Philip II inherited from his father, Carlos V, his home base in Castile, but also an array of territories, in Italy, in the Eastern part of what is now France, and especially Flanders that include today's Belgium and Netherlands. The superpower of its time included an overseas empire over the recently discoved New World and the Philippines. Flanders, perhaps the most prosperous region of Europe, welcomed the new king as a protector against the ambitions of the king of France.

The old rules clashed with new times of the Renaissance, the printing press and the new religious fractures in Europe. To contain the centrifugal forces, and external threat of the Muslims in the Mediterranean, would require, especially at this time of a technology revolution in the military, very large expenses. This might not have happened but for the unfortunate discovery of the silver in the New World which, undoubtedly, strengthened Philip II in his resolution to keep his empire.

Philip II faced a simple but difficult problem: how to organize reliable deliveries of cash for the military when his sources of income where either highly variable (*i.e.*, the yearly arrivals of silver from the fleet), or scattered through his kingdom and determined by centuries old local practices. Furthermore, he had no central enforcement administration. We have explained in a previous paper (ANC ***) how this decentralization of internal revenues provided some financial benefits to the Crown as it enhanced the safety of the long-term public debt, the *juros*.

There was a critical need of experts and agents to transform the scattered revenues into steady expenditures for the military, and this on a scale with no precedent. The Genoese had built such experience over centuries.[1] They had built an empire of trading posts in the Mediterranean sea and up to the Black Sea. The Casa di San Giorgio, founded in 1403, implemented a consolidation of the public debt with equity, an operation that started the financial revolution in England only three centuries later. The same institution had the power to collect taxes and was therefore well informed on the practices of the collection of a variety of tax dues. The Genoese men of finance became early in the reign of Philip II, the indispensable money men.[2]

Of course, the matching between the variable and scattered revenues and the requirement of steady expenditures had a strong component of credit. But this credit was always a minor part (not more than 15% and much less in most cases) of the public debt while that public debt reached about 60 % of GDP. Furthermore, these men of finance in lending to the Crown, raised a large part of the funds

---

[1] Ref
[2] Dickson

in Castile. Hence, the debt of the Crown to these "Genoese bankers",[3] and for convenience we will use this name, is not a foreign debt.

The activities of the bankers with the Crown are put in contracts, *asientos*, which, following Cicero, can be called sinews of the finances of Philip II. They are neatly stacked in the archives of Simancas that were set by Philip II himself, and represent an archival mine that been exploited by many researchers for various purposes. But the archives include also many documents that complement the contract. All this information provides remarkable insights into the workings of the finances of Philip II. We have previously written on various aspects of the financial policies of Philip II and we have analyzed in great details a "textbook" contract that was signed in July 1595 with the Maluenda brothers. That contract delivered constant payments, called *mesadas*, for about a year in Lisbon. The payments by the Crown were in three parts, cash, income from the fleet, and the highlight of the contract, an option that enables the bankers to transform the short-term debt into long-term redeemable annuities, *juros,* (at a lower interest). All transactions were in the same currency, the Castilian ducat.

In this paper, our centerpiece is a contract that was signed with Tomás Fiesco on April 3, 1595. It delivers for about a year, *mesadas* in Flanders, in Italian escudos. Payments by the Crown are in Castilian ducats. The main part of the payments from the Crown comes from domestic revenues. The part of the fleet, if any, is relatively small (less than one quarter). The contract therefore provides a remarkable illustration of the transformation of scattered domestic revenues into a steady stream dof cash deliveries. The part of the fleetOther highlights of the contract are: (i) the exchange operation provides a good example of the standard for *asientos* that deliver cash in foreign exchange; (ii) there is an option to convert part of the debt into long-term annuities but its fraction is smaller than in the Maluenda contract; (iv) a clause leaves the transfer of income from the fleet to the discretion of the Crown after the signature of the contract.

relied on men of finance,[4] primarily Genoese bankers, for the financing of his short- to medium Our paper had two main purposes, first a correct reporting of the contract, second, the analysis, through the abundant documentation in the archives, of the working of this option which was at the cutting edge of the financial instruments at the time. In the Maluenda contract, all transactions, both the

[3] Simon Ruiz, the Maluendas were not Genoese.
[4] The merchant-bankers were the equivalent of the moneymen in 18th century England (Dickson, 1965).

disbursements by the Maluendas in Lisbon and the payments by the Crown are in one currency, the ducat, currency of Castile.

The main military activity of Philip II, especially in the 1580s and 1590s, took place in Flanders, were he tried to keep his rule over the United Provinces that he had inherited from his father.[5] The army in Flanders had to be paid in the local currency, the escudo. *Asientos* for Flanders had to add an exchange operation to their standard functions of transfers and loans. In this paper, we focus on the exchange operations in *asientos*. Our prime case is an *asiento* that was signed on April 3, 1591 between the Crown and Tomás Fiesco. The Fiesco *asiento* is complementary to the Maluenda *asiento* and offers an interesting comparison. It provided *mesadas* near Flanders against payments in Castile, and it included a clause for partial payments in *juros*. The main difference is that the disbursement by Fiesco are in one currency, the Italian escudo, and the payments by the Crown are in Castillan ducats.[6]

Our text-based method emphasizes the importance of the exchange between two currencies. The first important task of the contract, on its third page, is the conversion of the total amount of disbursements from escudos into ducats in order to compute the Crown's liability. After this conversion, all operations, including the interests, are in ducats. The rate of exchange from the escudo to ducats is stated in the contract. This rate is higher than the market rate at the signature of the contract and the margin between the two may have been an important source of profit, possibly the main one.[7] DV do not present their assumption about the market exchange rate and the margin of the banker on the exchange. Their presentation of the cash flow requires a margin of 16 percent, which is more than twice the standard at the time. We discuss explicitly our sources, according to which the *ex ante* margin of TF was a little more than 4 percent.

---

[5] The rebellion started in the 1560s, the Northern part proclaimed the republic in 1583, and a long war, well into the 17^{th} century, led to a partition between the North, the Netherlands of today, and the South that remained under the Spanish Crown until the French Revolution and Napoleon after which it became the independent Belgium.

[6] Another difference is that most of the payments by the Crown are not on the income from the fleet. This issue will be addressed in another paper.

[7] Of course, the merchant-banker need not to transport funds physically. Giro transfers had been known for centuries.