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From Sword into Capital

At the turn of the first millennium, as is true today, the Mediterranean straddled distinct and very different communities. However, while contemporary economic power lies in the West, the reverse was true prior to the revival of medieval long-distance trade.

From the time of antique trading, commerce in the West had slowed down nearly to a halt; the European economy had shrunk, and the decrease in population levels had sharply reduced the size of urban centers. Even the largest Italian ports were nothing more than villages when compared to bustling and sophisticated eastern cities such as Constantinople, Baghdad, and Cairo. In the overall context of the subsistence economy of the early medieval West, urban centers had in some ways offered fewer economic opportunities than the countryside. Whatever degree of importance the medieval cities had managed to maintain was often not because of their role as commercial meeting points but, rather, because of the military protection they could provide against the regular marauding of pirates and other invaders.

As the millennium approached, the balance of power changed and European communities, which had been in decline for hundreds of years, were able once again to challenge the military supremacy of the East and eventually gain economic dominance. It is from that period until the mid fifteenth century that Italian cities, Venice and Genoa in particular, controlled the Mediterranean Sea and served as anchors for the economic expansion that subsequently led to Western domination of the rest of the world.

Historians have examined the commerce that underpinned the Western ascendancy. Italian Renaissance cities are the object of classic social historiography, and a few studies have described the emergence of innovative commercial methods that were to shape the modern economy. However, none have systematically focused on how the mercantile social organization came into being. In this book, therefore, I analyze the rise of the three main forms of medieval long-distance trade agreements – equity, credit, and insurance – while also tracing the underlying long-term social changes that in many parts of Europe, including Genoa, transformed, the preexisting social structure, organized around men-of-arms, into the new world of men-of-capital initiated by Renaissance merchants.

To do this, I coded thousands of medieval Genoese notarial records and consulted a variety of other primary sources to build a unique data set. Starting more than 900 years ago, the data set records more than 20,000 commercial relationships between individuals who, by joining their resources, gave rise to what is commonly called the medieval commercial revolution. Modeling their ventures over a 300-year period, I followed the transformation of the structure of social ties by analyzing the link between commercial agreements and social process. I was thus able to consider commercial innovations as social patterns. The critical influence of these patterns not only conditioned economic growth but also molded the rules that governed the transformation of social ties during the period, resulting in the emergence of a mercantile oligarchy within the feudal world of medieval Italy. As such, a broad objective of this book is to demonstrate the social foundation of the economic development that brought about the rise of the modern capitalist economy by studying the interplay between institutions and social interactions.

Genoa's history is a perfect arena for this type of study for several reasons. First, while history will never offer perfect laboratory conditions in which to test theories about social dynamics, for our purposes Genoa is a solid empirical site because of its shift from feudal organization to a mercantile republic, a shift that was as pronounced there as anywhere in Europe. Indeed, from a small, fortified town dominated by warriors who went to kill and plunder throughout the seas, one that lagged behind its counterparts in the early long-distance trade growth, Genoa became an economic archetype among the city-states of the Renaissance.

Second, many key medieval innovations in financial technology – the bill of exchange, double-entry bookkeeping, third-party insurance, and public finance – either originated in, or were widely disseminated from, Genoa.

Third, Genoa's records are unique in Europe in terms of their precocity, continuity, and quantity. This meant that I was able to make unprecedented use of extensive data showing relationships between individuals and groups in order to reconstruct a long-term medieval social dynamic. As such, the quantitative method presented in this book contrasts with the approaches used by previous researchers, who have had to use a thin body of evidence that is more likely to be subjectively handpicked.

Fourth, in the absence of a large routinized mercantile class, a large proportion of Genoese directly participated in the expansion of trade that occurred in the twelfth- and thirteenth-centuries. As a result, medieval commercial records include a wide variety of men and women: princes, servants, oarsmen, dozens of different kinds of artisans, bishops, lower clergymen, doctors, and schoolteachers. Because of this they provide us with remarkably deep insight into the nature of early social activity, on a scale that is simply unattainable for other European cities.

Using the resources just described, I study the institutional framework of early European long-distance trade and document the rise of occupational categories associated with it. In doing so, I identify and measure the social mechanisms that gave rise to the concentration of capital in the maritime state's dominant class and to the emergence of the Renaissance oligarchy.

By tracing the feudal[1] origin of the Genoese Commune around the time of the First Crusade (1097–99), I show that, at first, the commenda contracts (temporary equity partnerships that organized most early trading ventures) fostered heterogeneous ties with respect to status and wealth. Eventually, the expansion of trade – in a pre-market society – and the cumulative nature of its profits decoupled the feudal domination from the economy, and a quantitative change became qualitative, so much so that commoners were eventually able to compete effectively for formal control of the city.

Over time, the Genoese elite increasingly switched to commerce and credit, a framework for routinized traders, when defining their relational ties. By the middle of the fifteenth century, along with many of the noble

[1] The term "feudal" should always be used with caution. No medieval social system exactly conforms to the ideal-type feudal system described by Marc Bloch (1961). Still, tenth- and eleventh-century documents and various historical pieces of evidence confirm many elements of a feudal organization. Broadly speaking, in early twelfth-century Genoa, the patrimonial social system: 1) was based on service tenement (i.e., the fief); 2) was ruled by a class of specialized warriors who benefited from classic personal privileges and feudal incident not limited to the countryside; and 3) had a fragmentary judicial, political, and military authority in the city organized around topodemographic affiliation and lordships.

clans a few commoner families completed the oligarchy, and insurance ties became one of the tools used to manage its control operations. The urban patriciate had transformed its traditional resources into commercial activities tailored to a small number of clans and was completing its mutation from a medieval feudal authority to a mercantile ruling class of the Renaissance. Conversely, the feudal transitive social order characterized by its division of centralized and hierarchical local clusters was reshaped into intense social activity inside a single homogenous and cohesive elite network that was increasingly segregated from the rest of the population.

The remainder of this chapter is divided into three parts. I start by placing this book in the context of the body of scholarship that formed the background of my research and make clear where this book contrasts with it and how it contributes. I then explain some elements of the data collection and indicate the scope condition used to interpret the coded information. Finally, I describe the organization of the book and explain the chronological signification of each chapter.

MEDIEVAL SOCIAL AND ECONOMIC DEVELOPMENT

This book draws upon a wide range of social science disciplines. First, I consider the literature on the transition from feudalism to capitalism and examine, through analysis of my data set, how it confirms my findings on the false dichotomy between markets and feudalism. Indeed, contrary to the classic Marxist theory exemplified by Dobb (1947) and Holton (1985), the Genoese dominant class did not use all its power to maintain the particular mode of production that underpinned its authority. Instead, it shows that the feudal elite used new commercial institutions to control the polity and actively participated in the sustained accumulation of capital (which is Marx's precondition to capitalism). Similarly, the same empirical evidence completes more recent transition theory, such as Lachmann's elite conflict theory (2000). Lachmann, studying a slightly later period, rightly points out that the conflicts among the existing elite left sufficient room for a commercial class to grow. However, as this book shows, the elite's participation in the dynamic of commercial innovation, coupled with the multivalence of their activity, indicates the existence of shifting alliances and more flexibility of economic interest than Lachmann's elegant model can accommodate.

My work also confirms that the Italian case does not fit easily into a Weberian conception of history. In Genoa, the routinization of commerce and the pursuit of repetitive gains preceded the emergence of a bureaucratic legal framework and did not necessarily coincide with the Weberian cultural transition from a traditional to a mean rational attitude. Indeed, twelfth- and thirteenth-century medieval trade was not strategic but opportunistic in nature, and the pursuit of financial wealth was often initiated as a by-product of military undertakings. Over time, it is the cumulative nature of profits – which contrasted with the more discrete and often dichotomic social stratification characteristics of feudal Europe – that engendered the competition for control of the polity and locked in the never-ending capitalist process of accumulation.

Social Foundation of Economic Development

By demonstrating, over a long period, the social foundation of commercial arrangements, this book reaffirms the importance of social relationships in economic exchange. For example, the analysis of empirical evidence shows that the institutions that define the price-regulated market follow the rise of the merchant oligarchy so characteristic of the Italian Renaissance. Here, economic institutions provide the boundaries between social networks: They are a formalization of existing practices. Thus, this finding challenges directly the theories of economists such as Douglas North (1973, 1990) and Avner Greif (1998, 2006), who rely on rational choice and human motives to explain the emergence of the mercantile domination.

For North, institutional dynamics are driven by economic efficiencies. In particular, he feels that the motor of European medieval economic development is the institution of private property, which ultimately guarantees the healthy functioning of (modern) markets. According to his modernization theory, rising medieval merchants decided on clever arrangements enforced by assertive state policy on the basis of their superior economic efficiency. Others have already noted North's anachronistic assessment of the ability of political institutions to enforce market contracts.[2] In addition, the analysis of scalable long-distance trade network parameters presented in this book demonstrates that the organization of trade evolved in ways that had to do with more than just strict economic dynamics.

Underlying North's conception of history, as well as that of other economic institutionalists, is the idea that economic dynamics are

[2] See, for example, S. R. Epstein (2000, p. 6).

powered by the rational choice of single actors under certain constraints. Numerous criticisms of the application of this outlook to historical behavior have been formulated. To summarize this debate once more is probably not necessary. Therefore, in the context of this study on partnerships and social dynamics, I will limit myself to recapitulating the most topical objections. First, individuals do not act in a social vacuum. Instead, as Harrison White notes, they intrinsically "come out of relations, out of skills in relations" (2008, p. 135). Second, individual goals, and therefore preference ordering, are dependent on social context and the social values that are constructed with others – often in asymmetric relations. In particular, to assign an economic utility function to encapsulate the role of a medieval actor is out of historical order. Even more than today, with an economic sphere unsegregated for the larger net of sociability, goals were multifarious and defied single-track strategies.

Economists relying on game theory are particularly vulnerable to this criticism, since the equilibrium of the models they use to support their views of institutions requires a form of a priori knowledge of optimal economic arrangement, without which their explanations would present the usual circularity of functionalism. It is, indeed, ahistorical to work back from an identifiable institutional role in order to define a "usefulness" that eliminates "failed" historical alternatives.

Greif (1998, 2006) is one of those scholars who apply modern economic models when analyzing history. Studying the institutional conditions under which merchants could trust distant agents, he directly addresses the fact that commercial relationships between medieval long-distance operators were changing. In contrast to many of his colleagues, Greif is very attentive to the historical setting, and his work effectively bridges history, sociology, and political science. He recognizes that norms, culture, belief, and, to some extent, social stratification are key elements to understanding economic dynamics. In *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (2006), Greif endeavors to establish a general theory of institutions by linking a small sample of case studies drawn from medieval history. However, while this major undertaking provides an interesting and comprehensive framework in which to study the history of institutions, Greif faces important obstacles. First, his institutions remain the incentive structures of a system in which transaction costs have to be minimized. This is a problem especially for medieval history because those costs are hard to measure and are not uniform with respect to social settings. As a result, "transaction costs" constitutes a shaky notion on which to build falsifiable theories that are portable in time and space. Second, Greif relies on game theory models that might be well designed to demonstrate how equilibrium is achieved but are inadequate for uncovering the sources of a changing context over the *longue durée*, as each iteration can only be a static answer to the continuous process of development.

Greif's solution to these two problems is to consider the particular historical setting of each case study in order to include as many features as possible of the specific social dilemmas to be resolved. While a sensible idea in concept, it compromises the precision and parsimony of the econometric models that sustain the analytical legitimacy of his project. This is not only because of the recrudescence of unmeasurable – and often interacting – variables that must be considered, but also because of the numerous potential solutions to his query.

Readers familiar with Greif's work may see parallels in our research endeavors, especially considering that one of his case studies involves medieval Genoa. However, for the most part our enterprises proceed differently. The first difference is in scope and focus. While Greif focuses on enforcement mechanisms and coordination,[3] my interest in the rise of commercial institutions is wider and deals with the specifics of equity partnerships, credit, and insurance agreements. Why, how, when, and which Genoese made certain arrangements are key questions that this book strives to answer. The second difference is methodological. Whereas Greif proceeds with analytical narratives that interpret historical details as evidence of a set of rational choice equilibriums, this book provides systematic quantitative data drawn from primary sources. In addition, my analysis is not based on any individual mean-ends approach and does not privilege commercial goals in the motives and behaviors of actors. As a result, the reader will learn that, in contrast to Greif's – and North's – assumption, it was not economic optimization that drove the key

[3] The questions of enforcement and citywide coordination, while certainly interesting, do not seem to me as central to the city's economic success as Greif seems to indicate. Indeed, the number of commercial disputes (or their settlements) reported in the notarial record is low, and other available primary sources do not mention such disputes as the origin of factionalist crises regardless of the presence or absence of Greif's enforcing mechanism. Some traders surely cheated (or tried to), but most did not because of a combination of belief, internalized norms, fear of the law – or of the power of the counterparty – and their embeddedness in the community. In addition, while peace is conducive to economic development, its importance for medieval commerce should not be overstated. For example, according to S. A. Epstein's review of Genoese primary sources during the thirteenth century – the century of highest commercial growth – only 32 years can be considered as peaceful "at least in comparison to others" (1988, p. 117).

medieval commercial innovation "life cycle." Rather, it was a change in partner selection, which reflected the dynamic of the Genoese social structure as a whole. Indeed, the network analysis clearly shows that the change in the type of agreements by which merchants were linked follows the demands of social survival and the lure of the opportunities for wealth that resulted from political change.

In addition, my study also brings to light the relative chronological dissociation between the emergence of modern market instruments and the medieval economic expansion. The network analysis presented in this book demonstrates that the period of highest growth in Genoa's medieval commerce was supported by custom-based commercial agreements (commendae) forming the nodes of a trade network that was the least hierarchical and least connected of the period covered in the study (Chapter 3). It was, thus, not formalization and organization that prevailed but instead multivalent social positions. This allows one to reflect on the paradoxical emergence of the market as an instrument for the consolidation of social hierarchies, rather than as an arena of economic and social opportunity. It also makes clear the dynamic relationship between microsocial interactions and the technological advancement of European commercial interactions. Thus, the analysis also departs from the classic view of certain scholars such as de Roover (1952) and Weber (1978), who assert that technological innovation in Western Europe[4] led to its commercial world supremacy and the concentration of capital that facilitated the modern industrial revolution.

[4] Double-entry bookkeeping is not covered in this research. Although Weber has branded this Western innovation as the key technological marker of the transition from a traditional to a modern social organization, rudimentary double-entry bookkeeping was rarely used in the fourteenth century, and its role in the genesis of the Renaissance social structure can only have been overstated. In addition, without denying the rhetorical aspect of formal accounting uncovered by Carruthers and Espeland (1991) and Poovey (1997), those scholars specializing in accounting history have demonstrated that, before the practices of separation of personal and business finance, better assessment of inventory of all assets and liabilities, and some rudiments of cost accounting, double-entry bookkeeping was a mnemonic aid and not a tool used to rationally control and allocate resources (Melis 1950, p. 598; Yamey 1978; Have 1986). Thus, from the fifteenth century on, double-entry accounting increasingly provided an effective means of keeping track of large volumes of financial commitments, but it was not a prerequisite for capitalist success. For example, the Fuggers built up the largest European fortune in the early sixteenth century without using a double-entry system, and many of the first large joint stock companies, such as the Dutch India Company (Glamman 1958, p. 244), relied on more traditional accounting methods.

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Opportunistic Merchant. The study presented in this book is relevant to the tradition of social and economic history including scholarship that considers the "Commercial Revolution" and, more generally, the rise of a mercantile society. The intensity of this scholarship has decreased since the work of Sombart (1902), Pirenne (1914, 1987), Lopez (1938), and Lombard (1972); the skillful descriptions of the early Renaissance merchants provided by Sapori (1952), Lane (1944), and Renouard (1950); and the substantial synthesis of Braudel (1949, 1967). In this context, my goal is to revive and freshen up some of the classic questions of the field by applying up-to-date technologies, both in network analysis and in the management of large data sets. As a result, my analysis sometimes supplements but more often contrasts with recent publications, such as those by Dahl (1998) and Spufford (2002), as these have maintained the stereotype of the medieval merchant as a "modern" decision maker in a "traditional" medieval world. Indeed, my work shows that the strength of the Genoese long-distance commercial growth in the twelfth- and thirteenth-centuries stems from opportunistic and heterogeneous social ties, and not from the fixed structures that are associated with routinized mercantile networks. This finding dampens the importance of individual agency as business skills do not play the central role in the commercial success of the emergent Western merchant class. This outlook would not have surprised Braudel, who acknowledges commercial innovation but who argues that the success of medieval long-distance traders was essentially the result of the merchants' predatory instincts and their relentless pursuit of profits. For him, it is precisely the emergence of a world market – that is, the real possibility of exchanging goods for currency in disconnected geographical areas that often fall under different political jurisdictions – combined with the lack of fair competition that explains how long-distance trade ignited the only potential medieval accumulation of capital (1979, p. 228).

In showing that Italian merchants' commercial trajectories were driven by their social and historical settings, my book also complements the studies of Kedar (1976) and Goldthwaite (1993), who added analysis of cultural and behavioral empirical patterns to the economic motives that had dominated the classic mercantile historiography. Kedar points to the rise in faith to explain a change in business practices among fourteenth-century Renaissance merchants. According to him, merchants became more risk-adverse, which resulted in slowing social mobility. Goldthwaite also notices a more stagnant social structure in Renaissance Florence, but attributes this historical change to a shift in capital allocation. Studying consumption patterns, he notes the diversion of financial resources away from investment capital and toward expensive acquisition of art and real estate to explain the Renaissance slowdown.

Genoa Long-Distance Trade. Meticulous studies of the supply and demand for goods have allowed economic historians to describe the mechanisms that created the financial surplus seen in late medieval Europe. Micro studies of price, quantity, and geographical flows of goods and financial assets show how price differences in space and time had fortified the position of a merchant class. Portions of the notarial records have been used by historians to produce a series of studies about medieval Genoa[5] on specific topics, and particularly relevant in this context are those on the city's commercial activities.[6] These studies have focused on what, where, and how transactions took place, and they even sometimes function to portray some members of the emerging mercantile elite. In that context, commercial innovation helped merchants to increase their business opportunities and maximize return on investment. Several books have also built on the same model to describe the whole mercantile society of the medieval and early Renaissance periods in Genoa. In depicting various periods and aspects of the Genoese rise to economic prominence, Heers (1961), Balard (1978), and Jehel (1993) have written substantial volumes that provide much valuable quantitative information about Genoese commercial practice. As with other research in the tradition of the *Annales School*, their use of statistics is not analytical, but their careful accounts describe with precision as many elements of the social life as it is possible to deduce from the primary records. In so doing, their focus is naturally more on quantification of history than on abstraction and theory.[7]

In a more recent book, S. A. Epstein (1996) also makes use of the wealth of Genoese historical sources to present a well-documented narrative history that covers a period of 500 years. While his book includes references to trade and the economy, Epstein focuses on political and cultural history to create a picture of the mercantile atmosphere that permeated medieval Genoa. However, he does not consider the change in

[5] For example, S. A. Epstein's study on wills (1984) and Hughes's on family structure (1975, 1977).
[6] Among others, see Byrne (1916, 1930); Reynolds (1930); Lopez (1933, 1936, 1937); Hall-Cole (1938); Edler-de Roover (1941); (Krueger 1962); Bonds (1968); Slessarev (1967); and Face (1969).
[7] See Gould (2003, p. 241) for similar comments on the French school.