que se trata de reducir la ferias a sus tiempos concertados, si por caso se hiciesen dos de las susodichas ferias de octubre juntas ... » (Rojo Vega 2004, n. 5.882-6.714).

²⁶ AGS, CJH, leg. 164. *Cédula*, 31/05/1574.

FIGURE 1
DATES OF THE FAIRS OF MEDINA DEL CAMPO



Notes: Circles represent dates and numbers of fairs that were actually held (from 1 to the exceptional case of 6 when the king ordered the whole backlog to be settled in 1574). Squares represent fairs that were scheduled but did not take place around their scheduled time and were postponed to be held with a later fair.

Source: See Appendix Table A1 which presents the exact dates.

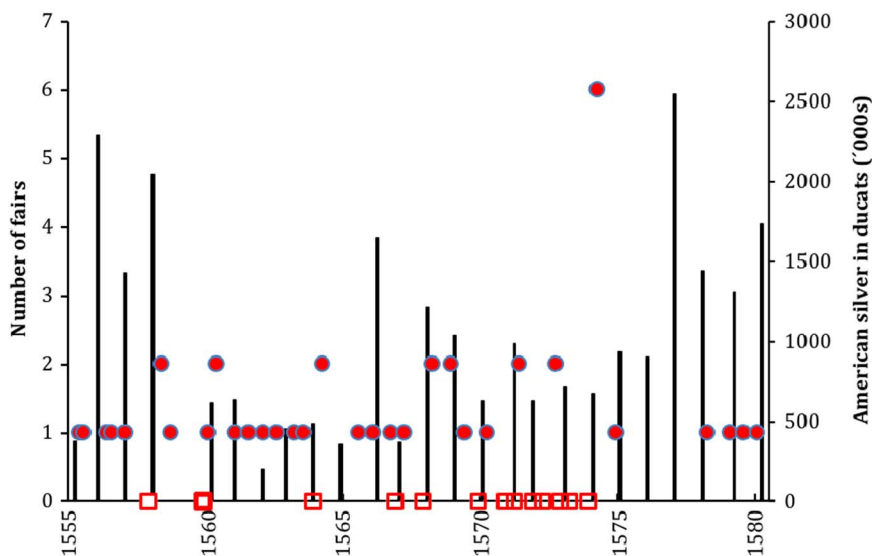
4. THE POLICY OF PHILIP II AND THE SUSPENSION OF PAYMENTS ON *ASIENTOS*

The tax base for the service of the long-term debt, *juros*, was stationary in the early seventies (Álvarez-Nogal and Chamley 2014). The *encabezamiento* had not been changed since 1562, after the resolution of the previous financial crisis, and the level of other ordinary revenues stopped growing in the early 1570s. Because of higher military activity in the Netherlands and in the Mediterranean Sea, the domestic debt was growing and its service was nearing the level of ordinary revenues²⁷. The point at which no more *juros* could be issued was approaching. From 1573 on Philip II made strenuous but unsuccessful efforts to increase ordinary revenues²⁸. At first, he pushed for a new flour tax with a promise to gradually redeem all the *juros* through a

²⁷ See our previous study, Álvarez-Nogal and Chamley (2014). For the negotiations in the years 1573-1575, see Fortea Pérez (1990, pp. 42-88). Castilian spending in Flanders increased from 1.7 million escudos in 1572 and 1572 to 3.6 in 1574 and 2.5 in 1575 (Parker 1972, p. 348).

²⁸ Fortea Pérez (2008).

FIGURE 2
THE FAIRS AND THE ARRIVALS OF PRECIOUS METALS



Note: The scale on the right measures the amounts of silver brought by the fleets each year.

Sources: In addition to those of Figure 1, Lorenzo Sanz (1979, pp. 283-292, 263-274).

budget surplus. Such a promise could not be enforceable and the cities rejected what would have led to a significant increase of the tax base²⁹. In 1574, with no progress in the negotiations, Philip II abandoned the debt redemption plan and declared a tripling of the *encabezamiento* that was at first accepted by the delegates in the *Cortes*, but then rejected by the cities. A moderate increase would have been sufficient to avoid a short-term crisis and the tripling of the *encabezamiento* was much more than was required to finance new *juros* for a while. That tripling may have scared the cities and stiffened their will to resist but Philip II was playing hard and his authority was on the line. His actions are consistent with a long-term removal of the fiscal constraint by the *Cortes*³⁰.

The unilateral tripling of the *encabezamiento* invalidated the previous system of the decentralisation of the debt service through the cities and started a showdown that would last for 3 years. Without the cities' collaboration, and without the competent administration for tax collection,

²⁹ This paragraph is taken from the illuminating work of Fortea Pérez (1990, p. 154).

³⁰ The scope of this paper is restricted to economics. However, a full account of the events will require a comprehensive integration of economics, political and historical events (see Ulloa 1977; Álvarez-Nogal and Chamley 2014).

the central government had to return to the pre-1536 system of tax farming, a move that was resisted by the cities and their merchants. This outcome was not a policy goal of the royal administration either. During the 1574 negotiation with the *Cortes*, a letter to Philip II from his secretary confirms that an agreement of an increase of the *encabezamiento* to 2 million would undoubtedly be preferable to a collection of 2.5 million through tax farming³¹.

The events of 1575 confirmed the fears of the king's ministers. For example, in Toledo during the summer of 1575, Torregrosa, the administrator who had been sent to implement the increase of the *alcabalas* reported that the city's traders were willing to do everything possible to prevent anyone from taking charge of a farm³² and threatened to stop trading in the city and to carry their merchandises to other places³³. In Cadiz, the *encabezamiento* had been of 7500 ducats until 1574. When the king requested, by letter on 15 March 1575, a tax of 10 per cent at checkpoints until the new distribution of *encabezamiento* could be determined, the city answered that it could not afford it and that the tax would lead to mass emigration. Surprisingly, on the 9 June 1575, the king cancelled the previous instructions³⁴. At that time, the king might have been considering a change of course.

In any case, overall revenues fell well short of the requested amount. Before 1574, the *encabezamiento* had been of 1,216,362 ducats and beginning in January 1575, Philip II had requested 3,716,363 ducats. Two years later and after much effort, in the summer of 1577, the actual annual revenues of the *alcabalas* were only 2 million ducats³⁵.

Bankers knew that an increase of the *alcabalas* without the cities' acceptance was equivalent to an extraordinary tax, and that it could not augment the tax base that funded the *juros* into which *asientos* could be converted. They nevertheless granted more than 5 million ducats in new *asientos* (Álvarez-Nogal and Chamley 2014) during the first 7 months of 1575 (the highest amount for such a time frame) against the recent increase of the tax. These loans were reasonable against the recent increase of revenues and their maturity had been restricted to 1 year³⁶, but they could

³¹ «Garnica [the director of the Budget] has expressed a well founded concern about the difficulties that the administration will face in collecting such a large amount, (...), and there is no doubt that 2 millions sure and secure would be better than 2.5 millions in this way». Letter from Mateo Vázquez to Philip II, 15/02/1574 (Carlos Morales 2008, p. 149, note 55).

³² AGS, CJH, leg. 149. Letter from Pedro Luis de Torregrosa to the king, Toledo 3/07/1575. Supplementary Material, Document 5.

³³ AGS, CJH, leg. 149. Letter from Pedro Luis de Torregrosa to the king, Toledo, 4/08/1575. Supplementary Material, Document 6.

³⁴ AGS, *Contaduría Mayor de Cuentas*, leg. 1334. Distribution, 23/08/1580.

³⁵ Carlos Morales (2008, p. 199, note 196, with references: Instituto Valencia de Don Juan (hereafter IVDJ), Envío 22-B, fol. 108-120, 142-144, 85-87, 68-70, 208-213). Letter to Felipe II and Mateo Vazquez (summer of 1577).

³⁶ Some bankers required additional guarantees. For example, Simon Lercaro signed an *asiento* in February 1575 that includes a lien on the first income that the king would receive as donation

not satisfy Philip II. The only stable solution was an increase of the ordinary taxes that would be approved by the cities in the *Cortes*.

Faced with a deadlock in the negotiations with the cities, Philip II made a radical change of policy. On 1 September 1575, he ordered, through a *decreto*, the suspension of all payments on *asientos*³⁷. This course of action had been strongly advised for some time by some high officials in his government. It had almost been taken in 1574, but at the last moment, Philip II had changed his mind without explanation (Carlos Morales 2008, pp. 134-137).

The cities cheered the *decreto* against the *asentistas*. Satisfying the popular sentiment was obviously part of the strategy of Philip II. He summoned soon after the *Cortes* to resume the negotiations on the tax increases and he wanted to appear to be tough against the bankers who were hated by the people. One should not be surprised that the popular reaction did not anticipate the eventual cost for the Castilian economy. Think about the most recent financial crisis in the United States. At the onset of the crisis, the sentiment was to punish the bankers. Except perhaps for a few experts, people did not anticipate that eventually banks would have to be helped. In 1575, people did not have more information. They may have expected that the bankers were indeed the main target of Philip II, as, with some irony, the recent literature in economic history has argued. History has shown many times that people underestimate the impact of some financial failures on the networks of finances (e.g. the Kreditanstalt in 1931, Greece recently). It should also be pointed that at the end of 1575, no one, including Philip II himself, may have expected the crisis to turn into a war of attrition that would last so long.

The Crown stated after the *decreto* that it would not default on the *asientos* but that it would require a revision of the payments with an interest rate of 1 per cent/month on the balances due (Ruiz Martín 1968, p. 141). In our view, the Crown was justified in this request because of the role of the bankers as financiers of the Crown. The state of the debts with the bankers was in great confusion because the *asientos* could be collateralised by *juros* (*juros de resguardo*). These could be sold for cash by bankers and then replaced by other *juros* to be returned if the *asiento* was repaid in cash (Ruiz Martín 1968, pp. 121-125; Carlos Morales 2013). More importantly perhaps, the bankers as «money men» were also active as financial agents of the Crown in the selling of the *juros*. Our preliminary research has shown that as a result of these multiple roles, the balances of the bankers with the Crown

(footnote continued)

(*donativo*) or any other source. Given the relatively small amount of the *asiento*, 610,00 ducats, he may have had less bargaining power in recovering bad debts than a strong banker such as Nicolao de Grimaldo. AGS, CJH, leg. 2001-647. Memorandum from Simón Lercaro, 1575. Supplementary Material, Document 7.

³⁷ A few months before, he had asked his commander in Flanders to plan for a reduction in military activity (Carlos Morales 2008).

might have been very heterogeneous. Some bankers may even have been indebted to the Crown³⁸. We will investigate this issue in further work. In any case, while debt contracts with bankruptcies are efficient in minimising the cost of information from the borrower to the lender according to modern economic theory (Townsend 1979; Gale and Hellwig 1985), the information problem may have been the reverse for Philip II. The Crown was right in trying to use the suspension of payments to verify its net debt with the bankers.

5. THE SUSPENSION OF PAYMENTS AND THE CREDIT MARKETS

After the Crown froze payments to the bankers, they could not pay their creditors, who, in turn, could not pay their creditors, and so on. Given the tight interconnection between *asientos* and the private credit market, as described previously, the suspension of payments threw a spanner in the wheels of the credit markets and the shocks spread through the network of credit linkages.

In normal times, when credit markets function smoothly, most credit linkages remain hidden. In a crisis, these linkages emerge like rocks at low tide. The crisis that was triggered by the *decreto* of 1575 generated numerous cases of distress, which we have collected in the archives, affecting the fairs, the depositors, the banks and the Church.

5.1. The Impact on the Commercial Fairs

In what may be the most remarkable feature of the crisis, the freezing of the debt and its impact on trade prevented the holding of commercial fairs at Medina del Campo. As shown in Figures 1 and 2, no fair took place during the suspension of payments between September 1575 and the beginning of 1578. Contrary to what had been done before 1575, the Crown made no effort to keep a timely schedule. Such efforts would have been futile anyway. The Crown renewed its interventions only after the resolution of the crisis. On 25 April 1578, Philip II consulted with the cities on the means to resume the fairs and the payments that had been delayed since the last fair in 1575 (Colmeiro 1863 (reprint 1988), vol. II, pp. 836-838; Espejo and Paz 1908, pp. 269-272). Contrary to practice before 1575, no catching up took place for the fairs that had been missed during the suspension of payments.

We have emphasised the critical role of the commercial fairs as a support for financial transactions. There is no doubt that the cancellation of fairs had an amplifying effect on the credit crisis and on trade.

³⁸ Forty years later, the Maluenda brothers also sold more *juros* than they had disbursed to the Crown during an intermediary phase of the contract (Álvarez-Nogal and Chamley 2015a, 2015b).

5.2. The Impact on Castilian Depositors

During the suspension of payments, the bankers' creditors attempted to recover their deposits and sent numerous petitions to the Council of Finance. The following letter from merchants of Burgos is representative:

Andres de Larrea, Juan de Ybarra and Andrés de Ecija, residents of the city of Burgos, state that Nicolao de Grimaldo, prince of Salerno, Juan Fernández de Espinosa and Esteban Lomelin owe us more than 120,000 ducats cash that were signed in a contract in this fair for payment Sevilla, Burgos and in the *libranzas* of His Majesty following the ordinary service that we provided³⁹.

The petition highlights the multiple layers of the intermediation process to finance the credit to the Crown, which in this case took the form of discounted *libranzas*. Since the amount of 120,000 ducats was very large, these merchants had borrowed on the credit market:

Our association, in order to discount the *libranzas*, had to borrow (*tomar a cambio*) from other people for payments in this Court, in Burgos and Sevilla and in Flanders, on our own credit⁴⁰.

The freezing of the loans by Castilian residents to the bankers had catastrophic consequences for trade, as attested by the numerous petitions that can be found in the archives of Simancas. For example:

The suspension of payment that was ordered by your Majesty has in fact suspended all the trades and has affected all the credit market and the spirit of the trade people, not only in this place but also in others⁴¹.

A group of merchants in the region of Logroño (present-day northern Spain), emphasised that the suspension of payments affected not only the bankers of the king but also the small savers who had deposits with the bankers, and their commercial activities⁴²:

We add to this the calamity and great poverty that from us is translated to many people who have entrusted us with their savings, under the thought that their were very safe and only from this service we

³⁹ AGS, CJH, leg. 155. Memorandum, 1575. Supplementary Material, Document 8.

⁴⁰ AGS, CJH, leg. 155. Memorandum, 1575. Supplementary Material, Document 8.

⁴¹ AGS, CJH, leg. 155. Memorandum to the Council of Finance from various business people, 1575. Supplementary Material, Document 9.

⁴² AGS, CJH, leg. 155. Memorandum of Diego Ximénez to the Council of Finance, 25/04/1576. Supplementary Material, Document 10.

provided they could support their houses and families. In this way, many craftsmen, ordinary people, employees and daily workers who lived and supported themselves by the business activities that depended on credit are now homeless and vagabonds⁴³.

The merchants explained that, because of the suspension, none of them could pay their creditors and go on with their business. They requested the protection of the Crown emphasising that without their contribution, the bankers could not have lent money to the king:

We have no other funds to satisfy our creditors except those that are owed to us by those who are affected by the decree. In effect, our funds were converted in the service of Your Majesty and without these funds, this financial support of Your Majesty could not have been provided⁴⁴.

5.3. The Impact on Banks

In Segovia, one of the main cities in the northern meseta, banks and economic activity were deeply affected by the credit crisis. In October of 1575, forty men, all in important positions («todos gente principal»), were incarcerated. They had a participation in the capital of the bank of Gregorio de Haro, one of the main bankers of the city, who could not fulfil his obligations to the bank of Pedro de Angulo and Juan de Villar, who in turn, could not pay their debt of 8,000 ducats to the bank of Juan de Ibarra (Vela Santamaría 2014, p. 20). The large number of jailed individuals included Juan de Amarita, an agent of Simón Ruiz, the banker of Philip II, and also textile manufacturers thus threatening the entire economic activity of the city. During the crisis, donations towards the construction of the cathedral decreased markedly (García Sanz 1987, p. 92).

In Seville, the only two public banks⁴⁵ that operated in that city, «Herederos de Alonso y Pedro de Espinosa»⁴⁶ and the bank of «Pedro de Morga y Matia de Fano», went bankrupt in 1576⁴⁷. They had operated in the city since 1553 and had overcome important crises in 1557-1560

⁴³ AGS, CJH, leg. 155. Memorandum of Diego Ximénez to the Council of Finance, 25/04/1576. Supplementary Material, Document 10.

⁴⁴ AGS, CJH, leg. 155. Memorandum of Diego Ximénez to the Council of Finance, 25/04/1576. Supplementary Material, Document 10.

⁴⁵ Currently, there is little information on the banks of Castile at that time. These two public banks were, by definition, the only banks that were authorised to provide financial services to the entire city, one of the most important of Castile. These failures were related to the *decreto*, as shown by the documents attached to this paper.

⁴⁶ On Morga and Espinosa, see Ulloa (1977, p. 435), Lorenzo Sanz (1979, pp. 188, 206), Ruiz Martín (1970).

⁴⁷ AGS, CJH, leg. 155. Memorandum from Esteban Lomelin, 1575. Supplementary Material Document 11.

and 1567. These bank failures were a consequence of the *decreto* not because of direct loans to the king, but probably because of loans to individuals who had invested in loans to the king. The ties between Morga and the creditors of the Crown are illustrated by the statements of one of the debtors of the bank⁴⁸. Andrés de Larrea, a resident of Burgos, ended up in jail when he failed to pay his debt of 16,000 ducats to the bank. In his defence, he argued that he would have liked to pay his debt, if not for his inability to recover a loan of 25,000 ducats that he had made at the last *feria* of Medina del Campo to Nicolao de Grimaldo and his brother. In Andrés de Lorrea's own words, his loan to the bankers «was converted to the service of His Majesty»⁴⁹.

The freezing of the credit markets spurred individuals, associations and institutions to develop stop-gap measures. The *Consulado* of Sevilla, a merchant guild which represented all the city's merchants who were involved in trade with the colonies, extended the time for payments of the debts until the Genoese bankers were able to satisfy their debtors⁵⁰. Bilateral credit agreements with mortgages as collaterals, *censos* (Yun Casalilla 1987, pp. 220-223, 237; Bennassar 1989, p. 87), were used by individuals and also by numerous municipalities for the purchase of bread, seeds and payments of short-term loans⁵¹.

The Church was not spared because of the difficulties in transferring funds to Rome. It had used the agents of Italian banks in Castile and Aragon (especially in the financial centres of Medina del Campo and Barcelona). At the end of 1577, Canobio, collector for Rome in Spain, complained to the cardinal de Como, a high official in Rome, that he could not send letters of exchange because of «ruina et poco credito dei genovesi» and suggested alternative methods of transfers (Carretero Zamora 2013, pp. 99-100).

5.4. The Legal Protection of the Genoese Bankers by the Crown

In face of the petitions and the complaints by residents of the realm, the Crown provided legal protection to the bankers instead. Until the settlement in the *Medio General* at the end of 1577, this protection against creditors prevented any ordinary court of justice from forcing them to pay their debt or seize their property. This decision extended to all types of debt since no distinction could be made for the debts related to the Crown's credit.

⁴⁸ Before 1575, the Crown had used the services of the bank of Morga, for example for the collection of the *alcabalas* in Seville after the city had rejected the new *encabezamiento*. AGS, CJH, leg. 154. *Memorial de Agustín de Rivera*, 1576.

⁴⁹ AGS, CJH, leg. 154. Memorandum from Andrés de Larrea, 1576. Supplementary Material Document 12.

⁵⁰ AGS, CJH, leg. 151. Letter from the *Consulado*, 26/03/1576.

⁵¹ The city of Valladolid had used such loans to pay craftsmen for the reconstruction of the city after the fire of 1561.

Furthermore, the bankers used the *decreto* as a quasi-official excuse to avoid any obligation in the set of complex credit linkages.

For example, four royal decrees were sent to Juan Ortega de la Torre in Burgos to protect him from any suit for any type of debt. These measures expired in October 1576, but the banker received an extension⁵². Thanks to this royal protection, Ortega escaped credit problems and continued to operate in 1581 with branches in Madrid, Seville, Valladolid, Medina del Campo and Antwerp.

Three merchants from Burgos had discounted payment orders by the Crown (*libranzas*) to three well-known bankers (Nicolao de Grimaldo, Juan Fernández de Espinosa and Esteban Lomelin). After the merchants' petition to seize the property of the bankers was rejected, they complained bitterly about the discrimination:

The delay [in payment] causes our complete ruin; the officials of Your Majesty are treating us in such a way that we cannot gain cause for our property and credit. Nicolao de Grimaldo and others are protected by Your Majesty, so that we cannot demand from law officials to seize their goods and incarcerate their persons ...⁵³

Joan de Lago, an important merchant in Burgos, wrote in similar terms:

The payment delay leads to our complete demise. The officials of Y.M. (Your Majesty) issue orders such that we cannot prevail in our claim of payments and of credit ... Nicolao de Grimaldo and our other debtors are protected by Y.M. such that we cannot request from the law that they seize their property and jail their persons, and they keep their book and papers as before (...) This causes us a considerable prejudice because they enjoy the use of the amounts they that have to pay⁵⁴.

Like Joan de Lago, Sebastian López de Orozco, an accountant, could not recover the 1,792 ducats that he had lent to Nicolao de Grimaldo a few months before the decree⁵⁵. This was a small amount with respect to an *asiento* but Grimaldo refused to return the deposit in 1575, alleging that he

⁵² AGS, CJH, leg. 154. Memorandum Juan Ortega, 1576: «the persons who are affected by the *Decreto* («*decretadas*») owe much more than my own debt of 100,000 ducats and I have no possibility to demand and force them to pay me back». Ortega had to serve some time in jail, however (Ruiz Martín 1968, p. 143).

⁵³ AGS, CJH, leg. 155. Memorandum without date, 1575. Supplementary Material, Document 8.

⁵⁴ AGS, CJH, leg. 155. Memorandum from Joan de Lago to the Council of Finance, 1575. Supplementary Material, Document 13.

⁵⁵ AGS, CJH, leg. 155. Memorandum from Sebastián López de Orozco, 1575. Supplementary Material, Document 14.

was unable to do so because of the *decreto*. Sebastián López, facing jail while the banker was unaffected, petitioned the king:

to enforce the payment and not permit the Genoese bankers to put him in jail and in a situation of great necessity, without any reason, because he did not do anything illegal. If the bankers force their debtors to pay debts, they have to do the same and to pay their debts to the people of Castile⁵⁶.

When Sebastián López learned that Don Rodrigo de Mendoza owed Grimaldo a similar amount, he demanded that the payment of that debt be directed to him. Grimaldo instead rejected the proposal and had some of Don Rodrigo's goods seized for non-payment! It was proof of:

the malice of the named Prince and [that] he does not pay not because he cannot but because he does not want to⁵⁷.

The creditor Andrés de Larrea petitioned the Council of Finance (*Consejo de Hacienda*) and asked for help to get out of jail. He could not use local law to recover loans in order to pay his debt:

and I find myself in the impossibility not only to pay the debts that are asked from me but also to pay a bail to free myself from this terrible jail to treat my sickness. I could not find any amount of money. For this reason I have suffered much oppression and trouble in the two months of my detention. During that time my debtors have been let free and are protected while I cannot recover my claim from them. Although I have made my requests, the town's authorities do not want to issue an order of execution against them⁵⁸.

Because of the pyramids of credit, small investors also suffered when they had entrusted their small savings to intermediaries who had forwarded them to Genoese bankers. Doña Francisca de Salazar, the widow of Lope Rodríguez Gallo de Castro in Burgos, protested that she had lent 606 ducats to the marquis of Auñón, General Treasurer of the king, through the bank of Antonio Vázquez. To recover her ducats she had received from Auñón a payment order to be presented to Nicolao de Grimaldo. But Grimaldo refused to pay. She turned then to the marquis who likewise refused. In her appeal to the

⁵⁶ AGS, CJH, leg. 155. Memorandum from Sebastián López de Orozco, 1575. Supplementary Material, Document 14.

⁵⁷ AGS, CJH, leg. 155. Memorandum from Sebastián López de Orozco, 1575. Supplementary Material, Document 14.

⁵⁸ AGS, CJH, leg. 154. Memorandum from Andrés de Larrea, 1576. Supplementary Material, Document 12.

Court in Madrid and the Council of Finance to obtain the payment and seize some goods of the marquis, she stated: «We have completely lost the credit, which is the nerves, the soul and the strength of commerce»⁵⁹.

This royal protection was not extended to other people in the realm who had to pay their own debts even if they could not recover their assets with the bankers affected by the *decreto*. The *licenciado* (holder of a degree) Mena was unable to recover his deposit of 20,000 ducats from the Genoese bankers, but his own property was seized because he could not pay a debt of 800 ducats. He avoided jail only by a fire sale of part of his properties and a loan from a friend⁶⁰. Mena complained that the king only protected the bankers and not their Castilians creditors. These examples are but a sample of many similar documents in the archives of Simancas.

One might argue that the bankers received more protection because they were more powerful. This protection, however, was not because one of the parties was bigger and had more influence in the courts. It was a royal protection that suspended the standard judicial process. The evidence for the protection that we have uncovered here supports the idea that Philip II was aware of the practical functioning of the credit market. He used the *decreto* to tighten the reins on the Genoese and examine their transactions in *asientos* and *juros* (see above). However, he immediately acknowledged a debt of 15 million ducats that should be repaid and he protected them from legal proceeding. As we discuss in the next section, he obviously knew that the Genoese, like everyone in this crisis, were incurring a significant cost.

6. THE RESUMPTION OF CREDIT AFTER THE AGREEMENT WITH THE CORTES

In the 16th century, with the slow clock of the fairs and of the seasons, it took time for the cities to feel the full impact of the *decreto*. When the initial cheers were replaced by a flow of complaints and petitions, and despite adverse events (e.g. the sack of Antwerp by his unpaid army), Philip II stayed the course. The government of Genoa pleaded via its ambassador in Madrid and reminded Philip II of the harm that was caused on merchants and bankers in this Italian Republic which played such a crucial role for the Crown⁶¹. In July 1576, a special embassy impressed upon the Crown the undesirable effects of a harsh settlement upon the Republic's internal

⁵⁹ AGS, CJH, leg. 154. Note of the secretary, 1576. The same source documents the appeal by Francisco de Rojas in Madrid to the Council of Finance to seize some property of Nicolao de Grimaldo who would not return a deposit.

⁶⁰ AGS, CJH, leg. 154. Memorandum from the *licenciado* Mena, 1576. «Demand from Your Majesty that since he cannot pay if he does not have cash (his deposit), Y.M. order to provide to him his protection as for the others and that the majors and the justice of this region enforce the payments of the debts by Nicolao de Grimaldo and Nicola y Visconte Cataneo».

⁶¹ AGS, CJH Libros, 42, f. 42v. Cédula, 25/05/1578.

stability (Lovett 1977, p. 100). The demands from the Genoese government were explicitly mentioned in the document of *Medio General* that resolved the crisis in 1577⁶².

The crisis spread to markets in Genoa and Rome. Several governments tried diplomacy to exert an influence on Philip II to find a solution. The king received proposals to create new financial devices to meet the state's needs and at the same time to circumvent the Genoese intermediaries. The most important was the project of Oudegherste and Rotis in 1576 to create «Erarios» (Dubet 1998, pp. 205-212)⁶³.

The Church intervened. The Papal Nuncio reminded the king that many non-Genoese merchants were involved with the Genoese bankers — Spanish, Milanese, Florentine, Venetian and others from every part of Italy. Should the Genoese collapse, they would take with them partners, large and small. As usual, a plea was made for the poor widows and «honest» maids who had entrusted their dowries to the *asentistas* and were at great risk.

Contador Salablanca, of the Council of Finance, reminded the king that if he wished to exert an effective presence outside the Spanish peninsula, the fairs had to be reinstated. Finally, even Nicolao de Grimaldo pleaded for some form of agreement, if only on an interim basis, so that he might placate his creditors (Lovett 1977). Institutions inside the realm (e.g. the Consulate of Burgos which represented the interests of the main businesses of the city) also insisted with the king that he should come to an agreement with the bankers⁶⁴. But Philip II was patient. His goal was the agreement of the cities in the *Cortes* for a higher *encabezamiento*.

Negotiations were conducted in parallel with the bankers and with the cities. For the bankers, the Crown created a commission that reviewed the sales of the collateral (*juros de resguardo*) by the bankers, and the position of each banker with the Crown. This commission examined all the *asientos* that had been signed since 14 November 1560, 296 contracts with sixty-six people (Nicolao de Grimaldo 35, Lucian Centurion 34, Lorenzo Spinola 32 and so on) (Carlos Morales 2008, p. 166). The balance of each active *asiento* was computed by bringing past payments to the current date with the standard monthly interest rate of 1 per cent.

In the early spring of 1577, the Crown and the bankers agreed on the amount of 15.2 million ducats⁶⁵. Settling with the bankers, however, was not

⁶² AGS, CCGG, leg. 309. *Medio General*, 5/12/1577, fols. 3-4. Supplementary Material, Document 15.

⁶³ This proposal was studied but not accepted at this time. It was presented again years later (Ruiz Martín 1969, pp. 607-644).

⁶⁴ AGS, CJH, leg. 151. Letter of Andrés de Cañas to Juan de Escobedo (secretary of Philip II), 20/04/1576.

⁶⁵ The larger part of the debt was not in unpaid arrears, but in repayments that were contractually scheduled for the future. From an examination of all the *asientos* initiated between 1570 and 1575 (and some before 1570), it appears that the total amount of the payments scheduled after 1575 exceeded 12 million ducats. Given the average maturity of these remaining liabilities, an

the main issue for Philip II, and he may have waited with the bankers until March 1577 because of the deadlock in the *Cortes*⁶⁶. The squeeze had to continue. During the spring and the summer of 1577, Philip II had prepared a reduction of the *encabezamiento* (from the tripling in 1574) if the cities would grant the *servicio ordinario* and the *servicio extraordinario*⁶⁷. In the summer of 1577, he reiterated that the signing with bankers could not proceed as long as the cities did not agree to a tax increase. A letter written on behalf of the king by his secretary emphasises the close relation between the two issues:

Since you have sent me these reports on the matter of the *Medio General* and of the *encabezamiento*, I have examined and reflected with great care on the first and on the second. Both matters are important in the substance (...) and I hold each matter much dependent on the other⁶⁸.

The next month, Juan Fernández de Espinosa, General Treasurer of Castile, sent instructions from the king to Mateo Vázquez, Secretary of Philip II, that demonstrate how the two issues, the suspension of payments and the increase of the *encabezamiento*, were linked:

Make sure that among the negotiators they have no power, occasion, or license to err in matters that are so important and so few, namely these two matters, the signing of the *Medio* (agreement with the bankers) and the *encabezamiento*⁶⁹.

Finally, the cities relented. On 29 October 1577, a new *encabezamiento* was voted in the *Cortes*. In previous adjustments, increases had been roughly proportional across cities. In 1577, however, the shares of some cities jumped; Seville from 10.2 to 17.5 per cent, Toledo from 5.8 to 7.6 per cent, while Granada's share dropped from 9.2 to 5 per cent. After the agreement on the *encabezamiento*, the voting on the *servicio extraordinario* moved more quickly and a final agreement was reached on 16 November 1577 (Jago 1985).

(footnote continued)

approximate estimate of the present discounted value of the scheduled repayments is about 10 million ducats. Arrears would then represent about 5 million ducats.

⁶⁶ The sack of Antwerp by unpaid Spanish troops on 4 November 1576, seems to be a non-event for the negotiations.

⁶⁷ IVDJ, *Envío* 76, fols. 554-557. San Lorenzo de El Escorial, 7/07/1577. Minutes of a letter written in the name of Philip II by his secretary. Supplementary Material, Document 17.

⁶⁸ IVDJ, *Envío* 76, fols. 554-557. San Lorenzo de El Escorial, 7/07/1577. Minutes of a letter written in the name of Philip II by his secretary. Supplementary Material, Document 17.

⁶⁹ IVDJ, *Envío* 22. Caja 33, TB 49, folio 98. Letter from Fernández de Espinosa to Mateo Vázquez, 11/08/1577. Supplementary Material, Document 16.

The terms of the agreement between the Crown and the bankers had been waiting to be signed since March 1577⁷⁰. This was done on 5 December 1577. In the text of the *Medio General*, the king made it clear that in settling with the bankers, he was following the express wish of the cities:

...and adding to all this the demand that was addressed with particular insistence about the same affairs by the delegates of the realm who are gathered in the Cortes that we are holding at the present time in Madrid⁷¹.

A decree issued 6 months after the settlement states:

Given the pressing demands on this same issue by the ambassadors that were sent to us by the republic of Genoa and by the delegates in the Cortes, we ordered to settle with these business people (*hombres de negocios*) the *Medio General* on December 5 in the past year⁷².

On 25 April 1578, Philip II consulted with the main cities and institutions on how to resume and solve the problem of the fairs (Espejo and Paz 1908, pp. 269-272). The general response was that the 1575 suspension had caused enormous harm to trade (Espejo and Paz 1908, pp. 94, 296 y 309; Lapeyre 2008 [1955], pp. 447-448). After an interruption of 3 years, the fairs resumed on 28 October 1578, as ordered by a royal decree on 5 August 1578⁷³. All the pending payments were made at that fair. However, the extended gap between 1575 and 1578 had a permanent impact and the fairs of Medina del Campo had lost their role as central financial markets of Spain. Merchants and bankers had developed letters of exchange *al uso* that could be paid at places other than Medina del Campo (Lapeyre 2008 [1955])⁷⁴. During the crisis of 1575-1577, the financial activities in Medina had been gradually transferred to Madrid where many of the *asientos* had been negotiated before 1575 and where the government and the bankers resided. After the crisis, some of these activities did not return to Medina del Campo.

⁷⁰ Some debt reduction took place in the text of the agreement. The evaluation of the actual debt reduction requires another study that would need to address at least two major issues. First, some of the redeemable *juros* were refinanced at a lower interest rate. Given the fragmented nature of the capital market for the *juros* that were tied to cities, the reduction of the rate on a *juro* was done by augmenting the capital, for an unchanged coupon, with the option for the holder to cash the face value. The second issue is that the bankers who suffered a statutory loss on their *asientos* in the *Medio General*, received some compensations in the years after 1577, including clawback provisions in new *asientos*. The archives contain information but it is disperse and difficult to trace.

⁷¹ AGS, CCGG, leg. 309. *Medio General*, 5/12/1577, fols. 3-4. Supplementary Material, Document 15.

⁷² AGS, CJH Libros, 42, f. 42v. *Copia cédula*, Madrid, 25/05/1578. Supplementary Material, Document 18.

⁷³ AGS, CCA, DIV, leg. 48-6.

⁷⁴ Even before 1575, some letters had been written on the *feria* of Alcalá de Henares, which was closer to the royal court or even at Madrid (which had no fair) (Ruiz Martín 1987, pp. 281-282).

7. CONCLUSION

The analysis of the credit crisis 1575-1577, which is based on new archival material, is revealing on the structure of the Castilian credit market and throws light on the actions of Philip II and on his political relationship with the cities of Castile. The cities' relative autonomy limited the state's power and enabled them to bargain with the king. In some way, the involvement of the cities in the collection of revenues and the service of the domestic debt benefited the Crown because it enhanced the credibility of the debt and lowered its cost. Their fixed contributions, however, negotiated and voted in the *Cortes*, imposed a *de facto* ceiling on domestic public debt and on the ability of the king to refinance the short-term debt as long-term debt. The payment stop of 1575 was protracted because Philip II decided to remove this ceiling through a very large tax increase and the cities resisted until the economic burden became too high.

By issuing the *decreto*, Philip II could channel some of the realm's irritation against the Genoese bankers, but he protected them in practical situations. The numerous petitions to the king, the protection of the Genoese bankers against Castilian creditors, the reports of Philip II on the credit market before he became king, letters during the crisis, all these show that the «Prudent king» was aware that a large part of *asientos* were financed by the bankers' intermediation of credit and savings in Castile, and that the suspension of payments would put an economic squeeze on the *Cortes*. In an early example of a struggle on the debt ceiling between an executive and a representative assembly, the temporary victory of Philip II was achieved at a high economic cost for the realm.

As the ceiling on the service of the *juros* was lifted, all the *asientos* were refinanced into *juros*. This point is important and has been neglected in the literature. The settlements of each of the three financial crises under Philip II included a complete refinancing of the *asientos* into *juros*⁷⁵. The debt to the bankers was not reduced to an intermediate level. It was reduced to 0. This fact is not surprising once it becomes clear that: first, temporary adverse shocks to the budget should be absorbed through unfunded debt, *asientos*; second, an accumulation of *asientos* which corresponds to a permanent shock, should be converted to funded debt, *juros*; third, the crises happened when the conversion process could not take place because of the effective ceiling on the further emission of *juros*. The settlements enable the Crown to refinance the unfunded *asientos* into funded *juros*.

The routine refinancing of unfunded debt into funded long-term debt in 16th-century Castile is remarkable. France and England struggled to

⁷⁵ The evaluation of amount of debt reduction in the *Medio General* is not the issue here and it is left for another paper. As a first approximation, one may suggest that the Crown paid the principal due in 1575, but not the interests that accrued after the *decreto*. The evaluation of the debt reduction depends on the analysis *crecimientos* (Álvarez-Nogal and Chamley, 2015b).

refinance their unfunded debt after 1700 and the wars of Louis XIV, and they took the indirect route of a refinancing through charter corporations. In France, this led to a failure after the disaster of John Law. England took more than 20 years after the Glorious Revolution to significantly reduce its unfunded debt⁷⁶. In a previous study (Álvarez-Nogal and Chamley 2015a, 2015b), we analysed an example of such a refinancing through an *asiento* in 1595, and we will address the issue in coming work.

SUPPLEMENTARY MATERIAL

To view supplementary material for this article, please visit <http://dx.doi.org/10.1017/S0212610915000373>

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⁷⁶ See figure 4.9 in Brewer (1988). The transition from unfunded to funded debt is discussed in Quinn (2008).

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APPENDIX

TABLE A1
DATES OF THE FAIRS OF MEDINA DEL CAMPO (1556-1580)

Date of holding a fair	Number of fairs held	Name of the fairs that were held at that date		
2/1556	1	10/1555		
12/1556	1	5/1556		
2/1557	1	10/1556		
8/1557	1	5/1557		
12/1558	2	10/1557	5/1558	
4/1559	1	10/1558		
8/1560	1	5/1559		
12/1560	2	10/1559	5/1560	
8/1561	1	5/1561		
2/1562	1	10/1561		
8/1562	1	5/1562		
2/1563	1	10/1562		
10/1563	1	5/1563		
2/1564	1	10/1563		
10/1564	2	5/1564	10/1564	
2/1566	1	5/1565		
8/1566	1	10/1565		
4/1567	1	5/1566		
10/1567	1	10/1566		
10/1568	2	5/1567	5/1568	
6/1569	2	10/1567	10/1568	
12/1569	1	5/1569		
10/1570	1	10/1569		
12/1571	2	5/1570	5/1571	
4/1573	2	10/1570	10/1571	
10/1574	6	5, 10/1572	5, 10/1573	5, 10/1574
6/1575	1	5/1575		
10/1578	1	10/1578		
8/1579	1	5/1579		
2/1580	1	10/1579		
8/1580	1	5/1580		

Sources: AGC, CMC 2ª época, leg. 983. Constantin Gentil. Accounts since 1561. Lapeyre (2008, pp. 436, 442), AGS, CJH, leg. 80. Copy of the asiento with Nicolado de Grimaldo y Lorenzo Spinola, 1566. AGS, CJH, leg. 164. Cédula, 31 May 1574. Carlos Morales (2008, p. 112). Ulloa (1977, p. 776). Abed (1986, pp. 91-92). Hernández Esteve (2010, pp. 72, 116, 121).

Each fair can be traced by a number of documents. The merchants and the bankers wrote contracts contingent on fairs that were named by their dates. If a fair was delayed, it was merged with a later fair but it kept its name

(its scheduled date). Hence, some *asientos* may have been signed at a date posterior to payment dates. For example, the fair of May 1570 was delayed but kept its name. On 4 January 1572, Agustín Gentil signed an *asiento* with the promise to deliver 160 000 ducats “in the May fairs of 1570 and 1571 that are being held together now”.

For May fair of Medina del Campo, the schedule for payments was between 15 July and 10 August. For the October fair, the payments were scheduled for December. The sources are not very accurate on the exact day of the beginning and the end of the fairs. We have put a unique month for the date of the fair, but a fair could be held over more than a month. We have references on the fair of May in 1560 but no information on the exact date of its holding. We do not yet have data on the fairs of May 1556 and October 1560.