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Institutions and European Trade: Merchant Guilds, 1000–1800

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In the wake of Douglass North's theories on institutions and economic growth, the last two decades have seen various kinds of medieval and early modern institutions increasingly regarded as factors aiding in, rather than obstructing, the transformative processes that eventually led to modern industrial capitalism in the 19th century. The emphases have not always been the same: some scholars, notably Avner Greif and his collaborators, have focussed on merchant guilds (1), whereas others, notably the late S. R. Epstein, have stressed the importance of public institutions like states and municipalities in reducing opportunity and transaction costs and enabling the growth of trade.(2) In the book under review Sheilagh Ogilvie presents a strong case for the opposition, arguing that the influence of merchant guilds on economic growth was, if anything, negative. Those who present a case for merchant guilds do so partly to explain their longevity: since they lasted so long, the guilds must have been beneficial to the economy. But the advocates of the merchant guilds also argue that despite what appear to be monopolistic and regressive tendencies, these institutions did not actually seek to enforce monopolies, or were unable to do so; they suggest further that even if merchant guilds had in some respects an adverse effect on economic growth, there were no alternative means of improving efficiency and dealing with the various problems arising in pre-modern trade in relation to contract enforcement, principal-agent problems, information, and price volatility. Thus the advocates of the merchant guilds plead their case on many different grounds, ranging from positive (the guilds were primarily beneficial) to negative (the guilds had many negative effects, but still provided some solutions to problems that could not be found elsewhere). Ogilvie provides a thorough, empirically-grounded rebuttal of all these arguments: merchant guilds were, in her view, primarily agents for improving the economic prospects of a very small portion of society, and they actively hindered the growth of trade in general, as well as economic growth and redistribution beyond the confines of the guilds themselves.

After setting out the theoretical positions of her opponents as well as her own approach, the author begins by defining merchant guilds, in terms that will mostly be uncontroversial. Merchant guilds could be local guilds: associations of merchants within one town, in some cases of merchants trading in one particular commodity or group of commodities; they could be alien merchant guilds: associations of merchants from one town or region coming together when trading outside their home territories; they could be in the form of a hanse, most prominently the German Hanse, which was an association of merchants from a large group of towns trading internationally. The only aspect of her definition likely to be disputed (which she acknowledges) is the inclusion of the early modern trading companies (such as the English and the Dutch East India Companies) under the rubric of guilds. Many would argue that these companies were fundamentally different, not least because, while they could still restrict who could and did trade on their behalf, a much larger circle of people could be and were shareholders in these companies than were members of guilds. Nevertheless, Ogilvie argues that the monopolistic practices of these institutions were sufficiently like those of the earlier merchant guilds to allow for a combined analysis of both phenomena (many merchant guilds also continued to exist well into the early modern period).

Two lengthy chapters provide overviews of how local merchant guilds, alien merchant guilds and trading companies were constituted in terms of their economic structures and functions. Ogilvie proceeds by setting out the arguments of her opponents and then adducing a very large number of examples proving that they are wrong. Thus she gives evidence that both kinds of guilds sought monopolies; were largely effective in doing so; sought to enforce their monopolies and were again largely effective in doing so; successfully sought to restrict by various criteria entry into their associations; fixed prices; restricted supply; and used various other means to dominate the market and force competitors out of it. In each instance, Ogilvie provides examples from across Europe, spanning the second half of the Middle Ages and the early modern centuries, of guilds seeking rights and then seeking to enforce them by various means, from lobbying public authorities to imposing internal systems of punishment for infringement of guild regulations. She also cites numerous cases of people complaining that the guilds were doing precisely what they tried to do: enforce their monopolies and other exclusionary policies. With regard to both local and alien merchant guilds, roughly the same sort of evidence can be found, and a lot of it, though alien merchant guilds often appear to have had rather more competition and thus also rather more difficulty in getting their own way. All this seems to prove conclusively that guilds were in fact monopolistic, exclusive and restrictive institutions that did not assist in promoting the free movement of goods. Companies functioned in similar ways, though with regard to exclusivity, I would suggest that there is surely a difference between a shareholder in a company and someone who has given a loan to a merchant. In the latter case, while the creditor could indeed potentially make the merchant bankrupt, she or he would not normally have, even in theory, any say in running the process of trading; in contrast, shareholders even in early modern companies could, and sometimes did, interfere with the running of those companies (such instances were, admittedly, quite rare). There was thus a potentially much larger number of people who could have some influence on what a company did than would have been the case with a guild.

How did merchant guilds manage to survive so long if they were not particularly beneficial to the economy as a whole? Ogilvie argues that they did so because although they retarded economic growth in general, they did prove to be beneficial (at least to some extent) for those who were guild members; and they were able to continue doing so because of the various benefits they provided to rulers. Merchant guilds were able to enforce their monopolies and other privileges because of the support they got from political authorities, but this support had to be paid for. Guilds paid fees, often very large, to rulers, and also provided them with loans; in addition, they frequently assisted with the assessment and sometimes collection of taxes and excise duties on behalf of the rulers, and provided political and military support. One aspect of the relationship between guilds and rulers that Ogilvie passes over with little comment is that members of merchant guilds often *were* the rulers. At least in the major trading towns throughout most of western Europe, town councils tended to be dominated throughout the Middle Ages by trading families, and these oligarchies effectively gave the larger group to which they belonged – the guilded merchants – a helping hand. Thus the guilds were able to survive not because of general economic benefits they brought, but because of the stranglehold their members had on political power in many parts of Europe.

There remains, however, the argument that regardless of the restrictiveness of merchant guilds, since there were no alternative institutions promoting trade, the guilds were essential in enabling whatever economic growth there was. Particularly in long-distance trade, merchants face a number of problems, many of which are associated primarily with issues relating to information and trust. Merchants must know where they can buy cheap and sell dear, but in order to do so, they also need to trust their informants. Furthermore, given the distances and available means of communication, there needed to be a high level of trust to ensure that contracts were enforced, goods bought were paid for, loans repaid, and agents entrusted with carrying out transactions did so to their principals' benefit rather than their own. Proponents of merchant guilds argue that these institutions built up a level of social capital among their members that facilitated all of these operations, and thus aided economic growth. Ogilvie demonstrates, however, that there were in fact many alternatives to merchant guilds in terms of institutions that could provide commercial security, contract enforcement, information, and appropriate methods of dealing with principal-agent problems (the problems that arise when an agent might act not primarily to the benefit of the principal for whom she or he works, but in her or his own interest). Regarding all of these aspects of trade, Ogilvie has a twofold argument: first, that there is little evidence to demonstrate that merchant guilds were in fact terribly effective in resolving any of the problems posed; and second, that there were indeed alternative means of addressing these issues, often as or more effective than the guilds. The alternative was provided by various public institutions that came into being at the latest from around 1200; the sophistication and number of these institutions increased in the next few hundred years. Thus Ogilvie shows that merchants, even those within guilds, frequently sought to operate outside guild regulations because those regulations might have been beneficial to the guilds as a whole, but were frequently not beneficial to individual merchants, or particular groups of merchants. In many cases, large guilds like the Hansa, or the later trading companies, demonstrably operated in extremely inefficient ways: size clearly did not induce efficiencies. There were, furthermore, many independent merchants who seem to have been able to prosper as much as, and often more than, their guilded counterparts, relying not on guilds but on various public institutions to deal with the problems arising from trade. Over time, municipal and royal courts (and also, though less frequently, ecclesiastical courts) provided judgements in mercantile matters, and merchants can frequently be seen to have preferred these venues to guild mechanisms. By around 1300, public venues for dealing with disputes were common throughout Western Europe, and were open to all, not just to guild members; the spread of literacy and the ubiquity of written contracts and record-keeping also lessened, if not eliminated, the need for the sort of social capital that might have been built up by guilds. Towards the end of the Middle Ages, and especially in the early modern centuries, even information-gathering was facilitated by various public institutions, regulated not by guilds but by the state or town authorities; these proved to be at least as beneficial to economic growth as the merchant guilds if not more. Crucially, in many cases it seems to be possible to show that public institutions arose as early as or before the guilds; the merchant guilds were therefore not necessary motors of growth that were later superseded by public institutions.

Why would there have been public provision of such institutions if rulers could in fact benefit as much or more from collaborating with the guilds and thereby restricting non-guild trade? Ogilvie does not really address this question, but it is significant that England and the Low Countries seem to have advanced the most, and earliest, in the direction of stable public institutions that could fulfil all or most of the functions merchant guilds are held to have performed, *without* any sort of exclusionary effect or enforcement of monopolies. Obviously, in some regions, public authorities saw the benefits of a more free form of trade in which transaction and opportunity costs were reduced by the existence of public institutions, whereas in other places, rulers preferred to rely on the benefits they could reap from merchant guilds. As Ogilvie herself admits, more work needs to be done to determine the causes of these regional differences. It would be particularly interesting to study the rise of public institutions, which were in effect competitors to the guilds and appear to have undermined them, in towns that were dominated by the merchant class, as many late medieval towns were, even in the Low Countries and England (it is surely no coincidence that these institutions seem to have been most prevalent and powerful in these regions, where merchant guilds began to decline in importance relatively early). Is it the case that in those towns where the merchant patriciates were guild members, there was less provision of public, generalised alternatives to those services guilds are thought to have provided than in towns dominated either by independent merchants or non-merchants?

It is impossible to do justice here to the geographical and temporal scope of this study and the range of examples Ogilvie adduces in support of her arguments, but it is clear that this is a very important book that gives rise to a number of highly significant questions for future research. It is also particularly commendable that Ogilvie has chosen not to assume a high level of familiarity with economic theory on the part of her readers, explaining the terminology and concepts she uses concisely and clearly and thus making her work accessible to historians with less theoretical sophistication than herself – though much of the detail presented about the guilds will not be new to specialist economic historians of the regions and periods covered (as opposed to economic theorists). As is inevitable in a work of this sort, the argument is based on the citation of a large range of scholarship (which seems to me slightly biased towards northern Europe, but which does include material from non-European parts of the world as well); on occasion, at least with regard to regions and periods with which I am relatively familiar, it seems to me that (as is again probably inevitable), Ogilvie accepts as a matter of faith the arguments of some scholars that are not necessarily verified or easily verifiable by documentary evidence (I found at least one example where Ogilvie's statements are backed up by the citation of scholarship which does not itself, however, cite any supporting documentary evidence). Many of her arguments are buttressed by an impressive range of examples; for others, however, the evidence adduced is rather thin. And while the focus on guilds and what they do certainly brings a number of benefits, it brings with it some dangers too: both the negative effects often ascribed to guilds and the positive outcomes arising from alternative institutions are unlikely to have monocausal explanations, and it seems to me highly unlikely that the relative strength or weakness of merchant guilds were the sole, or even most important factor influencing economic change in the period in question. Although I accept that these issues were certainly of great significance, I think they do need to be assessed as part of a bundle of social and economic factors not solely restricted to institutions, that brought about economic transformation in greater or lesser degree in many parts of Western Europe.

All these caveats are, however, of relatively minor weight. The sheer mass of examples Ogilvie has amassed surely outweighs the occasional weak links, and it would be unfair to expect a book on merchant guilds to explore too much else in any detail. The most significant aspect of her work is indeed that she has managed to put all of this together: it will be very difficult, in the face of so many examples to the contrary, to argue that merchant guilds were not restrictive and monopolistic institutions, or that there were no alternative, probably better, institutions that could and did foster economic growth. Equally important are the potential ramifications of this study for our understandings of social and economic change in the pre-modern (and possibly also modern) world, an aspect of her work that is not much stressed by Ogilvie but is certainly present. To begin with, she makes the crucial point that the solely economic functions of institutions cannot be viewed in isolation from the other things the institutions do: the efficiency an institution creates or maintains is affected by *all* its actions, and if some might promote efficiency, others might detract from it, and thus all the actions of any given institution must be examined holistically. Even more fundamentally, institutions (and, I would argue, all economic activities) must be viewed within their larger institutional (and, I would argue, broader social and economic) framework if we are to come to any reasonable judgement about them and their long-term effects. If we examine only what merchant guilds did, we might come to the conclusion that many scholars have reached, namely that whatever their flaws, they nevertheless did promote trade in ways that were otherwise impossible. But when alternative existing institutions are taken into account, it becomes clear that other methods of increasing efficiency in trade were not only known, but also used, and quite often, and that these methods were in fact normally more effective for a broader population. The crucial aspect of merchant guilds in this regard is that their benefits were particularised, rather than general, and thus were limited to a relatively small group. Their economic benefits, potential and real, were similarly also limited. In contrast, public institutions had generalised effects, and, Ogilvie argues, could therefore be of greater overall economic benefit. The wider implication of Ogilvie's monograph is that economic growth and the spread of its benefits to the largest possible percentage of the population depends to a great extent on the expansion of impersonalised, public institutions; why such institutions became more prevalent earlier in some regions and not others thus becomes one of the most significant challenges for future scholarship on the process of economic transformation in late medieval and early modern Europe.

Notes

1. Avner Greif, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade* (Cambridge, 2006); this work sums up a number of earlier articles by Greif, many written in collaboration with other scholars and referred to frequently by Ogilvie in the volume under review. Back to (1)
2. S. R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300–1750* (London, 2000).Back to (2)

The author is happy to accept this review and does not wish to comment further.
