

Were merchant guilds really beneficial?

A comment on Greif, Milgrom & Weingast

Sheilagh Ogilvie

Faculty of Economics, University of Cambridge

25 February 1995

Were merchant guilds really beneficial?

A comment on Greif, Milgrom & Weingast

In a recent article, Greif, Milgrom and Weingast (henceforth GMW) argue that merchant guilds in medieval Europe were beneficial not only for their own members but for the economy at large.¹ Merchant guilds, GMW claim, enabled merchants to make a credible threat to impose an embargo on a foreign ruler who did not commit himself to providing an acceptable level of commercial security. This in turn facilitated trade. GMW argue that this "commitment model" is superior to theories which regard guilds as cartels.

They base this argument on three game-theoretic models which analyze the relative effectiveness of merchant responses to rulers who failed to provide adequate commercial security. A trade embargo by an individual merchant who had suffered from insecurity (a "bilateral reputation mechanism") would not suffice because the future stream of benefits provided by the marginal merchant would be lower than the present value to the ruler of not providing security. A general embargo by the injured merchant and his close associates (a "multilateral reputation mechanism" without enforcement) would be ineffective because of the difficulty of enforcing the embargo on all merchants, when the ruler could offer inducements to individual merchants to break the embargo. The only effective response, the theoretical argument concludes, would be a multilateral one involving an institution which could coordinate and enforce an embargo among a large group of merchants, thereby compelling the

¹Greif, Milgrom & Weingast (1994).

ruler to commit himself to provide security. This paper argues that merchant guilds provided such institutions.

GMW present evidence that there was a high level of insecurity for European merchants trading in foreign countries in the period between ca. 1050 and ca. 1360. They instance cases in which bilateral responses and multilateral responses without enforcement failed to induce rulers to provide adequate security. They show that some merchant guilds did effectively enforce embargos, thereby obtaining privileges (including guarantees of security) from some foreign rulers.

GMW contrast this model with the monopoly theory of guilds. The monopoly theory, they claim, would predict that guild formation would be resisted by rulers and followed by a reduction in trade. Their own model, by contrast, would predict that guild formation would be supported by rulers and followed by a growth in trade. GMW present evidence that some rulers supported the formation of merchant guilds, and that the formation of some merchant guilds was followed by an increase in trade. From this, they conclude that merchant guilds were not primarily cartels but commitment mechanisms. Such guilds, they argue, benefitted not just guild members, but, through facilitating the late medieval "commercial revolution", the economy at large.

1. Modelling commercial insecurity

The basic problem which the institution of the merchant guild is supposed to have solved was that of commercial insecurity, so it is

important to model this accurately. In the model proposed by GMW, commercial insecurity is modelled by a foreign ruler's contracting to provide "services" and either providing them (at some cost) or breaching the contract (for some benefit) (p. 762). In order for the model to work, "commercial insecurity" must be something which the ruler can control if he wishes and from which he derives some benefit if he does not control it.

However, the empirical evidence presented by GMW encompasses a wide variety of forms of commercial insecurity, very few of them within the control of rulers. Only two cases are instanced of a medieval ruler himself being the source of insecurity: an arbitrary increase in tariffs on Jewish merchants in twelfth-century Sicily (p. 752) and an arbitrary confiscation of Genoese goods in fourteenth-century Tabriz (p. 755). Of the nine other cases of commercial insecurity which are instanced, one refers to general abuses of alien merchants' property rights (England in 1283, p. 747), one to the possibility of unfair dealing by domestic merchants (England in 1261, p. 756), two to attacks by local mobs or riots (Constantinople in 1182, pp. 750-1, Bruges in 1252-80, p. 759), two to attacks by guilds of other alien merchants (Constantinople in 1162 and 1172, p. 750), one to an attack by local merchants (England in 1241, p. 750), one to an attack on a ship at sea (a German ship attacked by Norwegians in 1284, p. 757), and one to damages to German merchants in Flanders caused by war between two other powers (France and England, p. 760).

In none of these cases was the commercial insecurity directly under the control of the foreign ruler, nor did he benefit from it. Although he might be able to promise greater protection of property rights and control

of local mobs, he was unlikely to be able to guarantee defense against random attack, especially not in a war between third parties. The demand by the German merchant guild in Bruges for compensation from the ruler of Flanders for damages to trade caused by warfare between France and England is in fact regarded by historians as unjustified: the merchant guild made the demand not because the ruler of Flanders actually could control this insecurity, but as a bargaining device in a much more complex set of negotiations, in which the German merchant guild was seeking more extensive trading privileges in Bruges, against the resistance of the local merchants.²

Indeed, conflicts between different merchant guilds over privileges granted by rulers underlay many cases of commercial insecurity for medieval merchants trading in foreign cities. For one thing, there were frequent conflicts in foreign cities among the guilds of rival alien merchants, such as those among the merchant guilds of the various Italian cities in twelfth-century Constantinople or those among the guilds of different Spanish cities in fifteenth-century Bruges.³ Even more frequent were conflicts between a guild of alien merchants and the guild (or other organization) of the local merchants. Many cases in which merchants operating in a foreign city were attacked by mobs, failed to obtain fair legal treatment, or suffered from acts of piracy occurred precisely because

²Bahr (1911), pp. 21-2.

³On the Italians in Constantinople, see Greif, Milgrom & Weingast (1994), p. 750, and De Roover (1963), p. 62; on the Spanish guilds in Bruges, see Smith (1940), pp. 68-9. According to De Roover, the Greek emperors intentionally fomented conflict between the merchant guilds of the Venetians and the Genoese in Constantinople so as to reduce their monopoly powers.

of rivalry with the local merchant guild over privileges from the ruler; this is true of a number of the cases of insecurity instanced by GMW.⁴ That is, merchant organizations themselves, and the privileges granted to them by rulers, were the source of - not the solution to - a considerable proportion of the commercial insecurity of the period.

There were thus a number of different sources of commercial security in medieval Europe, and it is necessary to model them differently. Only a minority were forms of insecurity which rulers could commit to reducing (or benefit by not reducing), and thus only a minority of them were ones in which merchant guilds could have performed the beneficial services proposed by GMW. Much commercial insecurity was created and enhanced by the establishment of large and powerful merchant guilds themselves, and by their struggles with one another for privileges from rulers. Even with respect to commercial security, therefore, it is not clear that the role of medieval merchant guilds was unambiguously beneficial.

⁴For evidence that conflicts between local and alien merchants over commercial privileges from rulers lay behind attacks on Hanse merchants in London and other English towns from the late thirteenth century on, see Postan (1973), p. 240, and Lloyd (1991), pp. 22, 30; that they lay behind insecurity for English merchants in Danzig in the fourteenth century, see Postan (1973), p. 239, 251-2; that they lay behind acts of piracy against both English and German merchants in the fourteenth century, see Postan (1973), pp. 251-2; that they lay behind conflicts between the Hanse and Bruges in 1280, see Dollinger (1970), p. 48; that they lay behind conflicts between the Hanse and Norway in 1284 (including the act of piracy instanced by GMW) see Dollinger (1970), p. 49; that they lay behind the Hanse embargo on Bruges in the early years of the fourteenth century, see Dollinger (1970), p. 50; that the "excessive privileges ... overbearing attitude and monopolistic practices" of the Italian (especially Venetian) merchant guilds in late twelfth-century Constantinople lay behind attacks on Italian merchants by both ruler and populace, see De Roover (1963), p. 61.

2. Merchant guilds and medieval rulers

GMW argue not only that merchant guilds reduced insecurity, but that this "commitment" function outweighed any "cartel" function such guilds may also have exercised. Two arguments are advanced in support of this view. One relates to the expansion of trade, and will be examined in Section 3. The other argument, which is the subject of this section, is that if merchant guilds had been primarily cartels, rulers would not have cooperated in setting them up (pp. 749, 772-3).

GMW note only two reasons that merchant guilds with primarily cartellistic aims might be formed: to "increase their bargaining power with the rulers" (p. 749) and to "shift some of the fixed gains from trade from rulers to merchants" (p. 772). As GMW rightly imply, both would have deterred rulers from encouraging formation of a merchant guild. But there were many other reasons for the formation of a merchant guild with cartellistic aims, which GMW do not mention, and which were likely to generate a stream of rents which the guild could use to induce rulers to support it. There is copious empirical evidence that medieval merchant guilds represented guild members' interests against other guilds (particularly craft guilds) within the home city, resisted interference in trade by other institutions such as the church or the Inquisition, excluded competitors from trade, restricted entry to their own ranks, fixed prices and freight rates, obtained tariffs which disadvantaged foreign merchants, lobbied against protective tariffs imposed by others against them, controlled the trading operations of members and non-members, operated privileged mercantile law-courts, forced alien merchants operating in the

city to use only native ships, obtained insurance statutes discriminating against foreign merchants and shippers, inflicted embargos on foreign ports and merchants, levied tolls and duties on their own members and others, and opposed the foundation of merchant guilds in their city by alien merchants.⁵

Any or all of these activities could ensure for members a stream of rents great enough to provide payments to alien rulers to induce them to support the guild's establishment and enforce its subsequent operations. Depending on the nature of the "fixed gains from trade" involved, a cartel-like guild could well be in a position to deliver greater and more reliable benefits to the ruler, at crucial political junctures (such as wartime), than he could rely on from generalized, free and secure trade (or recognize he would receive from such trade, given that it had probably seldom if ever previously existed). This is supported by the historical record. Rulers frequently issued privileges to guilds of alien merchants whose primary purpose was rent-seeking, in return for a share of the rents in the form of bribes, loans, higher or more regular customs duties, and so on.⁶

⁵For a detailed discussion of such aims and activities on the part of medieval merchant guilds, see Postan (1973), pp. 189 (on Europe as a whole), 198-9 (on the German Hanseatic cities); Gross 1890 (on England); Clune (1947), pp. 23ff (on England), 137ff (on Ireland); Smith (1940), pp. 26-8, 38-43, 51-6, 61-4, 76-7, 86 (on Spain); Dollinger (1970), pp. 132, 137, 161 (on Germany); Coornaert (1941), p. 69 and passim, Coornaert (1947), pp. 48-55, 221-3 (on France); De Roover (1963), pp. 113, 118 (on German and English merchant guilds); Hibbert (1963), pp. 169-74, 186, 194-202 (on Europe as a whole).

⁶Kedar (1976), pp. 54-5, recounts how the rulers of Genoa and Venice granted privileges to alien merchants, especially in military crises, instancing that "during the War of Chioggia, the Venetian government promised to foreigners that, in return for aid to the war effort, they would be granted the right to engage in local as well as in maritime trade". According to

Moreover, an alien ruler would not have had to enjoy any offsetting advantage, if the merchant guild was simply established under another ruler's jurisdiction, with the capacity to enforce its writ on its members in any jurisdiction, and was unilaterally presented to the alien ruler as the institution with which he had to negotiate. Merchant guilds were generally formed on the basis of privileges issued by the rulers of their own cities, precisely in exchange for a share of the rents they were expected to derive from these privileges. In Spanish cities, for instance, "it was the rule rather than the exception for the Consulado [the merchant guild] to pay substantial sums for privileges and other favors granted by the crown".⁷ Presented with such a *fait accompli*, and with no potential cartel-breakers available owing to enforcement of the merchant guild's monopoly in other jurisdictions, the best thing for a foreign ruler to do

Lloyd (1991), pp. 23-4, 50, 369 and Dollinger (1970), pp. 56-8, the English monarchs Edward I, Edward II and Edward III all granted granted privileges to the German Hanse in London in return for higher customs duties, cash payments, and large loans; these privileges, which included wool-trading licenses, reductions in customs dues, and the right to collect customs dues for others, evoked attacks from English merchants. Lloyd (1991), p. 369, describes how the privileges of other foreign merchants in London also arose from Edward I's being "ready to assist all alien merchants (at a price)".

⁷This is amply shown by the detailed analysis of Spanish merchant guilds in Smith (1940). The Majorca merchant guild, for instance, was established and issued with privileges by the municipal authorities and the Spanish crown, in exchange for the merchants' helping to float a loan that would enable Majorca to finance four galleys for one of the crown's Sardinian expeditions (p. 37). The Valencia guild obtained renewal and enlargement of its privileges in exchange for helping to finance overseas political adventures on the part of the ruler. Spanish merchant guilds were frequently asked to provide services and money to the state; even guarantees in their charters supposedly protecting them against forced loans were ignored in time of war or famine (pp. 64-5, 85).

might well have been to take the existence of the merchant guild as given, and recognize it in his own realm rather than risk an embargo by its members. The historical record suggests that this is precisely what happened in the granting of privileges to merchant guilds by alien rulers.⁸

GMW claim that "as the state system evolved, the need for the merchant guilds to secure merchants' rights declined" (p. 773). The subsequent historical record, as GMW themselves acknowledge, shows that the merchant guilds themselves did not decline. Merchant guilds survived, and new ones continued to be formed, throughout the sixteenth, seventeenth and eighteenth centuries in most parts of Europe outside England and the Low Countries, often with the explicit support and encouragement of the state.⁹ Thus there were very large numbers of merchant guilds which were formed not because of the particular "need" identified by GMW (i.e. as a "commitment mechanism") but for other reasons (e.g. as rent-seeking cartels). If, as GMW argue, a cartel model of merchant guilds is inappropriate and should be replaced by a "commitment" model, then one would expect merchant guilds to

⁸This was the case, for instance, for alien rulers (e.g. in London or Bruges) facing the Spanish merchant guilds, which (in exchange for a share of these guilds' monopoly rents) were endowed by the Spanish sovereign and their own municipalities with privileges which included jurisdiction over Spanish merchants trading abroad. Alien rulers, if they wanted Spanish trade to pass through their cities, had to accept the guild organizations established through privileges granted by Spanish sovereigns and municipalities, as described by Smith (1940), pp. 5, 57, 64, 68-9.

⁹On the survival of medieval merchant guilds and the establishment of new ones throughout the period between 1500 and 1800 in most parts of Europe, see Ogilvie (1993), pp. 169-70, 173; Ogilvie (1994), pp. 43-5; and Ogilvie (1995). On the survival of the Spanish merchant guilds into the nineteenth century, see Smith (1940), pp. 16-18.

have disappeared (or at least to have ceased to be formed) with the growth of the early modern state. They did not.

Rulers in both medieval and early modern Europe were clearly quite prepared to support the foundations of cartellistic merchant guilds in exchange for a share of their rents. Thus ruler support provides no refutation for the view that merchant guilds were primarily cartels.

3. Merchant guilds and the expansion of trade

The second argument advanced by GMW in support of the view that merchant guilds were primarily "commitment devices" rather than cartels is that such guilds caused trade to expand rather than to contract. The evidence for this is a handful of cases - five, to be precise - in which the formation of an effective merchant guild in a foreign city was followed by an expansion of trade: for Genoese merchants in North Africa in 1161; for Catalan merchants in Sicily in 1286; for German merchants in Bruges after 1252; for Italian merchants in Flanders (p. 754); and for Hanse merchants in Bruges after 1309 and again after 1360 (p. 760). There are two serious weaknesses in this reasoning.

First, there are well-known problems with arguments of the form "post hoc ergo propter hoc". It is widely recognized that international trade, in particular, is influenced by a plethora of variables, and the danger of concluding that association implies causation is apparent from many contributions to the long and inconclusive debate on the effect of trade policy in less-developed economies today (in which a much wider range of

empirical data is deployed than by GMW for medieval Europe). Other, underlying characteristics of the international economy, of the cities concerned, or of the particular group of merchants involved, could generate an upward trend in trade strong enough to counteract - especially in the short term - the contractionary effects of a merchant cartel, particularly since guilds are widely recognized to have imposed stricter monopolies during periods of stagnation than in periods of expansion.

Merchant cartels may even have formed precisely because an upward trend in trade (caused by exogenous factors) was beginning to generate a stream of rents worth capturing. There are several cases which support such a hypothesis. The formation of merchant guilds in Spain, for instance, "followed in the wake of expanding trade in the western Mediterranean, and its organization is first encountered in the towns which were most prominent in maritime commerce".¹⁰ The German Hanseatic League, too, was a result - rather than a cause - of the great expansion of German trade: In the second half of the fourteenth century German commerce had all but reached the limits of its territorial expansion. From then onwards the German towns were more anxious to keep the positions they possessed than able to acquire new positions further afield. This indeed became the purpose of the Hanseatic League, and from this point of view the League was little more than a federation which the German towns established among themselves to maintain by political action that place in European trade which they had won for themselves in the course of the economic changes of the preceding epoch.¹¹

The resistance to the Hanse in the later fourteenth century which led it to

¹⁰Smith (1940), p. 4. Similarly, Spanish guild-courts (which sometimes antedated merchant guilds themselves) were "brought forth by the economic renaissance of the late medieval period" (pp. 4-6).

¹¹Postan (1973), p. 192.

transform itself into an association of cities failed to check the progress of its rivals; trade did not decline, but the Hanse did.¹²

Without an examination of the counter-factual question, "What would have been the trend in trade in this city without the formation of a merchant guild?", it is impossible to argue that guild formation caused trade to increase. The volume of trade in medieval European cities was influenced by a wide array of variables other than relationships between rulers and guilds of alien merchants.

This is related to a second problem: even if there were a clear causal link between guild formation and upswings in trade in the cases instanced by GMW, five cases do not establish a general rule. GMW do not draw any empirical contrasts between trading trends in European cities which did negotiate agreements with merchant guilds and those that did not. Nor do they examine a sufficiently large and representative sample of cases in which merchant guilds were formed to make a general statement that guild formation was always followed by an upturn in trade.¹³ Anecdotal evidence concerning trade trends cannot be used to confirm or refute any theory of the functions of merchant guilds. Therefore, the central - indeed, the only - argument supporting the contention that merchant guilds were beneficial to the economy is fatally flawed.

¹²Dollinger (1970), pp. xviii-xix.

¹³Smith (1940), p. 71, shows that conflicts between the merchant guilds of rival Spanish cities - Bilbao and Burgos - were followed by a long-term and irreversible downturn in their trade, although he is sufficiently aware of the other influences on trade not to assign merchant guilds exclusive responsibility for the general decline of Spanish trade in this period.

In theory, merchant guilds could have exercised both commitment functions and cartel functions. Indeed, GMW may have understated the commitment function of a merchant guild in an alien city: it could provide a reliable formal organization for negotiation with foreign rulers not just to get guarantees of security, but also to obtain privileges enabling its members to trade despite the monopoly rights customarily enjoyed by the local merchant guild.¹⁴ Insofar as a merchant guild in an alien city exercised these functions, it may well have facilitated trade. However, a merchant guild could also constitute a mechanism for restricting entry of new traders to its own ranks, for prevailing on a ruler to constrain the activities of other merchants and merchant guilds, and for mobilizing inter-guild conflict (including, as we have seen, destruction of property and acts of piracy). Insofar as it engaged in these activities, it would have decreased the ability of non-members to trade, increased commercial insecurity, and decreased the overall volume of trade.

Given that in theory both effects are possible, the net effect of merchant guilds must be established empirically. As we have seen in

¹⁴According to the account given by Postan (1973), pp. 255-6, this was precisely the reason English merchants wanted to set up a "Hanse" or "society" of their own in Danzig: "The existence of a corporate body involved the right of jurisdiction over its members, and the power to enforce its own rules and regulations, or, in other words, the opportunity for escaping the jurisdiction of Danzig's courts and the rules and regulations of Danzig's municipality"; the Hanse resisted this, "to prevent the English from developing their trade outside the control and jurisdiction of the town". For a detailed discussion of the monopoly rights over local trade which were customarily enjoyed by the local merchant guild in the vast majority of European cities, and which began to intensify in the thirteenth century, see Hibbert (1963).

Sections 2 and 3, the empirical arguments on which GMW base their conclusion that the "commitment" function of merchant guilds was primary and the cartel functions secondary are both flimsy and faulty: ruler support and trade expansion are as consistent with a cartel theory as they are with a commitment model. As we have seen, there is copious evidence that merchant guilds did exercise cartel functions, and this must be matched by more robust evidence than has yet been presented that such guilds also exercised important commitment functions.¹⁵ Finally, much more rigorous analysis of the operations of particular guilds in the face of particular situations and problems arising in medieval trade would be necessary to establish that the "commitment" function of merchant guilds had primacy over the "cartel" function. This question cannot be answered, as is claimed, by either the theoretical or the empirical arguments advanced in this paper.

¹⁵The argument advanced by GMW on p. 757 note 12, that guilds were not in fact monopolistic because entry was permitted, is confused. Entry was permitted to the guild, not to the economic sector over which it had exclusive privileges. It was possible, though usually difficult, to obtain entry to merchant guilds: admission was often restricted to citizens of the local community, kin of existing members, members of particular religions (Jews were often excluded), members of certain ethnic groups (Slavs were excluded from many German merchant guilds from 1309 onwards), males (women were almost always excluded), members of certain occupational groups (craftsmen and small shopkeepers were often excluded), and persons who could afford to pay very high admission fees. Such restrictions often effectively limited entry to a trickle. No entry at all was permitted (e.g. by other guilds or by non-members of the merchant guild) to the branch of commerce over which the merchant guild had monopoly privileges. In this sense, a merchant guild enjoyed a monopoly over commerce in the geographical area and economic sectors specified in its privileges. For details of the entry restrictions and monopolies imposed by medieval merchant guilds, see Gross (1890); Postan (1973), pp. 189, 198-9; Clune (1947), pp. 23ff, 137ff; Smith (1940), pp. 26-8, 38-43, 51-6, 61-4, 76-7, 86; Dollinger (1970), pp. 132, 137, 161; Coornaert (1941), p. 69 and passim; Coornaert (1947), pp. 48-55, 221-3; De Roover (1963), pp. 113, 118; Hibbert (1963), pp. 169-74, 186, 194-202.

4. Is this model generally applicable?

GMW draw wide inferences from their model. They refer, for instance, to "the guild's contribution to fostering the growth of trade" (p. 758) and to "our analysis of the evolution of the guild in northern Europe" (p. 758); they claim that their paper "sheds light on the changing nature of guilds over time and the complex nature of guilds at any point in time" (p. 749); and they conclude that "at least during the late medieval period, guilds led to trade expansion" (p. 772). Such general statements about the evolution, nature and economic contribution of "the guild" cannot be made on the basis of the arguments presented in their paper.

First, the model GMW propose (as they acknowledge elsewhere) does not apply to craftsmen's guilds, which were far more numerous and are what are ordinarily referred to by the general concept of "the guild" or "guilds"; it applies solely to merchant guilds.¹⁶ Secondly, the model applies only to merchant guilds at a particular point in time, the late medieval period, when there were serious problems of commercial insecurity for which no other institutional solution was available. With the growth of the state, superior mechanisms evolved almost immediately for achieving the same commitment to security, and this beneficial feature of merchant guilds then ceased to exist, as GMW acknowledge (p. 773). However, merchant guilds continued to be formed, with state support, as rent-seeking devices, into the early nineteenth century. This model does not apply to the merchant

¹⁶This is reflected, for instance, in the almost complete absence of any mention of merchant guilds in either the standard article on "The Gilds" by Thrupp (1963) or the famous monograph on "The cartel functions of the guilds" by Mickwitz (1936).

guilds which dominated European trade for at least 300 years after any "commitment" functions they may have had became obsolete.

But this model is even more restrictive. It is not even relevant to all medieval merchant guilds - it can be applied only to a tiny minority of them. The model put forward in this article requires that the merchant guild have maintained a consulate or Kontor in a foreign city, something which only a minority of merchant guilds had the interest or capacity to do. In addition, it requires that the merchant guild have been able to impose an effective embargo on a foreign ruler - that is, that its jurisdiction have encompassed a significant proportion of the trade passing through that ruler's territory. This feature was displayed only by a very small and unusual minority of medieval merchant guilds: namely, the organizations representing all the merchants from a very large trading city which was a major player in international trade (this was true only of a handful of Italian and Spanish cities, and of no German cities at all); or a multi-city merchant guild that encompassed merchants from a number of smaller cities which together constituted a major player in international trade (the German Hanse was the only real example of such an organization).¹⁷ Merchant guilds manifesting these features were in a very small minority. Indeed, it would be more accurate to refer to such organizations as "merchant consulates" or "merchant alliances" than as "merchant guilds". The vast majority of merchant guilds in medieval Europe encompassed only the merchants in a single city, sometimes only in a single branch of commerce in that city. Because most European cities were too

¹⁷On the uniqueness of the Hanse as an association of cities for economic rather than political purposes, see Dollinger (1970), p. xvii.

small to be major players in international trade, most merchant guilds did not have consulates in foreign cities, and did not form inter-city merchant organizations such as the German Hanse. Thus most merchant guilds did not display the features necessary for this model to be applicable to them. Instead, such guilds were formed, supported by rulers, and endured for centuries, in order to seek and defend rents for their members through monopoly privileges over regional and local trade.¹⁸

Conclusion

GMW do not provide an alternative to the monopoly theory of guilds in general. Rather, they proffer an ingenious model requiring specialized features on the part of both major actors - rulers and guilds. The features required for rulers - the inability to "commit" to an acceptable level of commercial security for merchants - ceased to be observed with the growth of the state after ca. 1500. The features which the model requires of guilds were never shown by craft guilds, were not observed in the vast majority of merchant guilds during the late medieval period, and became irrelevant for all merchant guilds after this period.

¹⁸See Postan (1973), pp. 190-1, who describes how towns in which "strangers were allowed to enter and where trade with strangers was more or less unrestricted by any law" were the exception; by the late medieval period, the majority of large towns in Europe were becoming ones "where local companies watched and fought jealously over their fields of operations; and countless other smaller towns in France and Germany ... sank into ... well-regulated stupor"; see also the discussion by Hibbert (1963), pp. 226-7. According to the account in Clune (1943), p. 16, in England, as well, by the thirteenth century, at least one-third of towns had merchant guilds (about 100 towns in England and 70 in Ireland and Wales); given that "large towns" in England in this period had an average population of less than 5000, the vast majority were not major actors in international trade, and thus their merchant guilds had primarily local functions.

Even for the restricted varieties of guild to which it can be applied, this model suffers from serious problems. It models commercial insecurity as something that medieval rulers could "commit" to reduce, yet it is clear even from GMW's own evidence that a significant proportion, perhaps the majority, of commercial insecurity in medieval Europe was not under the control of rulers, and that part of it was created by conflict among merchant guilds for monopoly privileges from rulers. GMW argue that rulers would only have cooperated with merchant guilds if such guilds had been "commitment devices"; however, guilds that were "cartel devices" could theoretically and did historically obtain state support through paying rulers a share of their monopoly rents. GMW argue that five cases of trade expansion following on formation of merchant guilds refutes the cartel theory of guilds, yet ignore the fact that association does not imply causation, that five cases do not establish a general rule, that trade trends are affected by a wide variety of factors other than bargaining between rulers and merchant guilds, and that no investigation has been made of what would have happened to trade trends without merchant guilds. As a consequence, there is no empirical support for the claim that the function of the merchant guild as a "commitment device" dominated over its function as a cartel.

This article tells an elegant story. It always entertaining to be told that tedious truths - such as that corporate groups seek monopoly rents for privileged social groups - are not the case. It is comforting to hear that apparently coercive and abusive institutions are, after all, optimal for all parties. However, a theory must be more than elegant,

iconoclastic, or Panglossian. It must also explain empirical findings better than competing theories. This theory fails that test. Until better arguments are presented, we are left with a conclusion which may appear boring and not very comforting, but is at least consistent with the known facts: guilds were cartels that benefitted their own members; there is little reason to believe that they benefitted the economy at large.

Bibliography

- Bahr, Konrad. Handel und Verkehr der Deutschen Hanse in Flandern während des vierzehnten Jahrhunderts. Leipzig: Duncker & Humblot, 1911.
- Clune, Georg. The medieval gild system. Dublin: Browne & Nolan, 1943.
- Coornaert, Emile. "Les ghildes médiévales (Ve-XIVe siècles): Définition - évolution," Revue historique 199 (1947): 22-55, 208-43.
- Coornaert, Emile. Le corporations en France avant 1789. Paris: Gallimard, 1941.
- De Roover, R. "The Organization of Trade." In The Cambridge Economic History of Europe vol. 3, Economic Organization and Policies in the Middle Ages, edited by M. Michael Postan, E. E. Rich, and Edward Miller. Cambridge: Cambridge Univ. Press, 1963.
- Dollinger, Philippe. The German Hansa. Stanford, Calif.: Stanford Univ. Press, 1970.
- Greif, Avner; Milgrom, Paul; Weingast, Barry R. "Coordination, commitment, and enforcement: The case of the merchant guild." Journal of political economy 102 (1994): 745-76.
- Gross, Charles. The gild merchant: A contribution to British municipal history. Oxford: Clarendon, 1890.
- Hibbert, A. B. "The Economic Policies of Towns." In The Cambridge Economic History of Europe vol. 3, Economic Organization and Policies in the Middle Ages, edited by M. Michael Postan, E. E. Rich, and Edward Miller. Cambridge: Cambridge Univ. Press, 1963.
- Kedar, Benjamin Z. Merchants in crisis: Genoese and Venetian men of affairs and the fourteenth-century depression. New Haven, Conn.: Yale Univ. Press, 1976.

- Lloyd, Terrence H. England and the German Hanse, 1157-1611: A study of their trade and commercial diplomacy. Cambridge: Cambridge Univ. Press, 1991.
- Mickwitz, Gunnar. "Die Kartellfunktionen der Zünfte und ihre Bedeutung bei der Entstehung des Zunftwesens: Eine Studie im spätantiker und mittelalterliche Wirtschaftsgeschichte." In Commentationes Humanarum Litterarum vol. 8. Helsinbors: Societus Scientiarum Fennica, 1936.
- Ogilvie, Sheilagh C. "Proto-industrialization in Europe." Continuity and Change 8 (1993): 159-80.
- Ogilvie, Sheilagh C. "Soziale Institutionen und Proto-industrialisierung." In Proto-industrialisierung in Europa: Industrielle Produktion vor dem Fabrikszeitalter, edited by Markus Cerman and Sheilagh C. Ogilvie. Vienna: Verlag für Gesellschaftskritik, 1994: 35-50.
- Ogilvie, Sheilagh C. "Institutions and economic development in early modern Central Europe." Transactions of the Royal Historical Society Sixth Series 5 (1995).
- Postan, M. Michael. Medieval trade and finance. Cambridge: Cambridge Univ. Press, 1973.
- Smith, Robert Sidney. The Spanish guild merchant: A history of the consulado, 1250-1700. Durham, North Carolina: Duke Univ. Press, 1940.
- Thrupp, Sylvia L. "The Gilds." In The Cambridge Economic History of Europe vol. 3, Economic Organization and Policies in the Middle Ages, edited by M. Michael Postan, E. E. Rich, and Edward Miller. Cambridge: Cambridge Univ. Press, 1963.