

Lecture 3: Merchant Guilds and International Trade

MPhil in Economics, Subject M620
MPhil in Economic and Social History, Advanced Course 6

‘Institutions and Long-Distance Trade,
1000-1800’

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Questions about merchant guilds

1. What types of ‘merchant guild’ existed in long-distance trade?
2. What legal privileges did merchant guilds enjoy?
3. Under what circumstances could these privileges result in ‘rents’ (monopoly profits)?
4. What kind of evidence do we have that merchant guilds did enjoy monopoly profits?
5. What were the wider implications of merchant guild privileges?

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What is a merchant guild?

Guild = association of people who share a common characteristic & pursue a common purpose

Merchant = wholesale trader, i.e.

- specializes in trading for profit
- deals in goods he doesn’t produce himself
- sells to other wholesalers, retailers, or business users, not directly to consumers

Some merchant guilds excluded retailers & small-scale traders, others included all commercial occupations

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Types of 'merchant guild'

Up to c. 1500:

1. Local merchant guilds
2. Alien merchant guilds
3. Hanses

After c. 1500:

4. Proto-industrial merchant associations
5. Intercontinental merchant 'companies'
 - regulated
 - chartered / joint-stock

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Local merchant guilds

- basic merchant guild: local association among merchants of particular city with legal privileges from local ruler over local & regional trade
- ancient Greek city-states, Roman Empire, Dark Ages: 'collegia', 'schola', 'ministeria'
- after c. 1000, resurgence of record-keeping => local merchant guilds as they are best known come into view
- in liberal cities, local merchant guild = all 'citizens'
- but typically only 2-10% of inhabitants had citizenship
- most merchant guilds didn't even include all citizens

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Alien merchant guilds

- colony, community, *communitas*, nation, consulate, *consulado*, guild, corporation, *collegium*, *universitas*, *societas*, *fondaco*, *massaria*, *Hof*, *Kontor*, *hanse*, ...
- a branch of a local merchant guild (or trade-privileged 'citizenry'), incorporating that subset of its members trading in a particular foreign trading centre
- post-dated its 'mother' local merchant guild, continued to depend on it
- enjoyed official recognition by virtue of its status as 'branch' of mother guild back home

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'Hanses'

- hanse = federation of merchant guilds of a group of towns for purposes of foreign trade
- German Hanse is only the most famous example (and wasn't called Hanse until 1343)
- Flemish Hanse of London, Hanse of the 17 Cities, Italian and Provençal 'universitas' at Champagne fairs after 1278; Spanish hanses in 13-14C Low Countries; English Merchant Adventurers; Fondaco dei Tedeschi
- hanses were pre-dated by & depended on local merchant guilds in member towns

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Proto-industrial merchant associations

- proto-industry = dense cottage industry, often rural, dense, producing large volumes of wares for export
- started appearing in late medieval period, expanded rapidly after c. 1500, heyday in 18C
- in most European proto-industries either a traditional merchant guild or a newly formed merchant association got the state to grant it exclusive rights to export wares
- this happened less (or not at all) in Dutch, Flemish and English proto-industries

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Inter-continental merchant companies

- after c. 1500 most European states granted exclusive privileges over trade between mother country and non-European destinations to 'regulated' or 'chartered' companies
- 'regulated company' = negotiates legal monopoly from ruler, controls entry, members trade independently on own account
- 'chartered company' = negotiates state monopoly, but company sells shares (joint-stock), trades collectively
- 'privileged' company (established & managed by private merchants) vs 'state' company (ruler has direct financial interest & influences business decisions)

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Were merchant guilds 'voluntary associations'?

- 3 core entitlements: 1) to trade in particular wares, transaction types, routes & destinations; 2) to decide who could become a member; 3) to regulate members' business activities
- if you were a local inhabitant, you had to be a member of the local merchant guild
- if you were non-local & your home city had an alien merchant guild there, you had to be a member of it (and thus of your local merchant guild back home)
- if you were non-local & your home city had no alien merchant guild there, then you needed an individual privilege or associate membership in another alien merchant guild

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What did merchant guilds concretely do?

1. imposed barriers to entry: both to 'mother' guild and to alien branches; entry fees, wealth conditions, gender, occupation, nationality, language, religion
2. fixed prices: some stated explicitly, most just did it
3. restricted supplies: trading quotas, numbers of trips, freight space, number of agents, collective galley sailings
4. fixed input-costs (monopsony): collective purchases, forbade members to compete in buying, impose prices on fur-trappers
5. imposed costs on competitors: threaten them with violence, deny them access to harbours, shipping or other infrastructure

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Under what circumstances did this create a monopoly?

- home territory had favourable geographical position giving its merchant guilds abroad lower costs – e.g. low transport costs to a particular locus of supply or sales
- home territory had resource endowment making it lowest-cost supplier of a particular good (wool, amber, alum, silver)
- warfare etc. increased costs of alternative supplies
- one branch of merchant guild got monopoly over a good => other branches become the sole supplier
- small number of different merchant guilds operating in a particular trading centre => oligopoly

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Evidence indicating merchant guild monopolies

1. Merchant guilds obtained precisely the legal rights you would expect of a monopolist: to trade exclusively, restrict entry, fix prices, restrict supply, fix input-costs, impose costs on competitors. Why not use these rights for own profit?
2. Contemporaries complained
3. Merchant guilds invested time & money in lobbying & paying rulers for monopoly rights – you don't pay for valueless privileges
4. Merchant guilds constantly in conflict with one another over these monopoly rights – conflict is costly

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Evidence indicating merchant guild monopolies - continued

5. Merchant guilds set up systems to enforce their monopolies – enforcement is costly
6. People paid to share in guild monopolies or to be exempted from them
7. When merchant guild privileges strengthened, prices rose & supplies fell; when guild privileges weakened, prices fell & volume of trade increased
8. Merchant guilds imposed embargoes to put pressure on rulers & these were often successful

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What about evasion?

- legal monopolies are seldom enforced perfectly
- but violations take place in black-market 'informal sector' where transactions are illegal, risky, high-cost
- infringements don't mean monopolies have no impact
 - rather, part of impact is to prevent competition altogether
 - other part is to push competing traders into black market
- even imperfectly enforced monopolies can impose real economic effects

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Wider implications of merchant guild monopolies

- in many times & places merchant guilds acted as monopolists
- whole economy suffered because volume of exchange was reduced & gains from trade lost
- non-guilded merchants, suppliers & customers suffered (resources were transferred to guilded merchants)
- merchant guilds might still have been beneficial if monopoly profits they generated provided incentives for their members to engage in collective action that increased efficiency in other ways & outweighed costs of guild monopolies
- did this happen? Motivation for remainder of course.

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Further reading (on merchant guilds)

Ogilvie, S. (2011). *Institutions and European trade: merchant guilds, 1000-1800*. Cambridge. chapter 4: 'Alien merchant guilds and companies' (pp. 94-159); see also chapters 2 ('What was a merchant guild?') and 3 ('Local merchant guilds').

Lindberg, E. (2009). 'Club goods and inefficient institutions: why the important medieval trading cities of Danzig and Lübeck failed in the early modern period', *Economic history review*, 62(3), 604-28.

Grafe, R. and O. Gelderblom (2010). "The rise and fall of merchant guilds: re-thinking the comparative study of commercial institutions in premodern Europe". *Journal of Interdisciplinary History* 40(4): 477-511.

See also the 1996 debate on the inter-continental merchant companies: Jones & Ville vs. Carlos & Nicholas, *Journal of economic history* 56(4).

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Reading for Lecture 4 (on commercial security)

Assigned item:

Ogilvie, S. (2011). *Institutions and European trade: merchant guilds, 1000-1800*, Chapter 6: 'Commercial security' (pp. 192-249)

Optional item:

Greif, A., P. Milgrom and B. Weingast (1994). 'Coordination, commitment, and enforcement: the case of the merchant guild'. *Journal of political economy* 102(4): 912-950.

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