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BUSINESS FORMS, CAPITAL DEMOCRATIZATION AND INNOVATION: MILAN IN THE 1850s

ABSTRACT

Lombardy´s economy in the 1850´s was characterized by extensive networks of personal relations, credit by trust and family businesses. Milan´s wealth was maximized by maintaining the mercantile identity of the city, while manufacturing innovation was pursued only when economic profitable or strategic to further growth. Thanks to a sample including extensive data on almost two hundred firms in existence in Milan from 1852 to 1861, it is possible to reconstruct the mechanisms governing such economy: how liquidity was collected and distributed, how partnerships were formed, inside which social circles were partners found, how much kinship ties determined business decisions, what criteria proved relevant in the investment decision making processes, how were innovation and entrepreneurship rewarded. The picture emerging from the sample will vindicate the capacity of Milan´s mercantile elite to foster innovation through the efficient allocation of capital and the creation of entrepreneurial capital, averting at the same time disastrous financial crises: the solid base of the successive development of the region.

MILAN IN THE MIDDLE OF THE NINETEENTH CENTURY

"Each sharecropping farm, in Lombardy, produces rice, cheese and silk to be sold for considerable sums, and also every other possible product; it is an inexhaustible land where everything is cheap" [1]

Milan´s onlookers in the middle of the nineteenth century saw an incredible richness apparently springing from the surrounding agriculture. Entrepreneurship, on the contrary, was considered scarce[2] and local manufactures judged as hopelessly lagging behind English ones. Even the financial sector was limited to a bunch of private banking and trading houses[3]. Carlo Cattaneo, economist and publicist, aptly defined Milan´s economic élite as composed by *rentiers*, like old trees profoundly rooted in land, and by merchants seeking only to become landlords[4]. *L´eco della borsa*, Milan´s economic newspaper, likely lamented "a certain disgust of our country´s capitalists to invest their funds in the uncertain sea of the so called industrial enterprises and the inveterate tendency of merchants to become landlords, causing an enormous amount of capital to flow into the estate market"[5].

Recent researches revaluate the at the time leading mercantile elite of the city, underlining its innovative and progressive stance[6], while positively comparing local economic variables with the rest of the Austrian Monarchy[7]. Even such studies, though, cannot abide with the dependence of Lombardy´s economy from its precious exportables: silk and cheese. Like in all undeveloped countries Lombardy´s trade balance was consequently characterized by huge exports of agricultural products and imports of manufactures, without any sign that the richness generated by such trade could trigger a further development of the region[8].

In reality judging Lombardy´s economic performance through the distorted eyeglasses of the parallel industrialization of other European regions proves to be an historical absurdity. So long as silk trade

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[1] Stendhal, *Rome, Naples et Florence*, Michel Lévi Frères, Paris, 1865, p.410.
[2] Carlo Cattaneo, 'Alcune ricerche sul progetto di un monte delle sete', *Annali Universali di Statistica*, 54, (1837), 186-187). This perceived lack of entrepreneurial forces in the Milanese area found its way from contemporary chronicles and economic writings also to modern economic history research. The first and foremost champion of this view: Kenneth R. Greenfield, *Economia e liberalismo*, (1940, Bari), 130. For an overview of the problem see: Luca Mocarelli, *Costruire la cittá. Edilizia e vita economica nella Milano del secondo Settecento*, (2008, Bologna), 14-15.
[3] See: Giandomenico Piluso, *L'arte dei banchieri*, (1999, Milan), 38-57.
[4] *Annali Universali di Statistica*, 54, (1837), 186-187.
[5] "Le nuove fabbriche di Milano", *L´eco della Borsa* (21 August 1839).
[6] Stefano Angeli, *Proprietari, commercianti e filandieri a Milano nel primo Ottocento*, (1982, Milan); Stefano Levati, *La nobiltà del lavoro. Negozianti e banchieri a Milano tra Ancien Règime e Restaurazione*, (1997, Milan); Stefania Licini, 'Ricchi, Ricchezza e Sviluppo Industriale: la business community milanese dell'Ottocento', *Annali di Storia dell'Impresa*, 10, (1999).
[7] Rupert Pichler, *L´economia lombarda e l´Austria*, (2001, Milan), 255-81.
[8] Rupert Pichler, *L´economia lombarda e l´Austria*, (2001, Milan), 284.

provided local capitalists with huge profit differentials in respect to other manufacturing activities, most investments would be centred on that sector. The growing international trade involving Milan called for the specialization of the region in the agricultural sector. Specialization could only enhance the economy´s efficiency[9]. In 1854 silk accounted so for 93% of total exports and Stefano Jacini approximated to 2.424 Million Austrian Lire the sum invested in Lombardy´s agriculture, contra just 384 funding manufacture and trade[10] (Table 1). At the time Lombardy´s agriculture absorbed capital seeking a secure haven in landed property but also speculative capital in the risky silk cycle. In just 40 days the financing of silk throwing mills required more than 60 Million[11] and the profits guaranteed by the related intermediation even attracted foreign funds from nearby Switzerland and Frankfurt. Very little was apparently left for manufacturing enterprises. The industrial enquiry launched by the Chamber of Commerce in 1852[12] photographed manufacturers, constrained to a narrow local market and imperilled by foreign competition, whose greatest concern regarded excessive duties on raw material imports and the less than prohibitive duties on finished product imports[13]. Even so Lombardy contributed to the total manufacturing production of the Austrian Monarchy with the second most relevant share after Bohemia[14]. Considering the meagre investment sum at disposition this success confirms the economy´s efficiency in allocating resources among sectors and in engineering their high productivity. Such efficiency, confirmed by the leading role of Lombardy in Italy´s economic development after Unification, based neither on the Gerschenkronian substitution through banks and state, nor on modern corporations. Lombardy´s economy in the 1850´s, characterised by extensive networks of personal relations, credit by trust and family businesses, is still best defined as mercantile. Thanks to a sample including extensive data on almost two hundred firms in

[9] It was common knowledge that the specialization induced by international commerce enhanced the productivity and the well-being of the region. L´Eco della Borsa wrote, for example, in 1850: “A wise government will take particular care to ascertain and study the resources of its country, to favour their most profitable exploitation and to show to industry and trade the way that most corresponds to the special attitudes of the country and brings the greatest gain for the community. To favour a different policy in favour of a few would harm the general well-being, restricting the sphere of individual enterprise and limiting the enjoyment of its yields”.
“Il Lavoro”, *L´Eco della Borsa*, 25 February 1850.

[10] Stefano Jacini, *Grundbesitz und Landvolk in der Lombardie*, (1857, Milan and Verona), 130-131. Jacini took the quoted figures from the statistical summaries of the Chamber of Commerce. Such statistics are no longer available due to the damages the Archive of Milan´s Chamber of Commerce suffered in the bombings of 1943.

[11] “Rassegna de´giornali”, *L´Eco della Borsa*, (12 April 1851).

[12] Archivio della Camera di Commercio di Milano (ACCM), scatola 83.

[13] See: Aldo de Maddalena, „L´industria milanese dalla restaurazione austriaca alla vigilia dell´unificazione nelle rilevazioni della Camera di commercio di Milano“, *Studi e Statistiche*, 1, (1857), pp. 3-38.

[14] Rupert Pichler, *L´economia lombarda e l´Austria*, (2001, Milan), 268.

existence in Milan from 1852 to 1861[15], collected from the surviving documents of Milan´s Chamber of Commerce, it is possible to reconstruct the mechanisms governing such economy: how liquidity was collected and distributed, how partnerships were formed, inside which social circles were partners found, how much kinship ties determined business decisions, what criteria proved relevant in the investment decision making processes, how were innovation and entrepreneurship rewarded.

The picture emerging from the sample will vindicate the capacity of Milan´s mercantile elite to foster innovation through the efficient allocation of capital and the creation of entrepreneurial capital, averting at the same time disastrous financial crises: the solid base of the successive development of the region.

BUSINESS FORMS IN MILAN IN THE 1850s

"Vis unita fortior"[16]

Of the merchants registering their trade at Milan´s Chamber of Commerce, in compliance with the Decree issued by the government the 29th August 1852, many were autonomous entrepreneurs, without partners. Their businesses had no need of notary´s deeds to be set up and their registering form did not contain any reference to invested capital or firm´s value. Such enterprises, spare a few cases, are therefore absent from the collected sample. It might be interesting, though, to have a rough measure of the weight of such enterprises on the total of Milan´s businesses. This is possible thanks to the compulsory notification of new

[15] The 29th August 1852 the Austrian Minister in Lombardy issued a decree that obliged every trading house in existence in Milan to report its presence to the local Chamber of Commerce. Of these collected communications, up to the Unification of Italy, 176 reported along the social denomination of the house also the capitals invested, the names of the shareholders, their capital and profit shares etc. Other 22 communications, instead, relating the transfer of the firm, also reported the real value of the business and its shareholders. Data are not complete, so any possibility of econometrical analysis had to be excluded. The richness of the material collected, though, allowed several conclusions on business forms, partners characteristics and innovation. Biases of the sample were corrected through the research of ulterior data in the notifications published on the *Journal of the Chamber of Commerce* and through articles of *L´Eco della Borsa*.
ACCM, Archivio Ditte, section from beginning to 1861.

[16] Latin proverb, used by Francesco Restelli as epigraphy of the essay he wrote in response to the question posed between 1842 and 1844 by Lombardy´s Royal and Imperial Institute of Science, Literature and Art, whether industrial and commercial associations influenced the common good and how to foster them.
Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 59.

and ceased enterprises due to appear on the official Journal of the Chamber of Commerce[17], following their registration act and successive adjournments (Table 2). The data about the year 1852, with a comparatively high amount of notifications in consequence of the cited decree, sums up to 326 newly registered and 73 ceased enterprises, with a percentage of sole proprietorships of respectively 71% and 57%. Such percentages are consistent with older data pertaining to the year 1840. According to the statistic published by *L´Eco della Borsa*[18], sole proprietorships accounted then for 65% new and 64% ceased enterprises (Table 3).

This stable quota of proprietorships comprised all categories of shop keeping, laboratory manufactures and wholesalers. Not only dairies, shoemakers, bakeries and haberdasheries were conducted as sole proprietorships but also banks, money changers and wholesale traders adopted such business form[19]. In 1852 a total of 31 out of 232 notified proprietorships, a percentage of 13%, consisted, in effect, of *big businesses* as wholesale merchants, bankers or manufacturers.

The few cases of sole proprietorships present in the 1850s sample give a clue as to when and why such legal form was chosen by entrepreneurs. Tomaso Ramponi emerged from a previous partnership with enough capital to set up his own building wood retail trade near Porta Tenaglia, while Pio Zerboni possessed a warehouse of luxury wines and a laboratory for the production of wermut in Porta Beatrice. The capital invested in both businesses was limited to twenty and ten thousand Austrian Lire respectively, well below the mean values of all partnership categories collected in the sample (Table 5), allowing both entrepreneurs to self-finance their venture. The absence of partners, though, was not only the result of small capital requirements but also an indicator of the capacity on part of the entrepreneurs to manage their business alone, without associates or family members. The absence of succession was another common circumstance conductive to such a business form, as confirmed by a notification relating to the

[17] *Foglio della Camera di Commercio e d´Industria della Provincia di Milano*. This Journal was first issued the 7th September 1851.

[18] Regrouping all firms ceased or newly founded in Milan during the previous year according to their legal form, the journal intended then to contribute to the debate on business categories raging since the financial crisis of 1837. *L´Eco della Borsa*, 6 January 1841.

[19] The *Foglio della Camera di Commercio e d´Industria della Provincia di Milano* for the year 1852 quotes as personal businesses amidst all kind of shops and craftsmen also the cheese wholesale merchant Antonio Bassi, the leather wholesale merchant Rodolfo Kluger of Triest with an agent in Milan, the banker, public supplier and contractor Alberto Caldarara, the wholesale merchant and banker Cesare Sala, the silk commission merchant Pietro Gavazzi etc. Also some manufacturers of silk fabrics, silk accessories, candles, metal buttons and chocolate were notified as personal businesses.

business of Baldassarre Galbiati[20]. Alone at the head of his establishment, without younger partners or relatives to whom passing the business on, in May 1851 Galbiati reduced the capital of his bank to just 100.000 Austrian Lire, given that he "had invested all the remaining capital into real estate, rents and mortgages". Galbiati was evidently on the path to becoming a wealthy *rentier* and had no familiar or business relations to induce him into a partnership for succession purposes. His pensioning did not result in his leaving the reins of business to younger associates but in ennoblement and the ceasing of trade.

The sole proprietorship form was de facto chosen when self-financing, personal capacities and kinship ties permitted or constrained to it. When all said circumstances were not given, though, a partnership became a necessity. Partnerships accounted so for 35% of enterprises in Milan in 1840 (Table 3) and for 38% newly registered and 43% ceased businesses in 1852 (Table 2). Legally, partnerships could be of different types, according to the still binding remnants of the Napoleonic *Code de Commerce*[21]:

- *societá in nome collettivo*[22], commercial partnerships with unlimited liability of all partners;
- *societá in accomandita*[23], limited partnerships that allowed capitalist to act as limited partners while entrepreneurs maintained unlimited liability; and
- *societá anonime*[24], limited companies that required no unlimited liability from shareholders or administrators[25].

The 1850s sample is particularly useful to highlight the different organizational choices partnerships presented to entrepreneurs, being biased toward such business forms, because they required a written agreement or notary´s deed, documents often included in their registration form to the Chamber of Commerce[26].

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[20] ACCM, Archivio Ditte, ad nomen.

[21] *Code de Commerce*, 5eme Edition, (1808, Paris). On the genesis of the French code see: Antonio Padoa Schioppa, *Saggi di storia del Diritto Commerciale*, (1992, Milan), 89-112; on ist transposition under Austrian rule see: Antonio Padoa Schioppa, *Saggi di storia del Diritto Commerciale*, (1992, Milan), 142.

[22] The French *société générale*.

[23] The French *société en commandite simple*.

[24] The French *société anonyme*.

[25] On the debate before and after the introduction of the Napoleonic Commercial Code see: Pompeo Baldasseroni, *Dissertazione sulla necessità ed importanza della compilazione di un codice generale pel commercio di terra e di mare del regno d'Italia e sulle basi fondamentali sopra le quali debb'essere compilato*, (1807 Milan); and: Michel-Louis-Etienne Regnaud de Saint-Jean d'Angely, *Codice di commercio: preceduto dai motivi*, (1807, Milan).

[26] Such documentary abundance justifies the prevalence of partnerships in the 1850s´ sample, collected from the registering forms to the Chamber of Commerce, up to 1860, that included the founding act or relevant information about partners, capital, profit shares etc.

Commercial partnerships continued the long standing tradition of Roman Law´s partnership between equals, sharing the ownership and the liability of a venture. All partners participated in the management of the firm and so in its profit or losses. Such partnerships accounted for about 30% of all ceased and newly founded enterprises in Milan in 1840 (Table 3) and for 71 out of 173 businesses in the 1850s sample (Table 4). The diffusion of this form, though, corresponded to a limited capital intensity. The mean capital value of commercial partnerships in the 1850s sample corresponds to 60.000 Austrian Lire, summing up to just 11,75% of total capital. Evidently the condition of equality among partners and their shared unlimited liability constrained the amount of capital that was invested in such partnerships. Equality was considered a guarantee of trustworthiness, but was difficult to achieve in capital intensive businesses. In the sample the commercial partnership satisfying such criterion with the highest capital value is the firm *Capelli e Vaj* for the production and trade of leather. Associates of this venture were Domenico Capelli and Giuseppe Vaj, landowners and butchers, who decided to co-finance a venture that integrated vertically their original business, investing 55.000 Lire Milanesi each. Economies of scale guaranteed the profitability of the firm, while equality was condition enough to avoid principal-agent problems. Both entrepreneurs maintained in any case their own independent core business, to be passed on to family members. In effect, given enough capital, every entrepreneur would prefer independence, a reason why capital intensive commercial partnerships based on equality were rare. At the same time, trusting high amounts of money and personal unlimited liability into the hands of an unequal partner was not an easy feat. Only eight of the sample´s 71 commercial partnerships exceeded 100.000 Austrian Lire of capital. Of these, six were family businesses, i. e. partnerships among brothers, brother in laws or father and sons[27]. Kinship substituted in such cases equality as a source of trust.

Given these limits of commercial partnerships, limited responsibility, as Francesco Restelli, a contemporary eminent jurist, praised, was a "highly fecund original idea"[28] through which a whole new class of investors, not entrepreneurs but mere capitalists, could be gained to trading and industrials pursuits. In Lombardy the legal framework at the time in existence allowed limited responsibility only in limited

[27] Pasquale e Fratelli Borghi, Fratelli Grassi del fu Michele, Perelli Paradisi e Comp, Fratelli Rimoldi e Casoretti, Pietro Simonetta e figli, Giorgio Salzmann e C.

[28] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 71.

partnerships and limited companies. According to the 1850s sample, limited partnership was the most chosen business form of the two, accounting for 77 out of 173 businesses, a percentage of 44% (Table 4). The significance of these limited partnerships in the general economy, though, is only to be understood by coupling the sample´s data on business forms with those on capital (Table 5). Of the 166 firms of which the founding capital is known, limited partnerships accounted for 45% of businesses and 70% of capital or roughly 23 Million Austrian Lire. In a world of growing division of labour and capital requirements[29] limited partnerships played evidently a major role. As Restelli noted: "Disband the limited partnership and trade will lose through a crisis of anxiety all landowners´ and professional´s capital" [30] and "if we want to maintain our trade we have to maintain the limited partnership"[31].

Such was not the case of public limited companies. Although stockholders enjoyed the same limited responsibility as limited partners, in Milan this business form remained an exception[32].

The sample presents just two cases of public limited companies: a Society for agricultural improvement managing a great possession nearby Milan and a railway Company[33], with an added capital of 4.700.000 Austrian Lire. Clearly capital intensity was an indispensable precondition for incorporation[34]. As *L´Eco dell Borsa* put it: "It is not to be denied that the principle of *societá anonima* represents a derogation to common law, because separating capital and person is an abstraction. The principle of *societá in accomandita* is, no doubt, morally superior, but very dangerous in too great a business, where it would be difficult to find a worthy man so brave to assume such grave responsibility"[35].

Restelli specifically listed the sectors in which dimension called for an act of incorporation: great ventures as railroad and canal building, the colonization of overseas territories and international transport and trade; industrial businesses, as the mechanical spinning of cotton and linen, requiring mass production to

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[29] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 76.

[30] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 73.

[31] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 73.

[32] On this see „I capitali non mancheranno all´industria", *L´Eco della Borsa*, 52 (1838).

[33] "Associazione Agricola Lombarda di Corte del Palasio" and "Societá anonima della Strada Ferrata da Tornavento a Sesto Calende".

[34] Michel-Louis-Etienne Regnaud de Saint-Jean d'Angely, *Codice di commercio: preceduto dai motivi* , (1807, Milan), xvii.

[35] „Del sistema delle azioni nelle societá in accomandita", *L´Eco della Borsa*, 7 (1838).

be profitable; risky sectors as steamboats, mines and maritime insurance and innovative ones as the mechanical industry and gas lighting. Although legally this possibility was given, though, in Milan few capitalists or entrepreneurs made use of it. Many enterprises engaged in the above mentioned sectors were founded as limited partnerships. In 1852 only the five insurances operating in Milan, of which just one legally residing in the city, the railway and the steamboat companies were limited companies[36]. Most industrial enterprises, on the contrary, whatever their capital intensity, had been founded as limited partnership: so the enterprises for lighting gas, for the mechanical spinning of cotton and linen, fertilizers and silk seasoning. All capital intensive mercantile enterprises too were limited partnerships: silk trading companies being financed by aristocratic limited partners, and banks as family businesses or long standing partnerships between pools of often related families.

This persistent avoidance of the public limited company´s form cannot just be explained with the often evoked sluggishness of the Austrian bureaucracy in approving incorporation acts[37]. Given the fact that in 1854 even a society for apiculture was readily incorporated[38], the problem laid more in a wide societal distrust over limited companies than in Austrian deficiencies. This social diffidence was solidly founded in the fear of ruinous financial crises triggered by speculation in stocks or fraud by limitedly liable administrators. In Milan debates raged about the social utility of companies and partnerships, especially after the international crisis of 1837. Restelli himself wrote his remarkable pamphlet on business forms to answer the question posed between 1842 and 1844 by Lombardy´s Royal and Imperial Institute of Science, Literature and Art, whether industrial and commercial associations influenced the common good and how to foster them. He had no doubts: "Economists consider companies means to gather forces and capitals for the greatest and cheapest production possible. Moralists consider companies as schools of concord, harmony and mutual assistance and approve of them as means to avoid, through the development of richness, the vices and crimes of poverty. Politicians recognize in companies agents of civilization, needing

[36] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 65-66.
[37] The historiographical prejudice assuming that institutional obstacles had impaired the spreading of the economically more efficient business form of limited company is not exclusively Italian. For the British case see: Ron Harris, *Industrializing English Law: Entrepreneurship and Business Organization*, 1720-1844 (2000, Cambridge) 165-67.
[38] See the founding act and the authority´s approbation in: Archivio di Stato di Milano (ASM), Commercio p.m., cartella 458.

safety and hence favouring good institutions"[39]. But there were caveats: "Less France, more England and enormously America have experienced the terrible consequences of an excessive use of industrial associations. In Italy, where this abuse seemed capable to align but didn´t yet cause major damages or sacrifices, the time has come to look attentively at the causes of such abuses and prevent them." [40]

The governmental scrutiny due before incorporation[41] had evidently proved insufficient to contain the risks of limited responsibility[42]. Business practice found its own solution to the problem. Outside the boundaries of formalized commercial law flourished a hybrid business form uniting characteristics of both limited partnerships and limited companies. The *societá in accomandita per azioni*[43] was de facto an extension of the limited partnership that allowed capital to be divided into shares. This business form retained the responsibility and morality of management to avoid the detrimental consequences of fraud and financial speculation, guaranteed the entrepreneur free hand in the management of the enterprise[44], while pooling a large amount of investors. "For this reason only – asserted *L´Eco dell Borsa* in 1838 – we would always prefer the organization of *societá in accomandita per azioni* to a public limited company for all businesses requiring a moderate amount of capital. Because we are in conscience convinced that the responsibility of managers is a serious issue and not a formal one: mangers should have their existence linked with that of the business they were entrusted with" [45]. A view that was shared by entrepreneurs and capitalists in most of Continental Europe[46] and brought about the enormous diffusion of this business form during the nineteenth century[47].

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[39] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 60-61.

[40] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 60.

[41] In Lombardy a police report had to clear the position of the proponents and a local magistrate guarantee the soundness of the enterprise and its positive social impact before an incorporation act was approved.

[42] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 164.

[43] The French *société en commandite par actions*.

[44] „Delle societá per azioni", *L´Eco della Borsa*, 10 (1838).

[45] „Del sistema delle azioni nelle societá in accomandita", *L´Eco della Borsa*, 7 (1838).

[46] Francis J. Troubat, *The Law of Commandatary and Limited Partnership*, Philadelphia (1853), ix.

[47] On the comparative diffusion of commercial and limited partnerships, limited partnerships in shares and limited companies in the UK, Germany, France and the US see: Timothy Guinnane, Ron Harris, Naomi R. Lamoreaux and Jean-Laurent Rosenthal, *Business Organization in the long run: private limited companies rule!*, working paper, 2006.

In the collected sample, 6 of the 75 limited partnerships of which the founding capital is known were limited partnerships in shares and collected 2.388.000 Austrian Lire, 10% of all capital of limited partnerships. Given the silence of law on the issue, though, many other partnerships, even if not explicitly notified as limited partnerships in shares, had their capital divided in shares or "carature" with varying obligations regarding their transferability. These 22 partnerships totalled little less than 10 Million Austrian Lire of capital.

The partiality of Milan´s entrepreneurs toward limited partnerships, be in their simple or in shares form, reflected the then common perception not only of their moral superiority but also of their greater efficiency in respect to other business forms, a view championed by L´*Eco della Borsa*[48]. Even a jurist as Restelli noted: "Although we must admit that public limited companies more easily aggregate huge amounts of capital than limited partnerships, these last ones better serve enterprise growth and product maximization. Management´s continuity, freedom and swiftness of action better suit a venture than the administration by dismissible managers. Managers can easily lose profitable opportunities for lack of power, being dependent on a majority often more factious and clamorous than wise and intelligent." [49].

In Milan during the nineteenth century limited partnerships responded efficiently not only to economy´s requirements but also to society´s characteristics, matching the growing financing need of firms with the still familiar and corporative management of the economy. They retained the central role of the entrepreneur, granting him an absolute power over the firm, but allowed at the same time the limited liability of investors; they lowered the risk of moral hazard on part of managers and responded at the same time to the social distrust versus entrepreneurial limited liability. These the reasons of the relevance of this business form in Lombardy´s economy in the 1850s.

[48] „Delle societá per azioni", *L´Eco della Borsa*, 10 (1838).

[49] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 73-74.

THE SPIRIT OF ASSOCIATION

"The artist, the worker, the commoner should all participate to industrial ventures. The association of the greatest number of people in their prosperity and development would create a solidarity of interest between the humble labourer and the rich"[50]

Partnerships were held in high esteem by contemporaries as the epiphany the "spirit of association", at the time invoked as the necessary counterpart of the division of labour on the path to modernity[51]. "The spirit of association, – wrote the social utopian Giuseppe Corvaia on *L´Eco dell Borsa*[52] – invading in recent years the enlightened minds, signals the eve of a new era and constitutes, in our opinion, a founding feature of the social improvement invoked for centuries by reason and philosophy, but till now utopia. Administrators and administered, proprietors and industrials, cultured and uncultured, men and women, landlords and serfs procure to associate themselves in some enterprise and when their means are insufficient to become shareholders of a company, they just put some money into a savings bank or insurance company to participate to the benefits of association. This impetus, in our opinion, demonstrates men´s intimate belief that they were made to live in society and their effort to exit, through this mean, from the isolation and individualism that generates all evil"[53].

An unique insight into the reality of the evoked process of capital socialization[54] and social improvement[55] is allowed by the sample collected from the surviving documents of the Chamber of Commerce, unveiling the identity of 1021 partners and shareholders in Milan in the 1850s.

The most persistent feature of the partner emerging from the sample pertains to gender. In 93,3% of cases the partner was male. Considering the data on mean capital shares, males also invested 43% more than females. The process of socialization shows herewith its most spectacular failure: women remained for the

[50] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 109.

[51] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 62.

[52] On this curious disciple of Saint-Simon and his professed faith in a future „bancocracy" see: Delio Cantimori, *Utopisti e riformatori italiani, 1794-1947*, Florence,1943, pp. 203-230.

[53] Barone Giuseppe Corvaja, "Le banche e le Compagnie", *L´Eco della Borsa*, 21 June 1838.

[54] On the process of capital socialization as exemplified by the diffusion of public limited companies in North America see: William G. Roy, *Socializing Capital: The Rise of Large Industrial Corporations in America*, Princeton (1997).

[55] In the current literature on different forms of business organizations and legal systems and their effects on economic development, a comprehensive study at partner and not firm level is Ran Abramitzky, Zephyr Frank and Aprajit Mahajan, *Risk incentives and contracts: Partnerships in Rio de Janeiro 187-1891*, working paper. Even this study, though, does not categorize partners as to gender, profession or social class.

most part excluded from the new investment opportunity[56]. Together they represented just 3,9% of the partners sampled and also of the total capital invested (Table 6). Aside from some prestigious widows and *grand dames*[57], investing sums easily higher than 100.000 Austrian Lire, other female investors possessed shares generally valued under 10.000 Austrian Lire. In one out of four cases, such female participations pertained exclusively to family firms and derived from inheritance. The death of a parent or husband was so the most common path to patrimonial independence. Marriages, instead, deprived women of control on their possessions, because either their husbands managed their stakes or their activities constituted their dowry and passed under the husband´s control. In effect of the twenty two deeds of sale documented in the notifications to the Chamber of Commerce up to 1860 with the original notary´s act, seven consisted of complex dowry transactions.

In some cases the wife acquired, thanks to her monetary dowry, the possession of her husband´s firm. The husband continued then to manage the activity, paying his wife a fixed interest rate on her capital investment[58]. In other cases the wife´s dowry consisted in her trading or manufacturing activity. The possession of the firm passed then in the hands of the husband, who either managed it or received an interest on his newly acquired stake[59]. Obviously such marriage contracts constrained most female investment inside the family´s firm, possessed either by husband or wife, limiting the participation of women in limited partnerships to rare occurrences. Exemplary the case of the famous carriage manufacture Grondona sold from Carolina Strozzi back to her husband Benedetto Grondona and her son Felice Grondona in 1855 for 117.000 Austrian Lire, along with the house in which the family lived in. All family´s possessions, real estate and firm, had nominally been Carolina´s till then, even if the management of the manufacture had been in the hands of the male components of the family.

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[56] On gender and patrimonies in nineteenth century Milan see: Stefania Licini, *Women´s wealth and finance in nineteenth-century Milan*, in Anne Laurence et al (ed.), *Women and their money 1700-1950*, Routledge (2009), pp. 271-290.

[57] Among them in the sample: Carolina Seufferheld, princess Trivulzio di Belgioioso, Agnese Torriani, Leopoldina marchioness D´Adda born Kevenhüller, Maria countess Kevenhüller widowed duchess Visconti di Modrone and Marianna Lejnati born Besana.

[58] Giuditta widow Pogliani, for example, invested 12.000 Austrian Lire, inherited from her first husband, to buy out from her second husband the possession of a typography and a bookshop.

[59] Isabella Borghi, for example, brought into her marriage as dowry her soap and candles manufacturing and trading shop, with a value of 20.000 Austrian Lire, on which she would from then on pay an interest rate of 4,5% to her husband.

The confinement of female investments to family firms is confirmed by the data on new and ceased businesses available for the year 1852. Here the percentage of firms owned and denominated after females corresponds to ten and eight per cent respectively. Such female entrepreneurial activity was quite untouched by the general tendency toward partnerships: of the thirty nine firms considered only five were partnerships, while the rest consisted of, mostly small, sole proprietorships. Women owned shops of silk, linen, cotton and woollen cloths, braids, trinkets and fashionables; groceries; milliners; haberdasheries; dairies; coffee shops; produced mattresses and artificial flowers; managed retailers of wine, oil, liquors and wood; but they did it alone, as widows or daughters of preceding owners or as wives investing their dowries in their husband´s activities. Only exceptions to such sole proprietorship rule for female investments consisted in family firms, often in second or third generation, were women shared ownership with sisters, sister in laws or brothers[60].

Female investment being limited to sole proprietorships and family firms, partnerships remained a male domain. Aside from their maleness, partners were also, in the majority of cases, unrelated to other partners of the same firm (Table 7). Inside the firm, family remained so a reality only for one fifth of the sampled partners, gradually losing its function as primary source of trust and investments: in the sample, unrelated partners invested a mean sum twenty eight per cent higher than strictly related. In absolute values, the contribution of unrelated partners to the total capital value was also more than three and a half times that of related partners.

Another characteristic of the majority of the sample´s partners was limited liability (Table 8). More than three fifths profited from limited liability, renouncing any involvement in direct management in favour of a pure capitalistic investment. Even if unlimitedly liable entrepreneurs continued to invest seventeen per cent more than limitedly liable partners, the total contribution of entrepreneurs to the economy´s capitalization was ten million Austrian Lire, contra fifteen of pure investors, confirming the importance of partnerships as a new source of capital for Milan´s economy.

The partner so described by the data of the Chamber of Commerce confirms the perception of contemporaries like Corvaia: most partners had seemingly become modern investors. An occurrence

[60] Such the case, for example, of the renowned sisters Enrichetta and Charlotte Chaillon, the most famous French *modistes* in Milan in the 1850s, sharing their business as a commercial partnership, or the three Benedetti sisters having inherited the wool trading activity of their mother and transformed it in a partnership with the participation and management of Luigi Cantalupi.

strictly related with the spreading of limited liability, as to be proved disaggregating the sample´s data according to business forms (Table 9) in search of more precise and detailed relations between family, trust and liability.

The occurrence of kinship ties inside the firm, as to be expected, diminished steadily from commercial partnerships to limited partnerships and further in limited companies. In commercial partnerships 29,7% of partners was strictly related to other partners. This percentage shrinks to 21,2% in limited partnerships and collapses to 10% in limited companies. The importance of family in the diverse forms, though, is to be understood only comparing the mean invested sums of related and unrelated partners. In commercial partnerships strictly related partners invested a mean of 40.272 Austrian Lire, contra just 19.416 invested by unrelated partners. In this case family continued to represent the guarantee of trustworthiness necessary to justify high investments in presence of unlimited liability. Without such guarantee, unrelated partners would invest only a relatively small amount of money, limiting the commercial partnership form to non capital intensive businesses. Particular the case of firms involved as partners in commercial partnerships, investing a mean of 47.238 Austrian Lire each, more than any other category of investors. In this case the source of trustworthiness was equality, being all firms involved in joint ventures[61].

In comparison to commercial partnerships, in limited partnerships the relation between invested sums and kinship ties was reversed: partners strictly related to other partners inside the same firm invested a mean of 31.984 Austrian Lire, unrelated partners, instead, 59.130 Austrian Lire. Limited liability clearly diminished the importance of trust and equality, becoming in itself an incentive to investment[62]. Here was capital socialization really at work: limited partnerships coalesced almost twenty millions Austrian Lire of capital through the investments of 705 out of the 1021 partners represented in the sample. Of these partners, 128 were entrepreneurs, managing the firm and guaranteeing their role with unlimited liability, while the remaining 577 were pure investors.

Identifying, whenever possible, profession and origin of such investors sheds light on the extension of the evoked socialization of capital.

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[61] The partnership "Vetrerie Lombardo Tirolesi", for example, was a joint trading venture of diverse glass producers of Lombardy and Tirolo to distribute their products in Milan, while a bunch of firms located in Magadino, a flourishing trading centre on the Swiss shore of Lago Maggiore, set up a commercial partnership as freight forwarder in Milan.

[62] Michel-Louis-Etienne Regnaud de Saint-Jean d'Angely, *Codice di commercio: preceduto dai motivi* , (1807, Milan), xvi.

Hundred and four of the sampled investors pertained to the oldest kind of limited partner: the nobleman who enjoyed the possibility to reap trade´s profit but couldn´t or wouldn´t participate in the management of firms. The sample´s aristocrats invested a mean of 114.676 Austrian Lire each, the highest mean value of all kind of limited partners. A good example is that of baron Ippolito Gaetano Ciani, limited partner in a silk trading house with 800.000 Austrian Lire, in a partnership for the transformation of peat into anthracite with 120.000 Austrian Lire, in a firm for the production of chemical fertilizers with 8.000 Austrian Lire, and also in possession of one share in the limited partnership in shares "Per la vendita di oggetti di belle arti". Similar case that of earl Giuseppe Archinto, who invested one million Austrian Lire in the venture "Sioli, Dell´Acqua e Compagno" for the manufacture of cotton in the advanced factory of Vaprio d´Adda.

Other noblemen, though, not only avoided direct management in firms, but also public recognition of their role as limited partner. They participated in limited partnerships covertly, so that their managing partners notified to the Chamber of Commerce only the entity of their investment, not their name. As in seventeenth century´s French *société en commandite simple*, the interest of this kind of investors in limited partnerships was triggered by the separation of ownership and control rather than by limited liability[63]. These noblemen didn´t want their interest to become common knowledge, damaging their public image[64]. Notified just as "capitalist partner" or "limited partner", they participated in the manufacture of iron wares of Giuseppe Badoni with 150.000 Austrian Lire, in the silk trading company of Angelo Rosina with 100.000 Austrian Lire, in the silk trading company of the Vialletton brothers with 145.000 Austrian Lire, etc.

While noblemen represented, overtly or covertly, a lavish source of capital, in Milan in the 1850s as in seventeenth century France, the capital socialization dreamed of by Corvaia required the inclusion of larger strata of population among the investor´s class. As to the sample´s evidence, the newest kind of investor to be found in Milan´s partnerships is a broadly defined professional, embodied by engineers and notaries, professors and clergymen, artists and lawyers, attracted to financial investment by limited

[63] In seventeenth century France, while the administrator, as unlimited partner, was charged with unlimited liability for the venture that bore his name, the question of limited and unlimited liability by the limited partners was secondary and open to interpretation by the jurisprudence. On this see: Henry Lévy-Bruhl, "La noblesse de France et le commerce á la fin de l´ancien régime", Revue d´histoire moderne, (1993), 213-15; Amalia D. Kessler, „Limited Liability in Context: Lessons from the French Origins of the American Limited Partnership", The Journal of Legal Studies, 32 (2003), 522.

[64] See: Henry Lévy-Bruhl, "La noblesse de France et le commerce á la fin de l´ancien régime", *Revue d´histoire moderne*, (1993), 213-15; Amalia D. Kessler, „Limited Liability in Context: Lessons from the French Origins of the American Limited Partnership", *The Journal of Legal Studies*, 32 (2003), 522.

liability[65]. In effect 89% cent of the sample´s professionals were limited partners, while the rest was involved in family firms and therefore maintained the burden of unlimited responsibility. The engineer Giuseppe Agudio is a good example of this new investors, being limited partner in four different silk trading and manufacturing ventures with a total capital participation of 145.000 Austrian Lire, and also shareholder and manager of the limited company for the steam navigation on Lombardy´s lakes.

Attracted as they had been in the rewarding world of financial participations by the lure of limited liability, though, professionals constituted a mediocre source of capital for the economy at large (Table 10), and their mean investment value consisted of 38.743 Austrian Lire only, just one third of noblemen´s.

Limitedly liable investors not fitting in the preceding categories corresponded, in Restelli´s words, to: "the very same *negociant* who, exposed to unlimited liability in his branch of business, doesn´t want to be unlimitedly responsible in other enterprises to which he participates with just his capital, without managing or running them"[66]. Such investors, roughly half of the sample´s, with a mean participation of 36.128 Austrian Lire each, covered half of the capital collected through limited liability. The mercantile class profited so of limited liability to simultaneously participate in many businesses. Aside their own firm, merchants financed with enthusiasm young entrepreneurs and ventures of every kind. Paolo Battaglia, for example, with kinship ties to the already cited Baron Ciani, participated as limited partner to the mechanical silk throwing mill *Francesco Huber e Compagni*, the pottery manufacture *Giulio Richard e C.*, the peat mining venture *Biraghi Giuseppe*, the limited railroad companies *Societá strade ferrate lombardo-venete*, and *Società della strada ferrata Milano-Como* and the insurance company *Compagnia di assicurazione contro i Danni degl'Incendi, sulla Vita dell'uomo, e per le Rendite Vitalizie*[67].

The little available data about limited companies, concerning just sixty seven shareholders, confirms the predominance of the mercantile class also in this business form. The presence of noblemen, instead, seems

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[65] Jurist Francesco Restelli clearly linked this fresh source of capital with limited liability. In his words the new investor was: "the professional, the civil servant, the artist who, participating in a commercial or industrial association doesn´t want to become a *negociant*, nor live in the constant anxiety that a sudden change of fortune due to a fortuitous event in trade or the mismanagement of the responsible partners cause his financial ruin, exposing him to unlimited responsibility toward third parties".
Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 70.

[66] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 70.

[67] Stefano Levati, *Giornalismo e tutela degli interessi mercantili – Michele Battaglia (1800-1870)*, Rubbettino editore, Catanzaro, 1999, S.16-17.

to shrink sensibly, while professionals assume in two cases the new role of administrators. Looking for deeper capital socialization thanks to shares more easily tradable and of limited nominal value would so prove vain. Only banks, invoked by Restelli[68] and Corvaia but still absent in Lombardy´s economy, could include labourers and the lowest strata of population in the financial market. Till their appearance, well after Unification, the investment function remained mostly managed by the mercantile class, with substantial support from aristocrats and a growing participation of professionals.

FAMILY, REPUTATION AND BUSINESS RENEWAL

"Let him be careful, who is disposed to embark in such an association, to select, as the depositaries of his money, persons of property and honesty, as well as of skill in the business to be undertaken: choose those, likewise, if it be possible, who have some capital of their own to unite with the common interests. But be sure that they are persons who will lead a frugal and orderly life; who will not launch forth into luxurious and expensive ways, under the vain expectation of large gains; who will keep in view the thousand vicissitudes that may wreck the most flattering calculations; who will not be carried away by the example of individuals whom fortune has strangely and suddenly favoured in some bold experiment; and who will devote themselves faithfully to carrying out the legitimate objects of the contracts of associations"[69]

Traditional historiography relegates partnerships among all institutions, remnants of a less than efficient economic past, impairing economic growth and innovation. Their main defects: their identity with partners and so the necessity of dissolution in case of death or defection of one of them, shirking by partners and scarce incentives to long-time investments[70]. Quite to the contrary in Milan, in the period under study, the flexibility as to duration and dissolution of partnerships was essential to guarantee the possibility of a continuous entrepreneurial renewal and the efficiency of management. Only through the frailty of partnerships could the mercantile community incentivise innovation, picking out the best entrepreneurs and selecting the most rewarding investments. In fact the ceasing of a firm, in such a system, was usually followed by a new founding act with different partners or a different business form in relation to the

[68] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 106-110.
[69] Gregorio Fierli, *Della società chiamata accomandita e di altre materie mercantili secondo le leggi, e statuti veglianti in Toscana. Trattato*, Florence (1803), vol. I, 6-7. Quoted in Francis J. Troubat, *The Law of Commandatary and Limited Partnership*, Philadelphia (1853), 2.
[70] Timothy Guinnane, Ron Harris, Naomi R. Lamoreaux and Jean-Laurent Rosenthal, *Business Organization in the long run: private limited companies rule!*, working paper, 2006, 4-8.

reputation, the capital endowment and the kinship ties of the entrepreneur: marriages changed the property and form of businesses, as the association of younger partners or the death or retirement of older ones. The death rate of partnerships represents, in this logic, a guarantee of innovation and efficient selection, not of scarce profitability.

A proof of this continuous renewal of firms and some answers as to its causes and consequences are to be found cross-analyzing data on the firms ceased and founded in Milan in the years 1851 and 1852 published by the Journal of the Chamber of Commerce[71] (Table 11).

Ceased businesses were in 56 % of the cases sole proprietorships, in 45% partnerships. One out of two of the ceased sole proprietorships was re-established, in half of the cases as a sole proprietorship, in the other half as a partnership. Partnerships, involving more partners, had a higher re-establishment rate, four out of five. Again roughly half of the new firms were sole proprietorships, half partnerships. The quite common switch from one business form to the other testimonies how the business practice made use of organizational choices in relation to career building and generational succession (Table 12). Usually a young entrepreneur would so act as procurator, clerk, commissioner or technician long enough to gain some starting capital and experience and only then set up his own venture with relatives, former employers, fellow tradesman or friends as limited partners. Retirement meant further assuming the role of limited partner or selling the activity to former employees, partners or children. The result of such careers was a flourishing of short-term partnerships and proprietorships, easily ceased to adapt to such changing circumstances.

As to the sampled firms, death or retirement of the entrepreneur was the most common cause of dissolution for sole proprietorships (Table 12). If the activity was sold in consequence of such demise or retirement, the new firm was established as a sole proprietorship in thirteen out of fifteen cases. Such the case of most shops of limited dimension present in the sample. Sole proprietorships remained, for example, the oils trading activity sold by the widow Barni and the grocery sold by the widow of Angelo Tosi following the deaths of the respective husbands.

If, on the other side, the firm was inherited by someone capable of continuing the activity, the sole proprietorship was easily transformed in a partnerships of heirs. Such the case of the fine bijouterie shop

[71] *Foglio della Camera di Commercio e d'Industria della Provincia di Milano*. This Journal was first issued the 7th September 1851.

inherited by the sisters Carolina and Adele Pettremant from their mother Anna Aubin widow Pettremant, re-established as a commercial partnership. Partnerships born out of inheritance, however, could rapidly undergo ulterior changes: the most capable heir could buy out the shares of brothers or sisters or the young age of heirs could oblige to associate some experienced partner. Exemplary the case of the Rickenbach inheritance. Domenico Rickenbach, former associate in the firm *Rickenbach e Fehr*, had succeeded in creating his own firm, *Domenico Rickenbach*, when he died in 1852. His grain trading firm was so transformed in a partnership between his widow Orsola Pollavini, Federico Rickenbach, eldest son representing also his younger brother not yet of age, and his daughter Angelica married Salzmann. Giorgio Salzmann, husband of Angelica, became administrator of the firm. At the same time, though, Federico set up a silk trading business through a commercial partnership with Giovanni Carlo Grob. Being the interest of Federico otherwise engaged, in 1853 the firm *Heirs of Domenico Rickenbach* was transformed in *Giorgio Salzmann e C.* with Giorgio acting as unlimited and Federico and Edoardo Rickenbach as limited partners. The flexibility of the chosen business forms allowed, through the subsequent passages, to create a new business for Federico, to reward Giorgio with the establishment of his own business and, thanks to limited liability, maintain financial stakes in the family firm for Angelica, Orsola and Edoardo: a quite satisfactorily settlement of the inheritance issue.

Contrary to sole proprietorships, partnerships´ most common dissolution cause was a change in the partners´ composition not necessarily due to the death of a partner (Table 12). The process of selection of the most qualified entrepreneur for a venture, already seen at work in the Rickenbach case, regulated the entire mercantile economy and constrained to a continuous renewal of partnerships. The subsequent partnerships entered by Luigi Fuzier (Table 13), for example, document the classical career path of a young merchant. At the beginning of the 1850s the promising youngster was to be found acting as procurator for the renewed *Pasquale de Vecchi*, a silk and bank trading house. In 1854 he was already able to found his own firm, financed by the widow of a former limited partner of Pasquale de Vecchi. The trading house proved a success and was prolonged till 1875. A that date Luigi Fuzier decided to retire from active business, passing the firm on to his brother. As limited partner, he maintained, though, a financial stake in the venture.

What the documents of the Chamber of Commerce cannot unveil are the kinship ties uniting the families D´Azeglio, Seufferheld, Heinzelmann and Fuzier, all financially involved in the cited firms[72]. Even if the firms under study cannot be classified as family businesses[73], they were nonetheless dependent on such kinship ties and the careers developing in and through them were part of complex strategies encompassing social as economic calculations. Strategies further highlighted by the case of Amy Reymond. Born in Neuchatel in 1799[74], Reymond began his career as procurator in the bank trading house of Giuseppe Maria Poggi, main business partner in Milan of Nathan Rothschild, London[75]. In 1835 Reymond was already unlimited partner of *Oneto e Reymond*, arbitrage firm financed by Genoese capital and actively involved in Lombardy´s first railway venture. His marriage to Margherita Ruga Tealdo, one of the limited partners of his firm, brought about another change in the partnership, becoming in 1844 *Tealdo, Reymond e C.* For Reymond marriage was, as in many similar cases, a way to obtain control on capital and definitively enter into a mercantile circle. For the wife´s family, instead, such marriage meant ensuring that part of the available capital, the dowry, remained invested in the family firm. Marrying a female family member to a capable clerk, manufacture´s director or partner meant also acquiring precious entrepreneurial capital that could otherwise be lost when the former employee/partner would in due time set up his own venture.

Beside marriage another cause of changes in partnership contracts was retirement, the last step in a merchant´s career. At the ceasing of the firm *Amy Reymond e C.*, founded in 1851 by Reymond and Francesco Cavajani, for example, Cavajani associated Oneto, former partner of Reymond, as unlimited partner. In this case the driving force behind the new partnership was not kinship but trust, represented by the reputation as to knowledge, relations, capability and integrity, generated inside a specific business circle and actively sought out by potential partners. Careers such as Fuzier´s, Reymond´s and Oneto´s would have been unthinkable without the solid reputation they were able to build inside the mercantile community. No former procurator or employee, of whatever family or to whomever married, could hope to

[72] D´Azeglio, Seufferheld and Fuzier´s father (in second marriage) were brothers in law, while Fuzier´s mother had been born Heinzelmann.
See: Cinzia Martignone, *Imprenditori protestanti a Milano 1850-1900*, Milan (2001), 122-123.
[73] In the sample family businesses are identified by the relevant or exclusive participation of siblings, parents and children or spouses.
[74] Useful notes on Reymond and his businesses are also to be found in: Cinzia Martignone, *Imprenditori protestanti a Milano 1850-1900*, Milan (2001), 46.
[75] Rothschild Archives, London (RAL) XI/148/35.

obtain financing if he had not proved his capabilities during his apprenticeship. Succession inside a partnership, as for Rickenbach, would not automatically be awarded to the entrepreneur´s son. The case of the sugar refinery Azimonti is emblematic (Table 14). In 1859 the original partnership, dating back to the foundation of the firm in the 1830s, ceased. The new partnership included the younger generation of all the former partners´ families, but Pietro, representative of the third generation of the Azimonti family, was only a limited partner. The management and the responsibility of the firm would from then on be in the hands of a descendant of Luigi Conti, the technical mind behind the modern refinery and former partner of Azimonti. The firm was so continued by the most promising youngster, while less entrepreneurially gifted heirs participated to profits as limited partners but would not be involved in active management.

The described changes in partnership structure and business forms due to career advancements, marriages, retirement or death of entrepreneurs depict a wide and continuous entrepreneurial renewal process encompassing all sectors of Milan´s mercantile economy. From the tiniest shop to the international banking and trading houses reputation building and kinship ties determined access to capital, while at the same time capability and entrepreneurship were rewarded with economic ascendancy. Partnerships were essential to replicating generation after generation this mercantile economic system, enhancing its efficiency through business selection.

MERCHANTS AND MANUFACTURING INNOVATION

"Without trial no progress can be attained, especially in industry, and to have trails, cheap or expensive, associations are needed to spread the risk among many investors"[76]

How did the mercantile system cope with the growing mechanisation of manufacturing in the nineteenth century? A relevant part of business historians assumes that a revolution in the way of doing business was required. At the core of such revolution the institutional change represented by the spreading of limited companies[77]. Quite to the contrary, data regarding Milan support the conclusion that the mercantile elite changed strategy without changing structure[78], in some sectors till the 1870s, in the economy at large much longer. So long as modernization of the production structure depended more on human and entrepreneurial capital than fixed capital requirements or dimension, partnerships, construed to particularly reward entrepreneurship through a meritocratic career path, continued to hold the stage. The *societá in accomandita*, in particular, became the main instrument of venture capital investments during this century, a fact openly acknowledged by governments. In the intention of legislators the counterpart of capital socialization through limited liability should have been precisely the augmented capital availability for young entrepreneurs otherwise lacking sufficient funds to finance their own venture. In 1838 *L´Eco dell Borsa* wrote: "A man skilled in a particular craft, usually doesn´t possess the necessary capital to set up his own business. With the instrument of limited partnership the legislator favoured the union between industry and capital"[79]. The relevance of this function in a time of rapid technological change and growing trade even justified the introduction of limited liability in countries of common law tradition. The State of

[76] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 66.

[77] "Traditional forms were refined, but the practices, instruments, and institutions of commercial capitalism which had evolved to meet the growth of trade and the coming of market economies in the Mediterranean basin in the twelfth and thirteenth centuries were not fundamentally altered. Before the 1840s there was no revolution in the ways of doing business in the United States. The great transformation was to await the coming of new technologies and markets that permitted a massive production and distribution of goods. Those institutional changes which helped to create the managerial capitalism of the twentieth century were as significant and as revolutionary as those that accompanied the rise of commercial capitalism a half a millennium earlier".
Alfred D. Chandler, *The visible hand: the managerial revolution in American business*, Harvard (1977), 16.

[78] On the definition of strategy and structure in business history see: Alfred D. Chandler, *Strategy and structure: chapters in the history of the industrial enterprise*, MIT Press, (1970), 13.

[79] „Del sistema delle azioni nelle societá in accomandita", *L´Eco della Borsa*, 7 (1838).

New York introduced limited partnerships in 1822[80] to create a business organization where "young and enterprising men are employed in the active pursuits of commerce, on advances by rich, but retired capitalists"[81]. Other American States followed suit[82]. In England[83] the issue underwent the legislator´s attention in 1854, and Richard Cobden advocated the change in name of: "the marriage of skill and capital by means of limited liability"[84].

In Milan the symbiotic relation between manufacturing innovation and limited partnership can be proved extracting and analyzing, out of the sample, innovative firms: those operating on a privilege, possessing productive facilities abroad or having received public recognition in form of prizes or medals for new products or production processes. As expected the vast majority of the resulting thirty three firms was engaged in manufacturing activities and organized as limited partnership (Tables 15). A circumstance not determined by the still limited capital requirement of manufacturing processes. Mean capital values for innovative firms maintain the relation to business forms ascertained for all sample´s firms (Table15), increasing with the extension of limited partnership, but manufacturing firms present a persistent bias towards limited partnership, not influenced by capital requirements. De facto of the nine firms with a capital exceeding half a Million Austrian Lire, the six engaged in manufacturing were all organized as limited partnerships, even if the subscribed capital totalled two millions Austrian Lire. Only utilities assumed the limited company form in consequence of high fixed capital requirements.

The persistence of the limited partnership form reflected the fact that in the 1850s manufacturing innovation was still centred on the entrepreneur. To acquire the knowledge and capabilities needed to modernise a production process a high salary would not have been enough. As seen, it was limited

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80 Eric Hilt, Katharine E. O´Banion, *The Limited Partnership in New York, 1822-1853: Partnerships without Kinship*, NBER Working Paper Series, 14412.

81 *Journal of the Assembly of New York* (1822), 953. Quoted by Amalia D. Kessler, „Limited Liability in Context: Lessons from the French Origins oft he American Limited Partnership", *The Journal of Legal Studies*, 32 (2003), 539.

82 For a brief history of limited partnerships in the United States see: Clement Bates, *The law of limited partnerships*, Boston (1886), 17-22.
Singular states or cities are instead studied in: Merrick Dodd, „The Evolution of Limited Liability in American Industry: Massachusetts", *Harvard Law Review*, 8 (1948), 1351-1379 p. 1351-1353; Stanley E. Howard, „The limited Partnership in New Jersey, *The Journal of Business of the University of Chicago*, 4 (1934), 296-317; Naomi R. Lamoreaux, "The Partnership Form of Organization: Its Popularity in Early-Nineteenth-Century Boston", In Conrad E. Wright and Katheryn P. Viens (ed.), *Entrepreneurs: The Boston Business Community, 1750-1850*, Boston (1997), 269-95; Eric Hilt, Katharine E. O´Banion, „The Limited Partnership in New York, 1822-1853: Partnerships without Kinship", *NBER Working Paper Series*, 14412.

83 See: John Saville, „Sleeping Partnerships and Limited Liability, 1850-1856", *The Economic History Review*, 3 (1956), 418-433.

84 R. A. Bryer, „The Mercantile Laws Commission of 1854 and the Political Economy of Limited Liability", *The Economic History Review*, 50 (1997), 37-56, p. 41

partnerships that funnelled capital to skilled entrepreneurs, incentivising at the same time entrepreneurship with the promise of social ascendancy through the foundation of an own firm.

This was particularly the case of Lombardy where mechanization brought in the forefront the scarcity of technical knowledge. "Let´s openly confess it – wrote Restelli – we lack sufficient technical capabilities in industry and trade and the studies on these issues are severely neglected. Our education cannot offer us the gradual teaching that allows an apprentice to learn everything from the most simple operations of a manufactory to the complex issues of technical and administrative management, and such teaching is the only means to educate intelligent industrial entrepreneurs" [85]. This "fatal backwardness" determined another characteristic of Milan´s innovative manufactures: "the necessity to blindly rely on unknown foreigners" [86]. In effect foreigners represented 15,5% of the partners sampled in Milan in the 1850s and accounted for 6% of share value (Table 10). Of these partners thirty eight were unlimitedly liable entrepreneurs poor in capital endowment, with a mean investment value of just 11.455 Austrian Lire, but rich in technical knowledge. One third of the firms selected as innovative were managed by such entrepreneurs and often also financed by foreign investors[87].

Exemplary the case of Andrea Krumm, director of one of the mechanical cotton spinning factories that flourished in the district of Busto and Gallarate from the 1820s onwards[88]. This region, embracing the river Olona north of Milan (Table 17), was cited by Francesco Restelli as the first example in Lombardy of mechanisation extensive enough to cause relevant social changes as to employment and consumption[89]. Here, in the complex network set up by the merchant-manufacturer Francesco Turati of Busto Arsizio, Andrea Krumm and his elder brother Eraldo began their entrepreneurial careers[90]. Turati offered to each

[85] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 98.
[86] Ibid. 115 and 113.
[87] On the foreign presence in innovative ventures see: Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 98-99 and 112-113.
[88] On this district in the period under study see: Silvia Conca Messina, *Cotone e imprese: commerci, credito e tecnologie nell'età dei mercanti-industriali*, Milan (2004). On the family Krumm ibid. 145 and 322.
[89] Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 78-80.
[90] Eraldo is to be found, as eldest of the four Krumm brothers, working in the first mechanical spinning factory of Legnano set up in 1823 by the Swiss Karl Martin. In 1835 the census of Milan reports also the presence in the city of two further Krumm brothers working as bakers.
Archivio della Biblioteca Trivulziana Milano (ABTM), Rubrica del ruolo generale della popolazione di Milano, vol.28.

brother the direction of a production facility, providing, with one or two other limited partners, the premises and the starting capital. The spectacular career advancement, though, came at a cost: strict contractual obligations: firstly to spin cotton furnished exclusively by Turati´s own trading firm and secondly to sell the finished product as first option to the same firm at fixed prices. The lowly origins of the Krumm brothers explain the particularly constraining clauses imposed by Turati. Power relations inside partnerships, in effect, depended primarily on the capital endowment of the young entrepreneur, including not only financial availability but also knowledge and kinship ties. Eraldo Krumm was just a blacksmith having shortly worked in a mechanical spinning factory when he entered in partnership with Turati, while Andrea Krumm had only his familiar relation to Eraldo to recommend him. Notwithstanding the binding contracts Andrea could in time augment his capital share to 19.000 Austrian Lire, while Eraldo, the most entrepreneurially gifted of the brothers, was able in 1865 to acquire from Turati all his production facilities in northern Lombardy, constituting a new firm in which he held a stake of 600.000 Austrian Lire. Limited partnership had so efficiently brought together mercantile capital and technical/managerial capabilities, allowing Turati to maintain a great flexibility in his netlike business structure, while granting both young foreigners the possibility to create their own fortune, innovating the production process.

Another example that of Francesco Huber, born in 1806 four years after the settlement of his parents in Milan [91]. Being a generation away from migration meant for him the possibility to rely on sufficient international relations to maintain his technical comparative advantage, acquired through direct links to foreign excellence centres, but also to count on a well construed local network of social relations, augmenting the bargaining power toward capital endowed investors.

Huber´s manufactory produced organzine and rapidly acquired an international reputation of excellence in the process of silk warping. The firm was founded as a limited partnership and was financed by the most important silk trading firms operating on Milan´s market, nobles, merchants and the engineer Agudio (Table 18). Its statutory act contained contractual obligations similar to those of the brothers Krumm: Huber could warp in his premises only silk of the firm and not of third parties. Huber obtained, though, the right to half of the profits of the venture in exchange for his capabilities and continuous innovating activity. His limited partners renounced also to the current interest on capital, 5%, and agreed on receiving

[91] ASM, fondo Albinaggio, ad nomen.

just 4% on their invested sums. Such favourable conditions reflected the reputation of the young manufacturer and his already higher social position at the time of the statutory pacts. Thanks to his Swiss origin Huber could also relay on a wider network of capital sources. At the foundation of the firm, in 1842, the 120.000 Austrian Lire capital had all been subscribed by local investors, with the sole exception of the Swiss firm *Muralt & Son*. In 1845 the capital had already soared to 200.000 Austrian Lire and among the new partners were three more Zurich firms. The investment was indeed a rewarding one. Notwithstanding the lower interest on capital shares, Huber´s investors, silk producers and traders, obtained from the firm high quality organzines in exchange for the silk they furnished. Such organizes could count on high prices and a stable demand on the London and Rhine markets, while raw silk exports were increasingly subject to competition and volatile prices. Huber himself could, thanks to the growing profits of the firm, triple in just three years his capital share to 15.000 Austrian Lire.

While silk and cotton were sectors in which innovation, as seen for the brothers Krumm and Huber, could be made profitable for both investors and entrepreneurs, other emerging industrial sectors exhibited in Lombardy a degree of backwardness that impaired their autonomous introduction through expected profits. As seen, due to the high profitability of agriculture, manufacture had to compensate capital with a stable five per cent of interest and guarantee also ulterior substantial profits. Some silk trading firms included in their statutory pacts special premiums for unlimited partners in case of profits exceeding 12%: competing with such investment opportunities proved fatal for many ventures[92].

Only the unrelenting effort of the mercantile elite toward modernization could counter the drive of comparative advantage toward specialization in the most profitable sectors. The most visible result of this effort was the foundation of the *Society for the encouragement of Arts and Crafts*[93], particularly appreciated by Restelli[94], and the generous financing of its courses in applied chemistry and industrial mechanics. Through these courses, open to the most capable workers of Lombardy´s manufactures, the mercantile elite intended to create the human capital necessary to make new industries profitable.

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92 On the usual rate of interest on investments in Lombardy see: „I capitali non mancheranno all´industria“, *L´Eco della Borsa*, 52 (1838).

93 On the *Society for the encouragement of Arts and Crafts* and its role in innovating Lombardy´s productive structure see: Carlo G. Lacaita, *L'intelligenza produttiva: imprenditori, tecnici e operai nella Società d'incoraggiamento d'arti e mestieri di Milano (1838-1988)*, Milan (1990).

94 Francesco Restelli, "Memoria in risposta al quesito: qual è l´influenza delle associazioni industriali e commerciali sulla prosperità pubblica? Quali sarebbero i piú congrui mezzi per tutelarle?", *Giornale dell´I. R. Istituto lombardo di Scienze, Lettere ed Arti*, (XXXI, 1845), 114.

Less visible was the commitment to innovation of Milan´s mercantile elite that resulted in the often unrewarding financing of innovative firms in the most backward sectors. The sample, through its richness of data on partnerships, allows to bring this aspect back to attention.

One particularly illuminating example is that of the mechanical manufactory, founded in 1846 in the premises of the former Swiss college called *Elvetica*, that was to become at the end of the century the renown Breda. Its business form was a limited partnership changing name along with its unlimitedly liable managing partner: firstly the French Bouffier, then the Swiss Schlegel and Rummele, the German Eugenio Bauer, Emilio Bamat, in 1879 the first Italian Anselmo Cerimedo and lastly the brothers Breda. The peculiarity of the venture was its strong investment base that remained essentially unaltered for forty years, while entrepreneurs changed continuously (Table 19). In the middle of the century the mechanical sector in Milan was still immature, as to demand and technology, and only wealthy merchants, with incomes deriving from traditional and highly profitable sectors could engage in its financing without suffering exceeding losses in such first uncertain phase. None of the foreign entrepreneurs that directed *Elvetica* as unlimited partners possessed, in effect, sufficient capital or will to claim such a firm as his own and so, after having acquired reputation and funds enough, they exited the venture to start their own less ambitious ventures in more rewarding market niches. Bouffier choose the production of oil for gas lamps, extracted with an innovative method of his invention, Schlegel that of agricultural machines and gutta-percha products, Bauer that of mechanical cotton spinning machines. Limited partnership proved thusly again to have been an essential step in the career of young and foreign entrepreneurs, but also a business form that, through limited liability, allowed prime actors of Milan´s mercantile elite like Mylius, Schmutziger, Decio, Esengrini and Kevenhüller to finance an innovative venture through the first unprofitable years till the rewarding successive decades[95]. Their long time investment, characterized also by the need to refinance the subscribed capital due to persisting losses, served to attract in Milan capable foreign entrepreneurs enriching local technical knowledge, but also to funnel further capital into the innovative sector, guaranteeing its future profitability through their unrelenting commitment. This last was a side effect of the recent capital socialization. Investors outside the mercantile elite, as professionals, lawyers and professors, lacked the capacity to judge the profitability of a firm in innovative sectors and so,

[95] On this business case see: Stefania Licini, "Dall'Elvetica alla Breda. Alle origini di una grande impresa milanese (1846-1918)", *Società e Storia*, (63, 1994), 79-124.

in the words of Francesco Restelli: "participated to a venture not because they already attempted to evaluate its utility or the probity and capacity of its proponents, but because they trusted the good judgement of those who already decided to subscribe its capital". Merchants, so, not only actively financed, through the *Society for the encouragement of Arts and Crafts*, the education of the labour force and directly invested in innovation through limited partnerships, but also created, as leading investors, a growing social capital projected toward the modernization of the economy.

Tommaso Perelli Paradisi is a typical example of such leading investors. Traces of his continuous engagement in innovative ventures are scattered through the whole sample. His main business was a highly profitable commercial partnership for the trade of drugs, medicines and colonials in which he held a stake of 100.000 Austrian Lire. His expertise and reputation in the chemical sector was such as to allow him to act as leading investor in the first uncertain steps of Milan´s chemical industries. He so held a stake of 10.000 Austrian Lire in a limited partnership, founded in 1854, for the production of wood pulp to be used in paper mills with Hartessam machines, a revolutionary innovation not only for Lombardy. He further possessed a stake of 20.000 Austrian Lire in the limited partnership in shares *Massara e Compagni* for the management of a factory of industrial chemical products[96] that collected from various sources, comprising noblemen and professionals, 300.000 Austrian Lire in shares of 5.000 Austrian Lire each. Like the case of *Elvetica*, this factory, located on the Martsana canal in the Cascina de´Pomi, was managed by many subsequent unlimited partners. The partnership denomination changed followingly from *Massara e Conconi* to *Massara e C.* in 1845, to *Dario e C.* in 1852, to *Manganoni e C.* in 1855 before the production of stearic candles became competitive and rentable.

Outside his competences, Perelli Paradisi even acted as managing partner in the venture for the steamboat navigation on the Po river launched in 1846 and passed on to the Austrian Lloyd in 1852. In so doing he risked capital and reputation on the common perception that the modernization of Lombardy´s economy needed better, quicker and cheaper transportation means to the Adriatic sea. The refinery Azimonti similarly participated with four shares, driven by the necessity of receiving the raw materials needed for its functioning with more punctuality and predictability. The difficulties connected with the characteristics of the Po river were overcome with a mix of innovation through steam power and steel barges especially built

[96] Mostly soap, stearic candles and sulphuric acid.

to this end. The related investments, though, were too high in respect to revenue possibilities, even if innovation reduced to seven days the transit time from Milan to Venice. Capital was almost completely lost. Investors, though, had other more rewarding core businesses to rely on and none was financially distressed by the losses incurred.

The cases described highlight well how the mercantile economy coped with innovation. Through limited liability the cost of countering comparative advantages was borne by whom otherwise most profited from Lombardy´s comparative advantages, limiting bankruptcies to a bearable minimum: an efficient way to proceed on the bumpy road of modernization.

CONCLUSIONS

"The most glamorous of these bourgeois aims, the foundation of an industrial dynasty, has in most countries become unattainable already, and even more modest ones are so difficult to attain that they may cease to be thought worth the struggle as the permanence of these conditions is being increasingly realized"[97]

Carlo Cattaneo described Milan´s mercantile class as a "tribe" possessing "a sort of initiation, a kind of exclusive nobility, distrustful against everyone not pertaining to its circles"[98]. The analysis of firms and partners in the 1850s through the Archive of the Chamber of Commerce confirms this definition. Merchants dominated the local economy and the praised capital socialization only enhanced their role as leading investors. As a tribe the mercantile class acted more as a *Gemeinschaft* than a *Gesellschaft* and maintained the centrality of social relations in the economic sphere. Credit by trust and character-based lending[99] centred investments on the reputation of prospective entrepreneurs, while death or matrimonies still heavily influenced firm´s duration and capital structure.

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[97] Joseph A. Schumpeter and Elizabeth Boody Schumpeter, „Schumpeter on the Disintegration oft he Bourgeois Family", *Population and Development Review*, 3 (1988), 500.

[98] Carlo Cattaneo, *Lettera ai signori Corbellini, De Welz, A. G. e Compagni intorno alle Ricerche sul Monte-Sete*, "Annali universali di statistica economia pubblica, storia, viaggi e commercio", 163, (1838), 98.

[99] Charles Geisst defines such a process of investment allocation as a „nineteenth century banking idea that put the individual´s reputation above the concept of creditworthiness".
Charles Geisst, *The last partnerships*, in: Robert Eric Wright (ed), *Hamilton unbound: finance and the creation of the American Republic*, Greenwood Publishing Group (2002), 166.

In this mercantile economy partnerships held a central role. The partnership business form was adaptable and changed according to the entrepreneur´s career, selecting the most promising talents and rewarding them with capital access and social ascension. Entrepreneurship was thusly enhanced and innovation embedded in the economy. Limited partnerships in particular were essential to cope with the restructuring of production made necessary by nineteenth century´s technological advancements. Acting as limited partners in most innovative ventures, merchants attracted entrepreneurs and technological skills from abroad, while at the same time reinforcing investors´ cohesion around new and often unrewarding firms and sectors.

The mercantile economy had also its shortcomings: reputation could be misleading in evaluating potential investments, capital socialization was limited and dimension called for other business forms. Gerschenkronian factor substitution soon claimed the economic stage relegating merchants to a minor role. Sure enough the banks founded in Milan after Unification were often dominated by the same leading investors operating in the 1850s and so the boards of directors of the slowly spreading limited companies, but the vanishing of this generation from Milan´s scene at the end of the century would ratify the end of the mercantile elite´s control over the economy. The merchant tribe had slowly lost its cultural identity as its pattern of economic action. Its entrepreneurial career, open and meritocratic through the business form of partnership, was substituted by university education and employment inside rigid organizational structures. Banks assumed the investment function, replacing reputation with financial profitability and political affiliation in the evaluation of investments. The entrepreneur relinquished its centrality to Sombart´s capitalistic enterprise[100] in which intra- and inter-firm kinship ties were irrelevant.

Most business historians celebrate the evolution toward a *Gesellshaft* characterized by social capitalization, limited companies, big businesses and individualistic economic action as a natural progress, enhancing the efficiency of the economy[101]. A view only recently questioned by studies on business forms[102] and

[100] On a critical assessment of Sombart´s definition see: Alfred D. Chandler, *Strategy and structure: chapters in the history of the industrial enterprise*, MIT Press, (1970), 8.
[101] On a critical exposition of the evolution of business forms in different economic environments see: Franco Amatori, *La storia d´impresa come professione*, Marsilio (2008), 61-96.
[102] See: Timothy Guinanne, Ron Harris, Naomi R. Lamoreaux and Jean- Laurent Rosenthal, *Business organization in the long run: private limited companies rule!*, working paper (2006); and: Naomi R. Lamoreaux, "Constructing firms: partnerships and alternative contractual arrangements in early nineteenth-century American business", *Business and Economic History,* 24 (1995), 43-47.

economic development[103]. Milan´s case underlines that, given the right conditions, a cohesive mercantile elite could stimulate entrepreneurship and innovation, laying a solid base for the successive industrialization of a region. With the vanishing of such a tribe the economy possibly gained efficiency but surely lost the social mobility, the peer-reviewed venture capital investments and the morality of trade that constituted the pillars of a robust and continuously renewed entrepreneurship. On the contrary, the emerging “ modern businessman, whether entrepreneur or mere managing administrator, is – in the words of Alois Schumpeter - of the executive type. From the logic of his position he acquires something of the psychology of the salaried employee working in a bureaucratic organization. Whether a stockholder or not, his will to fight and to hold on is not and cannot be what it was with the man who knew ownership and its responsibilities in the full blooded sense of these words. His system of values and his conception of duty undergo a profound change. (…) Thus the modern corporation, although the product of the capitalist process, socializes the bourgeois mind; it relentlessly narrows the scope of capitalist innovation; not only that, it will eventually kill its roots”[104].

[103] See: Aurora Gómez-Galvarriato and Aldo Musacchio, *Organizational choice in a French civil law underdeveloped economy: partnerships, corporations and the chartering of businesses in Mexico 1886-1910*, working paper (2004); and Ran Abramitzky, Zephyr Frank and Aprajit Mahajan, *Risk, incentives and contracts: partnerships in Rio de Janeiro*, working paper (2009).

[104] Joseph A. Schumpeter and Elizabeth Boody Schumpeter, „Schumpeter on the Disintegration of the Bourgeois Family“, *Population and Development Review*, 3 (1988), 499-506, 501.