1 Merchant guilds, efficiency and social capital

Merchant guilds – privileged, corporate associations of wholesale traders – were important institutions in the European economy from the eleventh to the nineteenth century, and scholars are still arguing about them now. Historians debate their economic, social and political roles. Economists draw lessons from merchant guilds to support their theories about the institutions that support economic development. Social scientists view merchant guilds as prime historical examples of 'social capital', with important lessons for the present day.

But why did merchant guilds exist? Does their wide prevalence and long survival mean they were efficient institutions that benefited the entire economy? Or did they simply offer an effective way for rich and powerful men to grab a bigger slice of the pie, at the expense of outsiders, customers and society as a whole? These questions are controversial. This book shows that the answers to them can help us understand how economies grow, why institutions exist and what are the real effects of social capital.

Privileged associations of merchants have been widespread since ancient times. They existed not just in Europe but also in North Africa, the Near East, Central and South America, India and China. Merchant associations were active in Egyptian, Greek and Roman antiquity, and survived in European and Mediterranean trading centres during the five centuries after the fall of Rome. They became a salient institution in much of Europe during the medieval Commercial Revolution, between *c.* 1000 and *c.* 1500. Although merchant guilds declined in some societies – particularly the Low Countries and England – from the sixteenth century on, they survived in many parts of southern, central, Nordic and eastern Europe into the eighteenth or early nineteenth centuries. New merchant guilds (and privileged merchant 'companies' that often resembled guilds) formed in emerging sectors such as proto-industrial exporting and the intercontinental trade until around 1800. Merchant guilds also spread to European colonies, especially to Spanish

America, where typically they were only abolished with independence in the early nineteenth century.

1.1 Merchant guilds and theories of institutions

Any institution that exists so widely over such long periods raises fundamental questions. Why did this institution arise? Why did it survive? Why did it ultimately decline? And what was its long-term impact? In recent decades many scholars have been attracted by the idea that institutions arise and survive because they are 'efficient'. An institution is efficient if it solves economic problems better than any other – if there is no feasible alternative institution such that the gains of those who would benefit from the alternative exceed the losses of those who would be harmed by it.[1] So an efficiency view would argue that merchant guilds existed so widely and survived for so long because they made the whole pre-industrial economy work better – their aggregate economic benefits outweighed their costs.[2]

Efficiency views of historical institutions have become very popular in the last few decades. This started with North and Thomas's theory of European serfdom, and soon spread to peasant communes, craft guilds and a colourful array of other pre-modern social arrangements including feuds and vigilantism.[3] The merchant guild alone has been portrayed as a socially beneficial solution to at least six serious economic problems: state extortion, commercial insecurity, contract enforcement, principal-agent relationships, imperfect information and economic

[1] A set of economic arrangements is *Pareto-efficient* if there is no feasible alternative set of arrangements that can make some individual better off without another being made worse off. A Pareto-improvement involves a change that benefits at least one individual without harming any others. Since this concept of efficiency relates only to changes in which there are no losers, it is silent about distributional trade-offs. In practice, it is difficult to make changes in economic arrangements that do not involve both gainers and losers, so the concept of efficiency is often interpreted in terms of the gainers being able *in principle* to compensate the losers and still be better off after the change. In this interpretation, an institution is efficient if there is no feasible alternative institution such that the gains of those who would benefit from the alternative exceed the losses of those who would be harmed by it. It is important to note that minimizing the *costs* of economic activity (of producing and transacting) is a necessary, but not sufficient, condition for economic efficiency. For example, a monopoly may produce its output at *minimum cost*, but the outcome is not *efficient* because the price charged to consumers exceeds the marginal cost of production. Ending the monopoly would increase efficiency because the gains to consumers would exceed the losses of the monopolist, and thus in principle the consumers could compensate the monopolist for the lost monopoly profits and still be better off. On the concept of efficiency as applied to pre-industrial economic institutions, see Ogilvie (2007b), 651–8; Ogilvie (2007a), 4–5.

[2] This is the simplified definition of efficiency suggested by Acemoglu (2006), 516.

[3] For a survey, see Ogilvie (2007b), 652–5.

volatility.[4] By solving these problems, merchant guilds are supposed to have fuelled the medieval Commercial Revolution – the substantial and sustained quickening of exchange from the eleventh century on, first in the Italian maritime cities, later in other coastal areas (Flanders and the German Hanseatic towns), reaching most of Europe by the fifteenth century. Regulated or chartered merchant companies which closely resembled guilds are held to have solved a resurgence of these problems during a second, 'early modern' Commercial Revolution when Europe began trading extensively with other continents in the sixteenth century. Merchant guilds facilitated these two great bursts of long-distance trade, the argument goes, thereby powering the long-term development of the European economy between the Dark Ages and factory industrialization.

But this is not the only way to look at merchant guilds. Merchant guilds secured legal privileges which gave their members the sole right to trade in particular sectors. Merchant guilds excluded most people from membership: they barred trade by women, Jews, immigrants, peasants, the poor, particular ethnic groups, different religions and people their members simply didn't like. Merchant guilds regulated how their own members could do business, limiting competition, so customers had to pay higher prices. Guilds bribed and lobbied officials and rulers to enforce their privileged position. They engaged in bitter conflict – even violence – against individuals and other guilds who tried to infringe on their trading privileges. Merchant guilds thus had a dark side – they used their social capital to seek 'rents' (monopoly profits) and distort markets in favour of their members. Monopolies, market distortions and rent-seeking are not efficient: they reduce aggregate well-being and economic growth. Nor are they socially just: they redistribute resources from outsiders to insiders.

This means we have to look at *everything* merchant guilds did – the dark side as well as the bright side – before we conclude that they favoured economic development. It also means we have to think differently about institutions in general. In particular, we have to question the idea that institutions exist and survive because they are efficient. After all, institutions affect not just *efficiency* – the aggregate size of the economic pie – but *distribution* – how this pie is shared out. So an institution can emerge and survive not because it serves the interests of the whole economy, but because it benefits powerful interest-groups, who use the benefits that

[4] Some but not all of these efficiency theories of merchant guilds are referred to in Gelderblom and Grafe (2004), 1–2. Each of these theories is explored in detail in a separate chapter of the present book.

the institution creates to keep it in being.[5] Merchant guilds provide an excellent illustration of this principle, as we shall see, since their efforts to redistribute resources towards their own members were unrelenting, and this in turn affected almost every aspect of pre-modern exchange.

We must also approach the evidence critically. Merchant guilds were most prevalent in Europe between *c.* 1000 and *c.* 1500, a time before economic activity was fully documented, especially in quantitative form. Evidence on merchant guilds comes mainly from qualitative sources: rulers' edicts, municipal legislation, guild charters, court minutes, subjects' petitions, merchant letters and account-books. These sources must be carefully scrutinized. Normative legal documents such as edicts, laws and charters reflect what princes, town councils and guilds believed was desirable, but not how the economy actually worked. Even sources closer to actual economic activity such as court minutes, petitions and letters must be used critically, with careful attention to their rhetorical purposes. Few qualitative sources, moreover, contain evidence of how prevalent were the practices which they record.[6] So we must often formulate hypotheses in such a way that they can be refuted with counter-examples, since they cannot be either rejected or 'confirmed' by statistical processing of large volumes of data.

Analysing a pan-European institution such as the merchant guild inevitably means relying on secondary literature. While many secondary works reliably reflect the content of the documentary or archaeological sources, some are influenced by the assumptions of their authors and the fashions of their time. Three major sources of potential distortion are particularly worrying.

First, there is the 'legislative history' approach. This is based on the (justified) recognition that legal monopolies are harmful combined with the (unjustified) belief that laws and ordinances accurately reflect economic reality. This has given rise to negative evaluations of merchant guilds based solely on their legal entitlements to exercise monopolies. Such assessments must be subjected to deeper examination, and legislative sources compared with evidence on what actually happened. Chapters 3 and 4 do precisely this, first asking whether merchant guilds got legal monopolies and then assessing the evidence on whether they enforced them.

[5] For an exposition of this approach to economic institutions, see Ogilvie (2007b), 662–7.

[6] The exception are those qualitative sources which can be transformed into quantitative meta-sources through the 'micro-exemplary' method discussed in Carus and Ogilvie (2009); hitherto this approach has not been applied to the study of merchant guilds.

A second way of looking at merchant guilds is the 'institutional advocacy' approach. A scholar studying a particular institution may come to identify with it, either for its own sake or because it is associated with a modern institution which that scholar values. This gives rise to studies of historical institutions which defend them against all criticisms and manufacture ingenious theoretical mechanisms by which their apparently abusive practices actually generated socio-economic benefits. A notable example is that strand of traditional scholarship which sees the German Hanse as a precursor of German national unity, a standard-bearer for German developmental superiority to other mercantile systems, or even a precursor of the modern European Union.[7] But the same tendency can be found in most national and municipal historiographies. Such cases, too, must be explored more deeply to separate facts from advocacy.

Finally, there is the 'efficiency' stance we have already discussed. This approach is based on the (justified) recognition that all institutions exist for a reason, combined with the (unjustified) belief that this reason is that they are economically efficient. Such claims are sometimes also buttressed by statements made by merchant guilds or their advocates at the time, concerning the supposed benefits of establishing or strengthening guild privileges. This approach has given rise to excessively positive evaluations of merchant guilds, even ones that devoted most of their efforts to redistributing resources towards their own members at the expense of the wider economy. The putative benefits of merchant guilds, whether claimed by contemporary apologists or elaborated by modern theorists, must be subjected to empirical examination. Chapters 6 through 10 try to do just that.

This book seeks a middle course between the drily negative assessment of merchant guilds applied by the 'legislative history' approach, and the enthusiastically positive views advanced by the 'institutional advocacy' and 'efficiency' approaches. It tries to show how forming and using merchant guilds were good, rational choices for their individual beneficiaries even while guilds could have bad effects for their victims and the wider economy. To do so, it focuses in turn on each major activity of merchant guilds: monopolizing trade, interacting with rulers, providing security, enforcing contracts, regulating agency relations, conveying information and manipulating prices. The result is a radical reassessment of both merchant guilds in economic history and institutions in economic theory.

Not only do we unveil a more complex picture of this central historical institution. We also discover a more differentiated analytical approach to

[7] See the careful discussion of Hanse historiography in Selzer and Ewert (2005), 8–18.

economic institutions. A given institution does many things, it turns out, and all its activities must be taken into account before we declare that it is efficient or inefficient. Moreover, no institution exists in isolation, and we cannot evaluate one without examining its interactions with surrounding institutions in that society. Most crucially, few institutions are distributionally neutral, and their redistributive activities often affect efficiency. Any adequate economic theory of institutions must incorporate these lessons from the history of merchant guilds.

1.2 Merchant guilds and social capital

The history of European merchant guilds also shines a searchlight on the economic role of 'social capital'. Social capital is the name given by modern social scientists to the stock of shared norms, information, mutual sanctions and collective action which are created by closely knit, multi-stranded social networks, and are supposed to have far-reaching benefits for economic development. The merchant guild is widely portrayed as a prime example of a network that created this kind of beneficial social capital. Although both social capital theories and efficiency theories adopt favourable views of merchant guilds, they are conceptually quite distinct. Social capital theories claim not that all institutions are efficient, but that those institutions that generate social capital are superior to those that do not. This is a strong and interesting theory. One aim of this book is to test it, by investigating the social capital generated by merchant guilds, assessing its economic impact and exploring its implications for social capital in developing economies more generally.

Economic institutions are generally divided into three types, according to how they organize transactions: hierarchical governance, market exchange and horizontal contracting.[8] Merchant guilds are viewed as an example of horizontal contracting, in which repeated interactions within a closely knit network create a social capital of shared norms, information, sanctions and collective action. This social capital, it is argued, reduces transaction costs below those that prevail under hierarchical governance or market exchange, thereby benefiting not just members of the network itself, but also the wider economy.[9]

Merchant guilds are adduced as prime historical examples of how social capital is supposed to have favoured economic development, and are

[8] North (1981), 37, 45–58; North (1990), 27–35, 61–3.

[9] For definitions and discussion of the concept of social capital, see Bourdieu (1986); J. S. Coleman (1989); Dasgupta and Serageldin (2000); Glaeser, Laibson and Sacerdote (2002); Lin (2001); Ogilvie (2003); Putnam (2000); Putnam, Leonardi and Nanetti (1993); Sobel (2002).

frequently used to support arguments advocating investment in social capital to solve modern economic problems. Thus, for instance, Putnam has argued that the social capital created by northern Italy's medieval guild tradition was a major determinant of its modern economic success, and claims that social capital in general fosters 'aggregate economic growth'.[10] In a 1999 speech, the Chief Economist of the World Bank listed 'guilds' among those institutions which, by generating social capital, could 'support entrepreneurial efforts' in Eastern European transition economies.[11] Bardhan argues that merchant guilds benefited European commerce in history, and urges more studies of how social capital of this sort can benefit developing economies in the present.[12] Surveys of social capital and economic development commonly refer to merchant guilds as networks whose social capital facilitated European commercial growth in the past and hold positive lessons for developing economies now.[13]

Can we view European merchant guilds as a test case for social capital? Merchant guilds certainly possessed the required institutional features – multiplex links and closure. Multiplex links are important because social capital is more likely to be generated when members of a social network transact with one another in a range of different spheres – economic, social, political, religious, cultural, demographic. This is because multi-stranded ties among network members make relationships within the network 'appropriable': the resources of one relationship can be brought into play in other relationships with the same person. Multiplex links mean that members have multiple means to reinforce shared norms, convey and receive information about one another, inflict penalties on network members who violate norms and efficiently organize collective action.[14]

Relationships within merchant guilds were certainly multi-stranded – so much so that some historians have argued that guilds were not primarily economic institutions at all: 'it is cultural identity and sociability, rather than commercial networking and economic security, that decided the merchant guild's activities'.[15] As this book shows, the evidence does

[10] Putnam, Leonardi and Nanetti (1993), 163–85; Putnam (2000), 319, 322–3 (quotation), 325, 346–7. On merchant associations in the modern diamond trade as an example of beneficial social capital, see J. S. Coleman (1989), S97–S99.
[11] Stiglitz (1999); Stiglitz and Ellerman (2000), 63 (quotation). On the relevance of merchant guilds and social capital to modern transition economies, see also Raiser (2001), 231.
[12] Bardhan (1996), 6–7.
[13] E.g. Narayan and Pritchett (2000).
[14] J. S. Coleman (1989), S104–S110.
[15] Lambert and Stabel (2005), 15, 22 (quotation). Harreld (2004a), by contrast, while acknowledging merchant guilds' role in social solidarity (46–50), portrays their economic role as dominant (41–2, 47).

not support the view that merchant guilds primarily focused on sociability and cultural identity. They were formed around shared occupations and, until their declining phases, focused mainly on furthering the economic interests of their members.[16] But in so doing, they also engaged in non-economic activities.

Obligatory participation in corporate social gatherings, for instance, was an important shared norm in many merchant guilds.[17] One of the earliest surviving records of a post-antiquity merchant guild dates from 1024, and describes how members of the merchant guild of the Dutch city of Tiel

> begin their drinking bouts at the crack of dawn, and the one who tells dirty jokes with the loudest voice and raises laughter and induces the vulgar folk to drink gains high praise among them. For this purpose they pool their money and finance carouses at special times of the year where they, at higher feasts, get drunk quasi solemnly.[18]

Another early merchant guild, that of St Omer in France around 1100, is also recorded as fostering norms of collective sociability and penalizing members who violated them.[19] The thirteenth-century merchant guild of the German city of Stendal fined members for missing its thrice-yearly assemblies.[20] A major article in the first Brabant charter issued to the Merchant Adventurers of England in 1296 ‘allowed the merchants their assemblies’, and the Adventurers regularly held full meetings of their members both in England and abroad.[21] Sociable gatherings made up such an important aspect of the various guilds of German long-distance merchants in Riga in the fifteenth century that the guilds kept registers of attendance.[22]

Sociability fostered the multi-stranded relationships by which guild members conveyed information about one another and penalized violations of guild norms. The importance attached to social gatherings by merchant guilds is illustrated by a conflict which arose in 1449 over guild finances between the mercer and the fishmonger factions of the English Merchant Adventurers, in which harmony was restored through corporate sociability between their local merchant guilds at home in London:

[16] For similar conclusions, see Selzer and Ewert (2005), 8–18, on the German Hanse; and De Smedt (1950–4) on the ‘English nation’ (Merchant Adventurers) in Antwerp.
[17] Gross (1890), I: 32–4; Kohn (2003a), 42–3; Lambert and Stabel (2005), 15.
[18] Pertz (1925), 118–19; quoted in Volckart and Mangels (1999), 438. For more detail on the economic component of this guild’s collective norms, see also Dilcher (1984), 69–70.
[19] Dilcher (1984), 70. [20] Schulze (1985), 379–80.
[21] Sutton (2002), 31–3 (quotation on 31). [22] Brück (1999), 113–16.

> for as much as that great discord and variance fell between the gatherers of the conduits of the Mercery and the wardens of the Fishmongers, therefore a supper was made at the King's Head on Cheap at the desire and request of the said wardens for continuance of good love betwixt both parties . . . [23]

Guild sociability was thus not only practised for its own sake, but mobilized to serve other purposes. De Roover goes so far as to argue that the main purpose of sociability within a merchant guild 'was not to provide entertainment, but to bring social pressure to bear upon the members of the group'.[24] Likewise, Brück argues that participation in the festivities of the German merchant guild in medieval Riga was partly to introduce new guild officials to the assembled merchantry.[25] A number of scholars have argued that the parties held by the Artusbruderschaft, a drinking society in Danzig (Gdańsk) whose members were mainly long-distance merchants, enabled traders to form contacts and learn about the reputations of third parties, reducing transaction costs[26] – a theory explored more deeply when we investigate contract enforcement in Chapter 6 and commercial information in Chapter 9.

Religious observance constituted a second set of multi-stranded relationships fostered inside merchant guilds. A merchant guild often focused its activities around a particular church or chapel, in which members not only worshipped, but also held assemblies, archived records or stored wares.[27] In medieval Novgorod, the church of St Peter's, dating from *c*. 1200, was located in the German merchants' compound and was known as *des kopmans kerke* ('the merchants' church').[28] In medieval England, some merchant guilds bore the name of a patron saint, employed a chaplain or priest, and engaged in good works and devotional observance, although religious activities were probably less important for merchant guilds than for other types of guild.[29] In medieval Lyons, the Florentine merchant guild worshipped and kept its archives at the church of the convent of the Franciscans.[30] In medieval Bruges, the alien merchant guilds of Venice, Genoa and Lucca used the chapels of the Augustinian friars.[31] In medieval Constantinople, too, a merchant church was an indispensable appurtenance of a fully fledged alien merchant guild, and specific churches have been identified for the Venetian, Amalfitan, Pisan and

[23] Sutton (2002), 35. [24] R. De Roover (1948a), 20. [25] Brück (1999), 116.
[26] Selzer (2003), 77–94; Link and Kapfenberger (2005), 165.
[27] For an overview, see Slessarev (1967), who goes so far as to suggest that merchant churches were the forerunners of alien merchant guilds in the Mediterranean.
[28] Slessarev (1967), 178–9. [29] Gross (1890) I: 34–5. [30] Mauro (1990), 264.
[31] Lambert and Stabel (2005), 14–15; Paravicini (1992), 110; Gelderblom (2005a), 14–15 with n. 73; Henn (1999), 136; W. D. Phillips (1986), 42–4.

Genoese merchant colonies in the city.[32] Similarly, in the mid-twelfth century the Venetian merchant guild in Rodosto (present-day Tekirdağ, in European Turkey) was linked both religiously and commercially to the local priory of St George.[33]

Guild churches served secular as well as religious purposes. According to De Roover, the 1478 charter of the Lucca merchant guild in Bruges (based on an earlier charter of 1369) shows it to have been

> at the same time a trade association, a social club, and a religious brotherhood formed to promote the devotion to the *Volto Santo*, the national cult of Lucca. As always in the Middle Ages, the religious and mystical element was closely interwoven with political, social and other activities.[34]

Maréchal describes how the members of the Spanish merchant guilds in Bruges remained assembled after their shared religious services to discuss their business.[35] Monasteries of St Nicholas were used by medieval Venetian merchant colonies in Corinth, Thebes, Sparta and Abydos as clearing houses, banks and sometimes goods-depositories, as well as places of worship.[36] The Merchants' Church in medieval Novgorod was used by the German merchant colony not just for religious purposes but to store merchandise.[37]

Such multiplex interlinkage of commercial and religious ties within alien merchant colonies continued into the early modern period. In the sixteenth century, nearly all important merchant colonies maintained by traders from Ragusa (Dubrovnik) in Ottoman Balkan cities had their own Catholic churches, whose clergy ministered to merchants, educated traders' offspring and even sometimes themselves operated merchant businesses. The religious institutions of the Ragusan merchant guild in Belgrade were so important to its members that struggles for religious control sparked decades of internal conflict between Ragusan and Bosnian factions within the colony, endangering its commercial privileges.[38]

Multi-stranded relationships were also fostered by norms of religious oath-taking, collective funeral attendance, participation in civic parades and festivals, donations to charity and even the wearing of special clothing.[39] A number of Lucca merchants trading in Bruges were fined between 1377 and 1404 for missing 'the mass of the Holy Cross, the

[32] Slessarev (1967), 183–9. [33] *Ibid.*, 186. [34] R. De Roover (1948a), 18.
[35] Maréchal (1953), 31. [36] Slessarev (1967), 186–7. [37] *Ibid.*, 178–9.
[38] For a detailed discussion of these conflicts, see Molnár (2007).
[39] Gelderblom (2005a), 14–15 n. 73; Blockmans and Prevenier (1999), 139; Henn (1999), 136.