

Crises: plague, famine and war

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The financial institutions of late medieval Basel were tested by a series of crises. The plague, which first struck the city in 1348 and 1349, returned at irregular intervals throughout the fourteenth and fifteenth centuries, killing a significant part of the population each time. Famines followed bad harvests and drove the price of grain to levels that the poor could not afford. Wars disrupted trade, destroyed crops and imposed extraordinary expenditure. Each crisis reduced the revenues of the city, which depended on consumption and trade, and increased its expenditure, on defence, on the purchase of grain and on the care of the poor.

The most dramatic military crisis of the fifteenth century was the invasion of the Armagnacs in 1444. The Armagnacs were mercenary bands in the service of the French crown, which the Dauphin, the future Louis XI, led into the region at the request of the Habsburg King Frederick III, who was at war with the Swiss Confederates. On 26 August 1444, a small army of Confederates confronted the much larger Armagnac force at St. Jakob an der Birs, just outside the walls of Basel, and was annihilated after a day-long battle. The Armagnacs, impressed by the resistance and weakened by their losses, withdrew, and the Dauphin concluded peace with the Confederates and with Basel.¹

The battle became a founding myth of the Confederation and of the relationship between Basel and the Confederates. Because the Council of Basel was in session at the time, the city was full of prelates and envoys who witnessed the event. The battlefield is today the site of a monument and of a sports complex, the St. Jakob stadium and the St. Jakobshalle, and the name recalls both the sacrifice of 1444 and the close relationship with the Confederation that led to Basel's accession in 1501.

For the finances of the city, the crises of the fifteenth century had two consequences. The first was the growth of the debt, since extraordinary expenditure was financed by the sale of rents. The second was the

consolidation of the city's creditworthiness, since the city continued to pay its creditors even in the worst years. A borrower who pays in crisis earns a reputation that allows him to borrow cheaply in normal times. This principle, which the city of Basel applied in the fifteenth century, is the same principle on which the Swiss Confederation's credit rests today: a record of uninterrupted payment through wars, depressions and financial crises.

The crises also showed the limits of civic finance. The city could borrow, but only within the limits of its revenues and of the willingness of its creditors. It could not create money beyond the silver it held. It could not rely on a lender of last resort. When the crisis was too severe, it had to cut expenditure, raise taxes or seek help from allies. These constraints disciplined the city, but they also exposed it to shocks that it could not absorb. The history of modern central banking, of which the Bank for International Settlements is a central institution, is in large part the history of the search for mechanisms that allow public and private borrowers to survive crises without destroying their creditors.

1 Notes

1. On the battle of St. Jakob an der Birs of 26 August 1444 and the Armagnac campaign of the Dauphin Louis, see HLS, article "St. Jakob an der Birs, Schlacht bei". To be verified. ↩

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