Thinking about *Cities of Commerce* – A Rejoinder

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Abstract
This article responds to four reviews of *Cities of Commerce. The Institutional Foundations of International Trade in the Low Countries, 1250-1650* (Princeton University Press 2013). The reviewers scrutinize the explanatory model of the book, asking whether international traders were really footloose, whether urban magistrates truly held the key to the creation of inclusive institutions, and whether a limited comparison of three highly successful commercial cities is a sufficiently strong basis for the kind of generalization. The article responds to each of these concerns and takes up the reviewers’ invitation to be more explicit about the implications of the model proposed in *Cities of Commerce* for our understanding of commercial development in other parts of the world and in other time periods.

The growth of trade in pre-industrial Europe offers a major puzzle. How could commerce thrive in a politically and legally extremely fragmented world? Historians traditionally argue that merchants solved this fundamental problem of exchange by operating in close-knit networks.¹ These networks, based on either kinship, longstanding business relations, a common regional origin, or shared religious beliefs, secured the trust necessary to exchange goods over long distances. But did this really suffice to overcome Europe’s political and legal fragmentation? Could trade reach its full potential with merchants who only dealt with members of their own group? Could these traders defend themselves against violent assaults? According to Douglass North they could not. In his view the commercial expansion of

Europe depended on the legal and military protection of strong states like Venice and Genoa, the Dutch Republic, or England.\(^2\) This explanation is also problematic, however. How could these rulers enforce the contracts of merchants who were not their legal subjects? And, far more importantly, what kept powerful princes from using their political and military might to prey on international traders? Avner Greif answered these questions by demonstrating that medieval merchants could organize guilds to withstand aggressive rulers and that they were able to enforce cross-cultural transactions through the formation of coalitions sharing information on the merchants’ past performance.\(^3\) But again, these collective solutions declined over time, and although some states grew very strong in the early modern period, international trade also expanded in areas where the central rulers remained weak or their authority contested. So the question remains: what explains the growth of trade in this fragmented world?

*Cities of Commerce* offers a solution for this historical puzzle. The book analyzes the organization of international trade in three ports, Bruges, Antwerp, and Amsterdam, documenting which combinations of private, corporate and public institutions foreign and local merchants used to deal with violence and opportunism. This comparison shows that the commercial regime of each of these cities became increasingly inclusive, that is, these cities developed commercial, financial, and legal institutions that allowed potential traders with some resources to spare, and regardless of their regional background, religious or political affiliations, to engage in the international exchange of goods. To explain why this happened *Cities of Commerce* develops a model of institutional change based on urban rivalry. Dominant cities adapted institutional arrangements because they feared being displaced by challengers, while lesser cities sought to keep up by cultivating policies favorable to trade.

The four reviewers endorse several of the book’s key messages: the importance of inclusive institutions for the growth of trade, the need for a


problem-oriented approach to the history of commerce, and the need for a thorough empirical foundation of theoretical generalizations. But the reviewers also voice doubts about some of the key elements of the model proposed in *Cities of Commerce*. They wonder, for instance, whether international traders were really footloose, whether urban magistrates truly held the key to the creation of inclusive institutions, and whether a limited comparison of three highly successful commercial cities is a sufficiently strong basis for the kind of generalization I propose. In this reply I will respond to each of these concerns and I will also take up the reviewers’ invitation to be more explicit about the implications of my model for our understanding of commercial development in other parts of the world, and other time periods. First, however, I will discuss some of the key concepts that I use in the book to analyze the process of institutional change in international trade.

1 The dynamics of institutional change

Few historians of European trade would disagree that in the late Middle Ages Italian merchants, and perhaps those in Spain and Portugal, used the most advanced commercial, financial and legal techniques. Several of these practices caught on among merchants from other countries and eventually became the norm throughout Europe. Why did this happen? Given the strong preference of merchants for dealing with members of their own group one could easily imagine they clung to their own mercantile usages. Indeed, there is ample evidence for the independent development of high-quality institutional arrangements in northern Europe in the late medieval period, for instance in the administration of business operations and the funding of commercial transactions through various kinds of debt and equity contracts. Yet, over the course of time merchants from different parts of Europe increasingly used the same commercial and financial techniques. *Cities of Commerce* points to three factors that stimulated this diffusion: the willingness of urban magistrates to sustain institutional heterogeneity; the mercantile custom of combining different institutions to solve one particular problem; and the fact that some institutions proved more efficient than others because they contributed to the solution of more than one problem.⁴

These latter two factors, i.e. merchants’ combined use of multi-functional institutions, have been recognized by a number of economic historians, including Frederic Lane, Avner Greif, and Jessica Goldberg, but with the notable exception of Sheilagh Ogilvie (2011), the phenomenon itself has remained largely unexplored.\textsuperscript{5} One reason for this is the impact Avner Greif’s 1989 article on the Maghribi traders’ coalition has had on our discipline. His work revealed the enormous potential that formal modelling has for deepening our understanding of the social, economic, and cultural mechanisms underlying pre-industrial trade. This in turn led many others to look for specific institutional arrangements that helped to solve specific problems among late medieval and early merchants: including international fairs, merchant guilds, brokers, and various kinds of debt and equity contracts.\textsuperscript{6} From a methodological point of view the focus on one-institution-solving-one problem makes perfect sense, if only because the economic models available cannot be solved for multi-functional institutions used in combination with each other. However, these analytical constraints do not make the observed complexity less relevant historically, as institutional economists readily admit. The only problem is, as Thomas Safley and Guillaume Daudin rightly insist in their reviews, how can we measure the relative efficiency of one set of institutions compared to another?

*Cities of Commerce* explores long-term changes in the costs and benefits of institutional arrangements by analyzing both the multiple functions of individual institutions and the combinations of institutions used by merchants to solve particular problems. Consider, for instance, the bundles of services offered by hostellers in Bruges and Antwerp. They provided merchants with food, lodging, storage, brokerage, information on market conditions and legal representation. This was a viable business model as long as traders stayed for short periods of time only. However, once merchants started to rent or buy their own houses, they lost interest in some of the services offered by hostellers, which greatly reduced the profitability of the


\textsuperscript{6} Consider, for instance, the work of North, Milgrom and Weingast, and Ogilvie on medieval fairs, that of Lars Boerner on brokers, Yadira Gonzalez de Lara on Venetian contracting, and most recently Rosenthal and Bin Wong on the governance of long-distance transactions in China and Europe.
hostelling business. To be sure, the historical development is not necessarily towards a shedding of functions. The foreign nations of Bruges and Antwerp, for instance, initially derived their strength from adding social, legal and commercial functions to their original diplomatic status. Likewise, the municipal governments of all three ports grafted their services to the merchant community on an already existing administrative and legal apparatus. In other words, the bundling or unbundling of services changes the unit-cost of these services, and this helps to explain the rise, persistence and decline of multi-functional institutions.

We should not just look for multiple functions, however. Equally important is the combined use of different institutions to solve a single problem. To protect their person and goods against violence merchants might carry arms while at the same time asking for protection from both their home rulers and their foreign hosts. They would not just try to prevent damages either, but also spread, transfer or share risks with others to be able to sustain any losses they might still incur. The complementarity of institutional arrangements was equally important when it came to the resolution of commercial conflicts. Merchants preferred to put informal pressure on trading partners who did not meet their obligations but if that did not work they could go to arbiters, local judges and even higher courts to try and settle disputes. Thus emerged an intricate multi-layer system of contract enforcement that allowed merchants to choose between amicable settlement, more or less formal mediation by arbiters, specialized subsidiary courts, and general courts at the local, provincial and central level.

Underlying this complementarity of solutions for the fundamental problems of exchange was a remarkable institutional heterogeneity in the principal ports of the Low countries. Bruges, Antwerp and Amsterdam thrived on the interaction between merchants from different places, who each had their own laws and customs. Our modern response to such a large variety of rules might be to try and reduce institutional variation through the creation of a uniform set of contracting rules. Indeed, legal scholars have argued that such a law merchant or lex mercatoria emerged in the late medieval period. As Cities of Commerce shows no such legal code ever existed in either one of the three cities. Instead their strength derived from the exact opposite: the magistrates’ choice to complement local customs with foreign mercantile usage. The city of Amsterdam, for instance, simply added the maritime laws of Visby, Antwerp’s local customs, and royal ordinances issued by Charles V and Philip II to the city’s by-laws, inviting merchants, notaries and other practitioners to come forward and
declare what other usages were widespread among the business community. This variety might have been confusing and costly if it had not been for arbiters giving litigants the freedom to choose which rules had to be applied in a specific conflict, and local judges having a keen eye for alternative interpretations of cases brought before them.

Institutional heterogeneity is an important key to understanding the process of institutional adaptation that shaped the markets of Bruges, Antwerp and Amsterdam and, as Leo Lucassen rightly observes, the immigration of merchants from various parts of Europe played a very important role here. The variety of solutions available at any point in time allowed merchants and rulers to change the organization of commercial and financial transactions whenever circumstanced required it. One might be tempted to take this point one step further and suggest an evolutionary model of institutional change. I do not think this was the case. There definitely was institutional variation and in the course of time some institutional arrangements became the international standard. However, there was no survival of the fittest, as institutional variation persisted over time and changing economic, political and social circumstances required traders to weigh their options time and again, and adapt solutions when necessary.

Illustration 1. Beurs van Amsterdam, Claes Jansz. Visscher (II), P.C. Hooft, 1612
Source: Rijksmuseum Amsterdam
2 Cities, merchants, and the state

In *Cities of Commerce* I argue that the institutional framework for international trade in the Low Countries changed because port cities competed with each other by adapting commercial, legal, and financial institutions to the evolving needs of merchants. This strong emphasis on urban rivalry and its effect on institutional change leads several reviewers to wonder about the amount of power urban rulers really had. Thomas Safley, for instance, argues that I put too much weight on the legal and political interventions of urban magistrates, ignoring the many private order solutions developed by merchants themselves. I do not think that is true. Safley actually cites my book to show how important legislation from below was, with foreign merchants successfully seeking the inclusion of their mercantile usage in the local customs of their host cities. One could add many more examples from *Cities of Commerce* that reveal exactly how capable merchants were in organizing transactions between themselves, building of border-crossing agency relations on the basis of kinship, reputation, and prospect of repeat transactions, using informal pressure and bottom-up arbitration to settle disputes, and perhaps most importantly, the application of myriad strategies to manage risks. So private-order solutions do matter, but not in isolation. We have to consider the embeddedness of these informal solutions in more formal legal, commercial, and financial institutions supported by the local government – I will come back to this.

Jan Dumolyn and Bart Lambert also take issue with the key role of urban magistrates. They reproach me for ignoring the contribution of sovereign rulers to the organization of international trade. In fact, they want their readers to believe that *Cities of Commerce* offers a one-dimensional mono-causal model of institutional change with urban magistrates firmly in control of everything. They think this is wrong because, in Bruges at least, the sovereign ultimately decided how international trade was organized. Surely they have a point that the central government was involved in the organization of trade. In the book I fully acknowledge the sovereigns’ contribution to what they call the ‘military, political, legal, fiscal, and monetary security’ of merchants in the Low Countries. I show that it was the sovereigns’ right to grant privileges to foreign merchants, that they set the standards for weights, measures, money, and marine insurance, that they levied tolls and taxes. The rulers’ intervention also mattered a great deal to merchants, if only because it could be harmful to their business, witness the example, cited by Dumolyn and Lambert, of a ducal receiver persecuting the Lucchese merchant Bartolomeo Bettini in 1421. In the book
I give several other examples of abuses of power by government officials and I discuss at great length the privateering wars the Burgundian and Habsburg rulers fought, as often as not in retribution of earlier naval attacks on their subjects.

What Dumolyn and Lambert seem to ignore, however, are the severe financial and legal constraints on the behavior of the sovereigns of the Low Countries. To attain their military and political objectives the rulers needed the fiscal revenue of the leading ports in their realm, and this meant they needed merchants to concentrate their operations in these ports. For these merchants to be successful and generate tax income for the central government required their protection against violence and well-functioning markets, that is a set of legal, commercial and financial institutions that allowed traders to search buyers and sellers, negotiate deals with them, monitor transactions, and enforce contracts at the lowest possible cost. To meet most if not all of these preconditions required the active involvement of town magistrates. Thus, the privileges granted to foreign merchants in the Low Countries and royal ordinances on credit operations and marine insurance were never issued without prior consultation of urban representatives who were far more knowledgeable in matters of international trade.

What remains then is Dumolyn and Lambert’s contention that sovereign rulers played a key role in commercial litigation in the Low Countries. I do not think this was the case either. The adjudication of commercial disputes had nothing to do with tax evasion, interurban rivalry, the circulation of coins, confiscations, or corrupt officials – issues referred to by Dumolyn and Lambert; it was about the enforcement of private agreements for the exchange of money, goods, or services. Judges of central courts simply lacked the commercial knowledge to settle such disputes, hence they left these matters to merchants and local magistrates. To be sure, central courts could be called upon by litigants who disagreed about the legal authority of this court or that, or in those very rare cases where no legal precedent was available – as seems to have been the case with some of the earliest derivatives traded in seventeenth-century Amsterdam – but these interventions were few and far between. Even so, it is clear that in Cities of Commerce I pay little attention to commercial litigation in Bruges, especially when compared to my treatment of Antwerp and Amsterdam. Dumolyn and Lambert are right to point out that much more can be done, and I hope it will be done. However, I would be very surprised if proceedings before the central court turned out to be the linchpin of commercial
litigation in medieval Bruges, for the simple reason that such proceedings were far too expensive.

A further concern about the urban competition model is voiced by Daudin and Lucassen, who both wonder whether international traders really moved around that much. Surely footlooseness is not just about the collective boycotts carried out by the foreign nations of Bruges and Antwerp between the thirteenth and early sixteenth century. It is also about individual merchants who packed up and cleared out, like the various members of the Thijs family at the turn of the seventeenth century. The Antwerp jeweler Hans Thijs, for instance, whom Daudin believes to be more or less stuck in Amsterdam, actually moved from Antwerp to Amsterdam, Elbing, Danzig, and back to Amsterdam. His brother Francois lived in Antwerp, Frankfurt, and Hamburg before settling in Amsterdam. What mattered for the adaptive response of competing cities, however, was not just the wholesale removal of one group of merchants or another, but also the behavior of the *marginal merchant*, i.e. the choice of yet another merchant to move to a specific town or, inversely, to leave that town and settle elsewhere. This implies that even when merchants do not actually move between cities, their ability to do so will still affect the behavior of local magistrates, just like the credible threat of terminating a valuable agency relationship will keep trading partners from cheating.

This then leads to a final, more general point about the agency of individual actors versus the systemic logic underlying the proposed model of urban competition. In *Cities of Commerce* I pay ample attention to the decisions made by individual merchants, magistrates, and princes. Indeed, one of the key assumptions underlying social science theory on the development of inclusive institutions is that giving people the freedom to make their own choices enhances human development. But the explanatory model I propose is not only about individual decision making; it also takes into account the systemic effects of inclusive institutional arrangements. This is true not just for the potential entry or exit of marginal merchants but also for the system’s ability to deal with losses from violence or opportunism. Merchants certainly lost money or merchandise in such incidents, so much so that some of them were bankrupted by them. But rarely did such damages bring trade as a whole to a standstill, simply because in an open society new competitors were always there to enter the market. Whether one feels sorry or not for the entrepreneurs who did not make it through, is irrelevant for our understanding of the dynamics of this competitive system.

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7 Amarty Sen, *Development as freedom as development.* (Oxford 1999)
Institutional change and the growth of trade

Several reviewers contend that I am too optimistic about the organization of commerce in early modern Europe, as there were many instances in which merchants were actively excluded from trade, or their interests harmed in dealings with untrustworthy trading partners or direct assaults from predatory rulers. Thomas Safley in particular paints a very bleak picture of merchants opportunistically trying to corner markets, and local rulers condoning it because they benefited from such monopolistic practices. More generally, he stresses the virulence of opportunistic behavior among merchants. Traders will take advantage of each other, cheating and shirking will happen, and hence we should not take the smooth functioning of markets as it was intended by the issuance of urban rules and regulations as the actual day-to-day reality of international trade. I could not agree more. Ultimately, the organization of international trade is as much about prevention of problems as it is about dealing with losses. That is why I carefully reconstructed the repeated violent assaults on foreign merchants in the Low Countries (cf. the book’s Appendix A), and why I analyze the various ways in which merchants dealt with losses.

Risk management, I argue in the final chapter of the book, is the key to understanding the growth of international trade both at the level of individual traders and at the level of the commercial system as a whole. As to the former, merchants are better off in markets where they can participate in multiple branches of trade, collaborate in more or less permanent ventures with other merchants, and use marine insurance or even derivatives to manage the multiple risks of payments or delivery not forthcoming, price fluctuations, natural disasters, and attacks from pirates and privateers. As to trade in general, more inclusive institutions increase the commercial system’s ability to sustain large losses: individual traders may go under but others will simply take their place. This is also why cities at the very top of the urban hierarchy, even if their competitors developed very similar contracting institutions and property rights institutions, always retained some cost advantages. The greater scale and scope of transactions in the leading markets simply offered a wider range of instruments to spread, share or transfer risks, which in turn allowed merchants to invest in projects with higher risks and higher returns.

Still Thomas Safley’s concern is not so much about merchants cheating or shirking, but rather about the damage caused by rulers who embraced small economic elite to the detriment of the business community at large. My reasoning, based on the success story of the Low Countries, may not
stand up to the historical experience in the rest of Europe. Leo Lucassen and Guillaume Daudin also wonder whether the causal connection between urban competition and institutional change identified in *Cities of Commerce*, applies to other places and periods. Let me be very clear: Bruges, Antwerp, and Amsterdam obviously were among the most successful commercial cities of Europe. They had access to the same sea routes and the same captive hinterland, they operated in one political environment, and their merchants could use similar naval and commercial technology. Thus, the cities’ precocious development may be the result of one historically very specific, fortuitous combination of factors, which does not lend itself to generalization. I beg to disagree.

For one thing, neither of the three cities’ history was an unmitigated success story. Surely, they outcompeted many rival cities, but as the book amply shows, political and military conflicts effectively ended the commercial hegemony of Bruges and Antwerp, while Amsterdam eventually had to give way to London as the principal entrepôt of northwestern Europe. For another, Europe before 1800 had a much larger number of cities with a favorable commercial outlook and the willingness and ability to adapt institutional arrangements to the needs of merchants. Even in early modern Spain and France, countries that are known for their autocratic central governments, the magistrates of these cities were sufficiently autonomous to adapt local commercial, financial, and legal institutions to changing circumstances. When trade started flowing to neighboring cities, they had a clear incentive to create institutions to facilitate exchange between local traders and foreigners, and help these merchants to deal with problems of violence and opportunism. Even the magistrates of Seville, Spain’s leading port, never fully stopped local merchants from trading with the Dutch enemy.

It is true, however, that local institutions did not always serve the merchant community at large. London’s exclusive commercial regime in the sixteenth and early seventeenth century is a case in point, and so is the city of Burgos, which for a very long time favored its local wool merchants, while neighboring Bilbao gradually became more forthcoming towards the English merchant frequenting their port. Indeed, even in the principal

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10 Gelderblom and Grafe, “The rise”.

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ports of the Low Countries there is strong evidence for the persistence of exclusive, particularistic institutions. Such rent seeking occurred even in Bruges and Antwerp when these cities feared losing their commercial leadership. To retain the business of the German Hanse and the English Company of Merchant Adventurers, the town magistrates confirmed old privileges and added new ones. Note, however, that the same combination of competition between cities and urban autonomy is at work here, only with the opposite effect of excluding merchants, because the commercial pie is shrinking, rather than growing. Even so, the long-term trend throughout pre-industrial Europe was unmistakably towards the adoption of more inclusive commercial, financial, and legal institutions, even in cities controlled by merchant elites that used their political power to exclude competitors. The reason for this was very simple: international trade required the exchange of goods across borders, and if merchants of cities in decline wanted to have at least some part of it, they had to play by the rules of the international community of traders. In the long run this adherence to these standards turned out to be very advantageous, witness the ease with which London caught up with its foreign rivals after 1650 or the equally spectacular re-integration of Antwerp in world trade at the turn of the nineteenth century.

4 Conclusion

Long before New Institutional Economics became fashionable among economic historians, students of international trade formulated powerful generalizations about the development of long-distance trade. Besides the dependency theories of Immanuel Wallerstein and Andre Gunder Frank and the diaspora thesis proposed by Philip Curtin, historians of trade also developed a deep understanding of the inner workings of commercial networks in regions like South East Asia, the Atlantic Ocean, or the Early Modern Mediterranean. Subsequent work on the history of commerce has been deeply influenced by these scholars. Historians have produced a steady flow of high quality work on the commercial activities of merchants in virtually every part of the world. Unfortunately, however, their understanding of the damage done by predatory rulers and the necessity of trust among merchants for trade to thrive, has seldom led to further generalization. Indeed, the work of Avner Greif and other institutional economists, even though it is very different in its methodological approach, has been far more cognate to the initial reasoning of the first historians of
global trade. The current state of trade history is problematic for two reasons.

On the hand, historians run the risk of making an absolute truth out of the local solutions they find for the fundamental problems of exchange. On the other, economists may read too much into mathematically sound models demonstrating how one specific institution can solve one specific contracting or property rights problem. What we really need are historical comparisons informed by the research agenda of institutional economics to have the best of two worlds. Because the truth of the matter is that the fundamental problems faced by international traders are the same, regardless of time and place, but their solutions vary greatly between periods and places. Cities of Commerce shows this complexity for a limited number of cities in a specific economic, political, and geographical setting. I believe my explanation for the emergence of inclusive institutional regimes will have explanatory power in other economic and political settings as well, but even if I am proven wrong eventually, I hope my book will stand as an invitation to do rigorous comparative research on the institutional foundations of international trade.

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