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‘Wealth accumulation and institutional capture: The rise of the Medici and the fall of the Florentine Republic’

We study the soft capture of political institutions and its consequences using novel data from the Florentine Republic in the 15th century. In this period, political offices were assigned by a combination of elections and selection by lot, which had ensured for several decades a substantial alternation of power and a relatively large participation in the political life of the city. During the 1420s, after a crisis in the city's public finances, the system was captured by an influential family, the Medici, who took the control of the office allocation mechanism, while leaving the political institutions formally unchanged. In our work, we describe the rise to power of the Medici and the fall of the Republic. Our newly constructed dataset combines detailed information on the results of drawing and office assignment between 1393 and 1457 with data on individual wealth at different points in time throughout the 15th century (1427 and 1457) and with additional information on family affiliation to political factions. We first document the systematic capture of the allocation system of political offices, that favoured individuals from the Medicis network. Second, we show that, after the capture, holding a political office was directly and strongly associated with individual wealth accumulation, especially for individuals from the Medicis faction; this correlation was, by contrast, very limited before the Medici rose to power. By comparing results for the periods before and after the institutional capture and using complementary data sources on voluntary loans to the Republic, we provide several pieces of evidence that explain our findings in terms of patronage and rent extraction. In particular, resorting to a rich archive recording the voluntary loans that Florentine citizens granted to the Republic and using detailed information recorded in the individual contracts between the citizens and the Republic, we observe that the implicit yearly interest rate paid by the Republic to individuals before the capture was roughly the same irrespective of their political affiliation. This was not true in the following period: after the Medici took power, the members of their faction were paid significantly higher interest rates.