

# ORGANIZED MARKETS IN PRE-INDUSTRIAL EUROPE\*

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Working Paper 03-12

July 2003

**ABSTRACT:** Pre-industrial Europe was served by a network of market centers—market towns, fairs, and commercial cities. Within these centers, there were organized markets that lowered the cost of trading. An organized market provided traders with information, facilities for trading, a system of settlement, and a process of dispute resolution (the law merchant). This paper examines how these markets worked, how they were regulated, and how they evolved to meet the changing needs of the economy.

JEL Categories: N13, K40, L22, L51, L81, O17

\*This paper is a draft chapter of *The Origins of Western Economic Success: Commerce, Finance, and Government in Pre-Industrial Europe*. Other draft chapters may be downloaded from <http://www.dartmouth.edu/~mkohn/>

In the medieval economy, most trading took place in a network of market centers—market towns, fairs, and commercial cities. Within these centers there were organized markets that provided traders with information, with facilities for trading, and with systems of settlement. These arrangements facilitated trading and lowered trading costs. However, those who controlled market centers milked them for revenue and used their power to bias trade in favor of one group or another. This of course raised trading costs. In response, and as a consequence of changes in the organization of commerce and in the nature of production, there was a steady increase in private trading away from organized markets. To meet this challenge, market centers themselves changed, evolving into something approaching their modern form.

### **THE ECONOMICS OF MARKET CENTERS**

The network of market centers was shaped by trading costs. Two of the determinants of trading costs were of particular importance—distance and concentration.

#### **Distance and concentration**

Largely because of the rising cost of transportation, trading costs increased rapidly with distance.<sup>1</sup> As a result, a great deal of output was not traded at all but rather consumed directly by its producers: this was especially true of food products. Another large part of output was traded locally and informally within small communities.<sup>2</sup> Beyond the small community, the gradient of rising trading costs created a sort of hierarchy of trade.<sup>3</sup> At its base there was local and regional trade. Here, where trading costs were lowest, was where the majority of market-mediated trade took place. At the next higher level, there was trade among regions. Most of this took place within ‘zones of trade’—areas within which trading costs were low enough to permit trade in low-margin, bulky goods. There were two such zones in Europe: one was in the south—centered on the Mediterranean—and the other was in the north—centered on the North Sea and Atlantic coast. At the summit of the hierarchy, there was trade between zones—between the two zones of Europe and between these two zones and yet other zones outside Europe.

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<sup>1</sup>Kohn (2001e)

<sup>2</sup>Bailey (1999)

<sup>3</sup>Kohn (2001b)

Because trading costs were so high between zones, inter-zone trade was limited to a small volume of high-margin goods.

The second factor that shaped the network of market centers was the benefit of concentrating trading in a single place. When a large numbers of buyers and sellers came together, each found it easier to find a deal. In addition, by increasing the volume of trading, concentration improved the quality of the market. With more traders present, competition was greater and manipulation was more difficult, so that buyers and sellers were more likely to obtain a fair price. Also, the increased volume of trading made the market ‘thicker’, so that large purchases or sales were less likely to have an adverse impact on prices: this made prices more stable.<sup>4</sup> A further advantage of concentration was that a large volume of trading justified investment in the infrastructure of an organized market: as we shall see, an organized market lowered the cost of transactions between buyers and sellers.<sup>5</sup>

Market centers offered other attractions too. They were hubs in the network of transportation that linked one region with another.<sup>6</sup> The larger market centers were also centers of finance where financial intermediaries and financial markets stood ready to serve borrowers and lenders.<sup>7</sup> And market centers were centers of information—the best places to gather the latest commercial and political intelligence.<sup>8</sup> These other attractions, however, all derived from the basic *raison d’être* of the market center—the reduction in trading costs consequent upon buyers and sellers coming together in one place to trade.

It was the conflicting pressures of distance and concentration that created a network of market centers, balancing the advantages of a larger market against the cost of reaching it. Within the network, market centers formed a hierarchy that corresponded to the hierarchy of trade. At the local level, there were market towns. At the regional level, there were commercial cities and regional fairs. At the level of the trading zone, there

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<sup>4</sup>de Vries and van der Woude (1997) Ch. 5

<sup>5</sup>Reed (1973).

<sup>6</sup>Kohn (2001e)

<sup>7</sup>Kohn (1999c; 1999d; 1999e; 1999f; 1999g)

<sup>8</sup>“... the market was the closest institution early modern society had which offered some regularity for the exchange of public information.” Muldrew (1998) p 42. See too Ehrenberg (1928) and Kohn (2003c).

were urbanized central regions. Within each such region—northern Italy in the south and the Low Countries in the North—there were a number of major commercial cities competing with each other for dominance.

Each market center mediated three categories of trade. First, it mediated trade within its hinterland: the market center was where people within the hinterland came to trade with one another. Second, the market center mediated trade between its hinterland and itself: market centers were themselves producers, mainly of manufactured goods and services. Third—and this is what made market centers into a network—the market center was an *entrepôt* that mediated trade up and down the hierarchy of trade. It collected goods from its hinterland for export, and it distributed goods to its hinterland that were imported from other regions or zones. The relative importance of the three categories of trade differed for market centers at different levels of the network.

### **Market towns, commercial cities, and fairs**

The market town mediated trade within its rural hinterland—usually within a day’s walk—as well as trade between the townspeople and the country folk who attended the market. For the great majority of the population, attending the town market was the sum total of their commercial activity.<sup>9</sup> Trade was predominantly retail: those attending the market were mostly producers and consumers from the town itself and from its rural hinterland. In attendance too, were local merchants buying up local output for resale in regional market centers and reselling locally the goods they purchased there. There were also other merchants who arbitrated between market towns—especially in grain. These arbitrageurs were known as *blatiers* or *bladers*.<sup>10</sup>

The concentration of trade in the market town reduced search costs and increased the range of goods available: “For a villager, towns offered especially ‘full’ markets, where sales were likely to be brisker and prices higher than those found in rural markets.”<sup>11</sup>

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<sup>9</sup>Westerfield (1915). In some areas, particularly those in which town markets were few and far between, chapmen and peddlers traveled from village to village: see, e.g., Dyer (1989).

<sup>10</sup>Usher (1913); Kerridge (1988)

<sup>11</sup>Masschaele (1997) p147

Nonetheless, total trading volume was modest. So, to maximize the benefits of concentration, trading was concentrated in time as well as in place. Depending on the volume of trade, towns held markets once a week or sometimes twice, with each market lasting a single day or rarely two.<sup>12</sup>

Like market towns, commercial cities served the retail needs of their hinterlands and of their own populations. However, this retail trade coexisted with, and was often overshadowed by, a substantial wholesale and *entrepôt* trade.<sup>13</sup> The larger commercial cities were generally too large to depend solely on the adjacent rural areas to supply them with food and raw materials. This generated considerable wholesale trade from further afield to fill the gap. The larger commercial cities were also themselves usually major producers of manufactured goods, and the export of these too generated considerable wholesale trade. In addition, all commercial cities acted as *entrepôts*, linking other regions and zones with one another and with market centers in their own hinterlands. Wholesale and *entrepôt* trade were in the hands of merchants. These were from the city in question and from outside the city—from smaller market centers in the hinterland and from other commercial cities of comparable or greater rank in the hierarchy of market centers.

The larger volume of trading in a commercial city meant that both retail trade and wholesale trade could go on continuously. In some cases, however it was useful to concentrate certain types of trading at specific times.<sup>14</sup>

Fairs differed from both market towns and commercial cities in that they were purely centers of *entrepôt* trade: indeed, they were created explicitly for this purpose. Retail trade was negligible.<sup>15</sup> The function of a fair was to gather together regional output—whether agricultural or manufactured—in sufficient quantity to attract merchants from

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<sup>12</sup>Usher (1934)

<sup>13</sup>“...the two levels of marketing—rural and local on the one hand and interurban and longer-distance on the other—were inextricably bound to each other as parts of interlocking networks built up by the endeavors of merchants in scores of provincial towns. Places that achieved commercial success did so by developing both levels of trade...” Masschaele (1997) p110

<sup>14</sup>In Venice, for example, trading was concentrated at the times of departure and arrival of the fleets.

<sup>15</sup>Pirenne (1937)

other regions or even other zones. These foreign merchants also brought with them for sale at the fair goods from outside the region. Some fairs became ‘international’: the most famous were the fairs of Champagne, which, for a period, mediated trade between the two zones of Europe.<sup>16</sup> Those participating in fairs were all merchants—those from within the region and those from outside it; at the international fairs, the great majority were outsiders.

To concentrate a sufficient quantity of goods, fairs were held periodically—annually, semiannually, or quarterly.<sup>17</sup> The larger fairs might last several weeks. In some cases, fairs at different places within a region would be held in a cycle, so that one fair would open soon after another closed. This was the case with the fairs of Champagne in the twelfth and thirteenth centuries, but also with the contemporaneous great fairs of England and with the fairs of Spain in the fifteenth and sixteenth centuries.<sup>18</sup> The Champagne cycle consisted of six fairs, each lasting about seven weeks: trading at one or other of the fairs would therefore be going on almost continuously throughout the year.

### **Concentration and the power of markets**

Market centers were part of a broader commercial structure that mediated trade.<sup>19</sup> This commercial structure lowered trading costs, causing trade to expand. The resulting gains from trade generated growth for the economy and profits for the commercial structure itself.<sup>20</sup> Those profits were the object of an intense struggle. The different elements of the commercial structure—individual merchant firms, merchant associations,

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<sup>16</sup>The rise of Champagne to this level of importance may have been due to the absence of any major commercial city in northern Europe at the time: see Kohn (2001b).

<sup>17</sup>Many fairs were associated initially with a religious festival (*feria*) that brought large numbers of people together to celebrate the feast of some local saint (Britnell (1996), Hunt and Murray (1999)). With agricultural fairs, the seasonality of output was also a reason for their periodicity.

<sup>18</sup>The fairs of Champagne alternated between Troyes, Provins, Bar-sur-Aube, and Lagny (Bautier (1971)). In England, there were four fairs: “St. Ives at Easter, Boston in June, Winchester in September, and Northampton in November formed a regular circuit.” (Farmer (1991) p342). The Spanish fairs alternated between Valladolid, Villalón, Medina de Rioseco, and—most famous—Medina del Campo (Grafe (2001), Alonso (2001)).

<sup>19</sup>Kohn (2003a)

<sup>20</sup>Kohn (2001a)

and market centers—vied with one another to mediate trade and so to profit from it. They also had to struggle with predators—governments in particular—who attempted to appropriate the profits for themselves.

Market centers played a pivotal role in this struggle, because of the economic advantages of concentration. Those who controlled a market center could capture for themselves part of the gains from trade by charging others for using the market.<sup>21</sup> Because of the benefits of concentrating trade, traders were willing to pay such charges.

Charges could take a variety of forms.<sup>22</sup> One form was a rent on buildings or on land used by market participants. There was charge for renting a table or stall—stallage—and there was a charge for setting up a booth—pickage. Another form of charge was a license fees for market professionals such as brokers, notaries, and keepers of inns and shops. There were tolls on the goods that traders brought to market, collected at the market center or on the way to it. There were taxes on transactions, collected from buyers, sellers, or both. There were charges for services provided to market participants—for example, fees for use of official weights and measures, and fines and fees paid to market courts.

The records of the St. Giles fair of Winchester provide an illustration of these different sources of revenue. In 1299, the fair collected some £66 in revenue. Stallage and other rentals accounted for over 50% of this. Market tolls collected at the three city gates and at ten bridges and crossroads leading to Winchester accounted for about 20%. Service fees accounted for about 10%.<sup>23</sup>

Those who controlled a market center could choose to exploit their power in a different way. Rather than using it to extract revenue, they could use it to bias trade in favor of one group or another—for example, by giving one group of merchants trading rights and excluding others. The group so favored would thereby capture a greater share of the gains from the trade that it mediated.

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<sup>21</sup> “Markets and fairs were potential sources of income. To manage them had certain costs, but given a sufficiently large number of transactions, and a sufficient income from tolls, a landlord could make money from other people’s trading.” Britnell (1996) p10-11

<sup>22</sup>Masschaele (1997); Bailey (1999)

<sup>23</sup>Moore (1985) p 190

There was of course a tradeoff: biasing trade reduced the revenue realized from the market. Obviously, excluding potential market participants reduced revenue directly. However, it also reduced revenue indirectly, because a less competitive was less attractive to other traders.

There were also limits on how much those controlling a market could exploit their power, however they exploited it. Both charging for use of the market and biasing trade would drive business away.<sup>24</sup> The loss of business would reduce trading volume, making the market an even less attractive place to trade. This would lead to further loss of business, and so on—the economics of concentration in reverse. The severity of this constraint—just how much business would be lost—depended, of course, on what substitutes were available to those who used the market center. Were there alternative market centers available at reasonable cost? How difficult was it for people to trade ‘off-market’, outside of any market center?

The tradeoffs and constraints differed for the different types of market center. Market towns were in a relatively strong position: distance generally protected them from competition from other market centers for the retail trade that made up most of their business. However, off-market trading always remained a concern. Entrepôt trade was relatively minor, and market towns generally restricted this to their own merchants. Excluding merchants from outside the town lost the market little potential business.

Commercial cities had more to worry about in terms of competition. For them, entrepôt trade was significant, and this was more easily moved to a competing commercial city: the higher up the city was in the hierarchy, the more this was so. The importance of entrepôt trade also made the tradeoff between bias and revenue more of a problem. To increase revenue from entrepôt trade a commercial city needed to attract foreign merchants. Discriminating in favor of local merchants was not the way to do this. There was therefore a conflict of interests between, on the one hand, those who derived revenue from the market—market professionals, landowners, and the government—and, on the other, local merchants. It was not unusual, for example, for the territorial ruler to

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<sup>24</sup>Masschaele (1997) Ch. 3

grant foreign merchants privileges over the strident objection of local merchants who were his own subjects.<sup>25</sup>

For fairs, of course, bias made no sense at all. Revenue was their sole purpose. The interests of local merchants, if any, were of little consequence. All of the fairs' trade was entrepôt trade, and it was in their interest to attract as many traders as possible.

## **GOVERNMENTS AND MARKET CENTERS**

Market centers were of considerable interest to governments. A market centers offered them several ways of using their command over violence to generate revenue. They could prey on the market center. They could intervene—for a price—in the struggle within the commercial structure to capture trade and profits. They could—again for a price—resolve the disputes that always arose among traders.<sup>26</sup>

### **Predation**

Market centers were an obvious target of predation, because they were natural 'choke points' in the flow of trade. The advantages of concentration would draw traders to market centers despite any losses to predation. In addition, market centers themselves were highly profitable.<sup>27</sup> So the market centers themselves offered an attractive target for predation.

The most blatant form of direct government predation on traders was outright expropriation. One example of this was the 'royal prise' that was taken at the great fairs of England in the thirteenth and fourteenth centuries.<sup>28</sup> At each fair, officials of the king would 'purchase' goods for the use of the king's household. However, it was the officials who set the price—often at half the market price. Payment even of that was usually deferred, sometimes indefinitely.<sup>29</sup> Not surprisingly, corruption was rife. Merchants

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<sup>25</sup>See Kohn (2003d) on the bargaining between merchant associations and foreign rulers for trading privileges.

<sup>26</sup> We shall discuss the last possibility below when we discuss dispute resolution in general.

<sup>27</sup>Bridbury (1986)

<sup>28</sup>Moore (1985) Ch. 3

<sup>29</sup>“[The royal prise] was established unilaterally by the kings and its sole purpose was to benefit royal finances at the expense of individual merchants, and must be understood as a tax upon commerce.” Moore (1985)p 94

bribed the officials to ‘purchase’ from someone else. The officials sometimes purchased several times the quantity required by the king, keeping the surplus themselves to resell later for a profit.

Because of its unpredictability, expropriation is a particularly burdensome, and consequently inefficient, form of predation. Expropriation therefore usually gave way eventually, to the benefit of both sides, to some form of money payment.<sup>30</sup> The English prise on aliens, for example, was commuted in 1303 to the “new custom”.<sup>31</sup>

The types of charges that governments imposed on market centers paralleled those imposed by market organizers. For example, the counts of Champagne collected revenue from the great fairs through, entry and exit tolls, levies on sales and purchases, dues on weights and measures, taxes on residences and merchant stalls, and safe-conducts for visiting Italians and Jews.<sup>32</sup> Of course, charges imposed by the government reduced the ability of the organizers of the market to impose charges themselves and so reduced their profits.<sup>33</sup>

Government predation on the organizers of markets generally took the form of requiring them to purchase a license granting them the ‘right’ to hold a market. The sale of such a license was—essentially a tax farm. The government relinquished its right to tax market participants directly, granting that right to the organizers of the market.<sup>34</sup> As with any tax farm, the advantages to the government over direct collection were twofold: it enabled the government to ‘outsource’ the work of collecting the taxes, and it allowed the government to capitalize a future flow of tax revenue. From the point of view of the organizers of the market, the license fee was simply predation on the profits they earned from the market.

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<sup>30</sup>See Kohn (2001e) on the advantages of tolls and taxes over expropriation.

<sup>31</sup>Moore (1985)

<sup>32</sup>Verlinden (1971)

<sup>33</sup>For example, suppose the ‘profit-maximizing’ toll, given the availability of alternatives, were 10%. With no government predation, this is what the organizers of the market would charge. However, if the government imposed a tax of, say, 6%, the best response of the organizers would be to lower their toll to 4%.

<sup>34</sup>Nielsen (1998)

The licensing of markets, a standard practice in Roman times, lapsed during the early Middle Ages. This left local lords and towns free to collect the revenue from markets that grew up in their jurisdictions or that they developed deliberately as a source of revenue.<sup>35</sup> The first European rulers to reassert the right to license markets were the Norman and Angevin rulers of England.<sup>36</sup> By the thirteenth century, the kings of England had succeeded in establishing the principle that no market or fair could be held without a royal charter. In 1272, under the *Quo Warranto* campaign of Edward I, organizers of markets were required to come before the royal courts to prove their right to do so.<sup>37</sup> During the thirteenth and early fourteenth century, the kings of England granted over 1,500 charters for market and fairs.<sup>38</sup> The English example was followed by other rulers, and by the fifteenth century, the authority of the state over markets was firmly established throughout Europe.<sup>39</sup>

Territorial rulers sought to maximize their revenue from licensing markets.<sup>40</sup> In this, they acted much like any other franchiser—McDonalds, for example, franchising restaurants or an automobile manufacturer authorizing dealerships.<sup>41</sup> Rulers promoted the establishment of new markets. However, they were careful not to license too many—that is, not to license new markets that would lower overall revenue by competing excessively with existing markets.<sup>42</sup> In England, charters that were granted after 1200 stated explicitly that they permitted the establishment of a market “unless it be damaging to other markets”.<sup>43</sup> To protect licensees from competition, rulers also prohibited off-market

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<sup>35</sup>Masschaele (1997) Verlinden (1971)

<sup>36</sup>Sawyer (1986) Britnell (1996) Nielsen (1998)

<sup>37</sup>Masschaele (1997)

<sup>38</sup>Sawyer (1986)

<sup>39</sup>Epstein (2000)

<sup>40</sup>Britnell (1996) Ch. 1

<sup>41</sup>See Martin (2002) Ch. 13 Vertical Restraints, under which this topic falls.

<sup>42</sup>“[There is] abundant evidence of royal efforts to restrict the development of new markets in order to protect the tolls of existing ones.” Nielsen (1998) p54

<sup>43</sup>Masschaele (1997) Courts generally set a minimum distance of 6 2/3 miles or a day’s travel. Meeting this requirement was the problem of the purchaser of the charter, not of the Crown. Charters were sold under the principle of *caveat emptor*.

trading.<sup>44</sup> By using their command of violence to restrain inter-market and off-market competition, territorial rulers maximized overall revenue from the system of markets. This was obviously not in the interests of those who used the markets, who would have been better served by unrestricted competition.

Governments' command of violence enabled them to play both sides of the street with respect to predation. They were able not only to engage in predation but also to suppress the predation of others. The rulers of Champagne, for example, were very active in suppressing banditry. They also prevailed on rulers of territories between Italy and Champagne to desist from imposing tolls on merchant traveling to the fairs.<sup>45</sup> Merchants who nonetheless suffered losses were paid compensation.<sup>46</sup> The rulers of Champagne charged explicitly for this service ('safe conduct'), but they also benefited from the increased flow of merchants to their fairs and the consequent increase in revenue.

Another way that territorial rulers profited from suppressing the predation of others was by granting certain merchant associations exemptions from market tolls—in exchange, of course, for payment or for other favors. For example, the king of Spain granted the *consulado* of Burgos an exemption for its citizens from tolls anywhere in the kingdom.<sup>47</sup> Not surprisingly, granting merchants of one town the right to collect tolls from everyone trading there and simultaneously granting merchants of another town an exemption from tolls did create some disputes. Such disputes were generally settled in the ruler's courts—generating yet more revenue for the ruler.<sup>48</sup>

### **Intervention in the struggle for the gains from trade**

Through their command of violence, territorial rulers were also able to tilt the playing field in the rivalry for trade within the commercial structure. Markets competed with one another to attract trading volume. The ruler could favor one over another by granting it staple rights for a particular trade—that is, by requiring that that particular trade pass

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<sup>44</sup>Bridbury (1986)

<sup>45</sup>Verlinden (1971); Cox (1959) Ch XIV; Bautier (1970).

<sup>46</sup>Moore (1985) p 285

<sup>47</sup>Mathers (1988)

<sup>48</sup>Masschaele (1997) Ch. 3. The courts generally ruled by which right had been granted earlier.

through that market only. For example, in 1495 the king of Spain granted a staple for all trade with the Americas to Cadiz. In 1503, the merchants of Seville managed to have the staple transferred to their own city.<sup>49</sup> The towns of the Low Countries competed with one another to obtain staple rights over the trade in major imports. For example, Ghent obtained the staple on grain imports from France in the fourteenth century.<sup>50</sup> The granting of the staple on alum to Antwerp in 1491 was an important factor in its subsequent development as a major market center. For the ruler, concentrating a particular trade in a staple had the added benefit of making it easier to monitor and to tax. This was an important motivation for establishing the staple in Cadiz and Seville, as it was for setting up a staple at Calais in the fourteenth century for the export of English wool.<sup>51</sup>

The merchants of a town generally controlled the town's market. As we have seen, they often used this power to gain advantage over competing merchants from outside the town. Rulers could intervene to overrule local merchants and to protect the interests of outsiders. For example, in the fourteenth century, Edward III and Richard II of England freed foreign merchants of all commercial restrictions imposed by English towns.<sup>52</sup> The ruler's motivation for this sort of intervention was purely fiscal: the merchants who benefited from the favor paid for it in cash or in preferential loans.<sup>53</sup>

### **THE REGULATION OF MARKETS**

Markets in the Middle Ages were highly regulated. The rules were determined by those who organized the markets and by the territorial rulers who preyed on them. Not surprisingly, the rules served the interests of those who set them. As we have seen, a major interest—generally *the* major interest—was to generate revenue. Regulations could serve this interest by making revenue easier to collect. They could also do so by making the market more attractive, so increasing the revenue base.<sup>54</sup> A second major interest was

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<sup>49</sup>Haring (1918)

<sup>50</sup>Nicholas (1997)

<sup>51</sup>Gross (1890) The establishment of the staple at Calais also facilitated quality control and the provision of impartial justice to foreign merchants by special courts.

<sup>52</sup>Mitchell (1904)

<sup>53</sup>See Kohn (2003d) on the efforts of merchant associations to obtain favors from rulers.

<sup>54</sup>Bailey (1999)

to bias trade in favor of a particular group of traders. Regulations could serve this interest by placing restrictions on other groups of traders.

Markets and fairs appointed officers to enforce their regulations and to maintain order. A small market town might have four or five such officers; the great fairs of Champagne had several hundred.<sup>55</sup> However, the task of policing a teeming market center and its surrounding area was daunting, and it was generally not too difficult to escape the eye of the authorities. Moreover, many regulations—passed for a variety of ostensible purposes—degenerated into little more than taxes. The fine, usually modest, became a fee for breaking the regulation more than a punishment intended to deter—rather like a parking ticket.<sup>56</sup>

### **Regulation to promote legibility**

Many regulations were intended to make trade easier to observe and to measure—to promote ‘legibility’.<sup>57</sup> Greater legibility facilitated the collection of revenue and made it easier to enforce other regulations.<sup>58</sup>

Market towns promoted legibility by restricting trading to the official marketplace and confining it between starting bell and finishing bell.<sup>59</sup> Trading outside the confines of the official market or at other times was prohibited.

Larger markets, where wholesale trade predominated, promoted legibility by requiring merchants to trade through authorized brokers.<sup>60</sup> For example, in the fifteenth century, every German merchant visiting Venice was assigned a personal broker or *messeta*.<sup>61</sup> The *messeta* assisted him in his trading, but he also recorded every transaction to ensure that the proper tolls and taxes were paid. In other markets centers, where

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<sup>55</sup>Everitt (1967); Abu-Lughod (1989)

<sup>56</sup>Kowaleski (1995); Bailey (1999)

<sup>57</sup>On the concept of legibility and its consequences, see Scott (1998).

<sup>58</sup>Foreign merchants visiting Florence to purchase cloth were assigned a broker by the association of cloth merchants, the *Arte della Lana*, to make sure that the association’s quality regulations were enforced and that no substandard cloth left the city. Origo (1986)

<sup>59</sup>Kowaleski (1995); Everitt (1967); Overton (1996)

<sup>60</sup>Brokers also played an important role in facilitating trading, which we shall discuss below.

<sup>61</sup>Hoffmann (1932)

discipline was less rigid, merchants frequently ignored the requirement to use a broker and traded directly with one another. In Bruges, for example, widespread evasion led the authorities in 1400 to limit the requirement to large transactions (those over £5 groat), and even then the rule was often ignored.<sup>62</sup>

Market centers of all sizes often required traders to use the official weights and measures provided by the market. Markets provided a 'common beam' where grain and other bulk goods had to be weighed and tolls paid.<sup>63</sup> Market officials also provided a standard ell for the measurement of cloth. To some extent the requirement to use official measures was motivated by consumer protection, but mostly it was driven by a desire for legibility. Tolls were imposed by weight or by length. Leaving traders to determine the unit of measurement and trusting them to do the measuring would have made the evasion of tolls ridiculously easy.

Of course, traders did their best to evade this regulation too, and private beams and measures were not uncommon.<sup>64</sup> In Venice, to prevent such evasion, the *messeta* was required to supervise the weighing and measuring of the goods his assigned merchant had purchased; he also had to supervise their packing for shipment to ensure that nothing was smuggled out in the bales.<sup>65</sup>

### **Enhancing revenue by improving market function**

Market centers imposed regulations that were intended to make the market more attractive to participants by prohibiting manipulation and fraud and by promoting public order and safety.

Manipulation was a particular concern for town markets, because the volume of trading there was so small. The regulations that restricted trading in place and time, besides enhancing legibility, also promoted concentration, so improving the quality of the market.

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<sup>62</sup>Nicholas (1992); Nicholas (1979)

<sup>63</sup>Nielsen (1998); Overton (1996)

<sup>64</sup>Everitt (1967)

<sup>65</sup>Hoffmann (1932)

Market towns and some fairs had regulations intended to prevent market manipulation by ‘speculators’.<sup>66</sup> Such regulations generally promoted direct trading between producers and consumers by prohibiting or restricting intermediaries. Specifically, they prohibited forestalling and regrating: to forestall was to purchase goods from people on the way to market to be resold in the market; to regrate was to purchase goods early in the day to be resold later.<sup>67</sup> These regulations, to the extent they were effective, would also have had the unintended effect of degrading the quality of the market by preventing ‘information traders’ from smoothing temporary fluctuations in supply and demand.<sup>68</sup>

Sometimes markets regulated prices—especially those of grain, grain products, and bread.<sup>69</sup> The intention here too was to prevent manipulation. In the small, thin market of the market town all exchange involved bargaining.<sup>70</sup> In these circumstances, one party would often enjoy a temporary advantage, enabling him to impose a price favorable to himself. The Church regarded such taking of advantage as immoral and socially disruptive because it led to resentment and violence. Hence, the principle of commutative justice and the doctrine of just price. The just price was one that emerged out of “ideal conditions for bargaining in which all arbitrary or abusive factors have been neutralized.”<sup>71</sup> The just price was, in fact, much like the economist’s idea of a competitive price. When regulators set prices, it was this just price that they had in mind. They were well aware that the just (competitive) price fluctuated with changes in supply and demand, and they therefore adjusted the regulated price as conditions changed.

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<sup>66</sup>Muldrew (1998); Overton (1996)

<sup>67</sup>Kowaleski (1995); Davis (1966) Ch 1; Britnell (1996); Moore (1985)

<sup>68</sup>On information traders, see Kohn (2003e) Ch. 11.

<sup>69</sup>Overton (1996)

<sup>70</sup>Muldrew (1998) p 43

<sup>71</sup>Persson (1988) p 51; see also Muldrew (1998) p 43

Regulating prices also had another, although incidental, benefit: it eliminated or at least reduced the need for bargaining, and this lowered the cost of transactions.<sup>72</sup>

### **Regulation to bias trade**

Regulation was used to bias trade in favor of local merchants, mainly by placing restrictions on the trading of outsiders who would have competed with them.<sup>73</sup>

Regulation might also be used to bias the market in favor of local consumers—for example, by attempting to keep prices low.<sup>74</sup> And regulation might be used to bias the market in favor of local producers by excluding outside competitors.<sup>75</sup>

At the level of the market town, regulation favored local merchants by simply excluding outsiders altogether. The typical town charter prohibited any merchant who was not a burgher from trading in the town unless he was explicitly granted permission. Because there was little potential for *entrepôt* trade, nothing was lost by keeping ‘foreign’ merchants out. Administration of the monopoly over local trade was generally entrusted to the association of local merchants—the Guild Merchant.<sup>76</sup>

Commercial cities, because wholesale and *entrepôt* trade were important to them, had no interest in excluding foreign merchants. On the contrary, they wished to attract them. Nonetheless, they tried to bias trade in favor of the locals by placing restrictions of various kinds on foreigners. It was common, for example, to prohibit foreigners from trading with one another or from re-exporting themselves the goods that they brought to the city; they were required instead to sell their goods to local merchants.<sup>77</sup> Prohibitions

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<sup>72</sup>The regulations requiring the use of official weights and measures, apart from their other functions, also supported price regulation: there was little point in regulating a price if the unit to which the price applied was not fixed too.

<sup>73</sup>“Much of the local economic regulation of this period suffered from a deficient concept of what the public interest was. Burgesses... invariably defined the public interest as the strengthening of their own privileges at the expense of countrymen and merchants from other towns.” Britnell (1996)p176

<sup>74</sup>Kowaleski (1995)

<sup>75</sup>Bruges, for example, prohibited the importation of English woolen cloth that would have competed with that of Flemish producers.

<sup>76</sup>Gross (1890) p 43; Britnell (1996). For more on merchant associations, see Kohn (2003d).

<sup>77</sup>Mitchell (1904); Favier (1998). On Venice, see Lane and Mueller (1985) Ch. 9; Mueller (1979).

against retail sales were also common. Paris had an unusual twist on bias. The merchants of Paris, having a monopoly of all commercial navigation on the Seine, required any foreign merchant wishing to bring goods into the city to take on a Parisian merchant as a ‘partner’—that is, split the profits with him.<sup>78</sup>

To ensure that foreigners complied with the trading restrictions imposed on them, the authorities restricted and monitored their movements. In some cities, foreign merchants were required to reside in a specific compound: this was the case, for example, with German merchants visiting Venice, who were required to stay at the *Fondaco dei Tedeschi*. In other cities, foreign merchants were merely required to stay at one of a number of authorized inns.<sup>79</sup> In Bruges, innkeepers had to provide the authorities with a daily list of their foreign guests.<sup>80</sup> The requirement to trade through a broker also helped to ensure compliance with trading restrictions.

Trading restrictions on foreigners were relatively easy to enforce so long as merchants trading with a foreign city traveled there with their goods and stayed only briefly. Such foreign visitors stood out and were easy to monitor. However, once commercial practices changed and foreign merchants began sending their goods to agents permanently stationed in foreign cities, trading restrictions became much more difficult to enforce.<sup>81</sup> The resident agent learned the language, often had a house of his own, and sometimes even married into a local family. In some cities, such as Florence and Paris, it was quite easy for a foreign resident to become a citizen; in Genoa all that was required was an oath of loyalty.<sup>82</sup> (Venice, of course, was the exception: it required residency of at least twenty-five years.<sup>83</sup>) Evading trading restrictions was, of course, an important advantage of using resident agents and an incentive for such agents to assimilate.<sup>84</sup>

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<sup>78</sup>Favier (1998)

<sup>79</sup>Mitchell (1904)

<sup>80</sup>Nicholas (1992) p295

<sup>81</sup>See Kohn (2003b) on the reasons for this change in commercial practice.

<sup>82</sup>Favier (1998) Reyerson (2002) p106

<sup>83</sup>Reyerson (2002) p106

<sup>84</sup>Grafe (2001) Ch 3

Cities differed in the severity of the restrictions they imposed on foreigners. Venice was perhaps the most restrictive. It excluded foreigners completely from its trade with the Levant.<sup>85</sup> It prohibited foreign ships from putting in to the Grand Canal or lagoon.<sup>86</sup> It confined German merchants to the *Fondaco dei Tedeschi* and tightly regulated their trade.<sup>87</sup> When Ottoman merchants began to visit Venice in the sixteenth century, it confined them to a *Fondaco dei Turchi*.<sup>88</sup> Genoa was a complete contrast: it placed few restrictions on the trading of foreigners.<sup>89</sup> Bruges was initially quite restrictive. But from the beginning of the fourteenth century, it began to ease many of the restrictions on foreigners, and those that remained were no longer enforced with much vigor—including the regulations on trading with other foreigners, on using a broker, and on staying at inns.<sup>90</sup> Indeed foreign merchants were often granted privileges that the locals did not enjoy<sup>91</sup>

Why these differences? One factor was the market power of the city in question and the competition it faced from other cities. Venice's geography and its lock on the Levant trade gave it considerable market power. Cities like Genoa and Bruges faced much more competition. Another factor was politics—the relative power of local merchants who favored restrictions on foreigners and those who benefited from the revenue of the market who did not. Venice was firmly under the control of its merchants. The elite of Bruges, however, made their living from the market—as brokers, inn-keepers, commission

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<sup>85</sup>Lane (1973) When it transpired that foreign merchants were using *colleganza* contracts (see Kohn (2003b)) to participate in this trade indirectly, Venice placed restrictions on this market (in 1300).

<sup>86</sup>Favier (1998)

<sup>87</sup>Hoffmann (1932)

<sup>88</sup>Lane (1973)

<sup>89</sup>Heers (1970) This reason why trade in Genoa was always much freer than it was in Venice, may have been that Genoa was ruled by a landed aristocracy unlike Venice where the merchants were firmly in charge.

<sup>90</sup>Letts (1924)

<sup>91</sup>Blockmans (1992) Nicholas (1979) Nicholas (1992) “Foreigners were clearly disliked and their privileges of residence resented.” Nicholas (1992) p386. On the granting of privileges to associations of foreign merchants see Kohn (2003d).

agents, and bankers—more than they did from trade.<sup>92</sup> Moreover, unlike Venice, Bruges was not an independent republic: its rulers wished to maximize their revenue from its market and cared little whether local or foreign merchants were paying the tolls.

Fairs imposed no restrictions on foreigners. As we have seen, those who controlled fairs were interested in them predominantly as sources of revenue. They did all they could to attract foreign merchants, sometimes even exempting them from restrictions and tolls that applied to locals. Indeed, the absence of restrictions on foreigners was to a considerable extent the *raison d'être* of the fair: it was what made fairs more attractive as trading venues than the commercial cities with which they competed for trading volume. Although some fairs were established in commercial cities, with a temporary suspension of restrictions on foreigners, most were established at relatively minor towns in the countryside. Fairs constituted a sort of 'offshore market'—places where merchants could trade in the greatest possible freedom.<sup>93</sup> Freedom extended beyond the commercial, with entertainment too tending to the offshore—gambling, theatres, prostitution, and plenty of drink (a touch of Las Vegas).<sup>94</sup>

### **ORGANIZED MARKETS IN THE MIDDLE AGES**

Market centers brought people together to trade. Within each market center there was an organized market. The organized market helped traders find and close a deal. It helped them complete the deal. Finally, in case the deal went wrong, it helped them resolve disputes.

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<sup>92</sup>de Roover (1948) p 13. The woolen industry was also powerful and wished to encourage foreign trade.

<sup>93</sup>"It was to escape municipal controls on long-distance trade that annual fairs, altogether freer than the local weekly markets, developed during the Middle Ages. Some market towns possessed the right to hold fairs as well but most fairs were held in the countryside away from the towns." (Clarkson (1971) p 135)

"[Fairs] were particularly attractive to alien merchants who wanted to avoid the restrictions, as well as the taxes and tolls, which towns imposed on their trade.... But to many towns they appeared as threatening rivals for trade." (Nightingale (1995)p 35)

<sup>94</sup>Everitt (1967) p536; Pirenne (1937)

## The physical marketplace

The first requirement of a market is a place people can trade. In market towns, the marketplace was generally a large open space within the town or adjacent to it. Initially, traders sold their wares from temporary tables, stools, booths, and movable stalls. Later, towns built permanent structures that they rented out to traders. The fronts of buildings facing the market and on adjacent streets were converted into small shops. At the center of the market, there was usually a market house or market hall for weighing and measuring and for the payment of tolls. This might be no more than an open shelter supported by pillars. Or it might be a more substantial building, with weigh-house, toll chamber and jail below and hall or court room above.<sup>95</sup>

Trading was arranged primarily by product—grain in one part of the market, vegetables in another, cloth in yet another. Bunching sellers of the same product close together and always in the same place made it easier for buyers to find what they wanted and to compare prices and qualities. In addition, there were health reasons for keeping sellers of livestock, butchers, and poulterers away from habitations and safety reasons for keeping smiths at a distance (fire was a perennial concern).<sup>96</sup> In larger market towns, there might be separate markets for different products in different parts of town. For example, Yeovil and Shaftesbury had separate markets for fish, cheese, and poultry, and others for hemp and butter. With increasing regional specialization in agriculture, market towns themselves tended to specialize in different products—corn, cattle, horses, cheese and butter, fish, wool, and so on.<sup>97</sup>

In the early part of the period, retail trade was conducted directly between producer and consumer: there were no specialized retailers. As we have seen, buying to resell was frowned upon as ‘profiteering’. The shops in a market town housed not retailers but craftsmen selling products that they themselves produced.<sup>98</sup> Since trading in the town was limited to one or two market days a week, local craftsmen went off to neighboring towns on other days to sell their wares there.

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<sup>95</sup>Everitt (1967)

<sup>96</sup>Moore (1985) p 146 et seq

<sup>97</sup>Everitt (1967)

<sup>98</sup>Davis (1966)Ch 1.

In commercial cities, trading, rather than being confined to a single market day, was continuous. So traders needed somewhere to stay and somewhere to store their goods. Traveling merchants stayed at inns, which also provided them with storage space for their goods in cellars or outbuildings. Inns were numerous: fourteenth-century Avignon, for example, had some sixty, with 600 beds between them.<sup>99</sup> Resident merchants lived at the house or compound of their ‘colony’ or ‘nation’. Larger firms might take a house of their own. Such accommodations too would use cellars and outbuildings for storage.

Trading in a commercial city was much more dispersed than it was in a market town. Merchants would conduct business in public squares and streets, by the port, and at inns and taverns. Since purchasers needed to inspect merchandise before they bought, trading generally took place close to the cellars or storehouses where goods were stored.<sup>100</sup> Cloth and other valuable goods were often displayed in special halls so that they could be inspected easily while protected from the elements.

In commercial cities, too, trade in particular products tended to concentrate in particular places. Inns, for example, often specialized by product or by merchants from a particular region or city. Trading halls specialized too. In Bruges, cloth was traded in the Waterhalle and drugs and spices in the Cruudhalle; English and Scottish wool were traded in the adjacent Rue aux Laines, while Spanish wool sold in a separate location in the Cruudhalle.<sup>101</sup>

Commercial cities had open markets, much like those of market towns, for foodstuffs, raw materials, and manufactures from the countryside. Rather than having a single market, however, they usually many, often specialized by product. Sixteenth-century York, for example, had two large general markets, each held three times a week, as well as specialized markets for malt, leather, sea fish, freshwater fish, swine, and West Riding cloth. London had numerous separate markets.<sup>102</sup>

Continuous trading and the larger volume of trading supported specialized retailers. These appeared by the mid-twelfth century in Italy and somewhat later elsewhere. In

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<sup>99</sup>Reyerson (2002)

<sup>100</sup>Letts (1924)

<sup>101</sup>Letts (1924)

<sup>102</sup>Muldrew (1998)

London, by 1300, there were a large number of shops and warehouses open for business year round. The Oxford Street of the day was Cheapside, with its 400 shops (each storefront was typically less than six feet wide). Off the main street were a number of ‘selds’—roofed private bazaars where some 2,000 more traders rented space to display their wares. Different areas of this complex specialized in different types of goods—luxury textiles, leather goods (including saddles), metal goods (including armor), drugs and spices, and candles.<sup>103</sup>

Physically, fairs were a hybrid of town market and commercial city. Fairs were usually held in small towns, which were often taken over completely by the fair.<sup>104</sup> Since fairs continued for a period of weeks, they—like commercial cities—needed to provide visiting merchants with somewhere to stay. When the counts of Champagne instituted the cycle of fairs in 1191, they persuaded the ecclesiastical authorities to finance the construction of the necessary accommodation.<sup>105</sup>

Trading at fairs took place in the same sorts of locations as in market towns and commercial cities—in open markets with temporary wooden stalls and in adjacent streets lined with shops; in halls and storehouses (in Provins these were largely underground and connected by subways).<sup>106</sup> At the fair of St. Ives, grain traders conducted business from boats moored in the river.<sup>107</sup> There were trading halls for cloth: at Troyes, for example, there was a *maison du lin* and another hall where hemp cloth was sold.<sup>108</sup>

Trading in particular products was again concentrated in specific places (and sometimes, as we shall see, at specific times). In Provins, for example, all the German merchants stayed in the same quarter, where they sold linens and fustians.<sup>109</sup> At Medina del Campo, particular streets, together with adjacent houses, arcades, and shops were

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<sup>103</sup>Keene (1984)

<sup>104</sup>Moore (1985) p 146 et seq

<sup>105</sup>Bautier (1970) Verlinden (1971)

<sup>106</sup>Cox (1959) Ch XIV

<sup>107</sup>Moore (1985) p 146 et seq

<sup>108</sup>Sutton (1999)

<sup>109</sup>Sutton (1999)

dedicated to woolens, linens, or silks, with traders grouped by place of origin.<sup>110</sup> In many cases, the fairs themselves specialized in the particular products of their regions: the English and Spanish fairs, for example, specialized in wool. Many of the new fairs of the fifteenth century specialized in different types of livestock.

### **Finding and closing a deal: the trading system**

An important function of organized markets was to lower the cost to traders of finding and closing a deal. As we have seen, the physical organization of the market contributed to this, making it easier for buyers and sellers to find one another. In some town markets, there were specialists in particular goods, paid to assess quality and appraise value.<sup>111</sup> But for most retail trade in town markets, buyers and traders were largely on their own. However, for wholesale trade in commercial cities and at fairs, there was an organized trading system that provided traders with information and coordinated their transactions.

#### *Brokers*

In most markets, the embodiment of the trading system was the broker, who brought buyer and seller together for a commission. In Venice the broker was called a *sensal*; in Flanders, a *mackelaer*; in France, a *couretier*; and in Germany, an *Unterkäufer*.<sup>112</sup> In Spain the broker was a *corredor de orella* (agent of the ear) to distinguish him from the *corredor de coll* (agent of the throat)—an auctioneer or hawker.<sup>113</sup> Brokers often specialized by product. In Paris, for example, there were specialized brokers for wine, grain, and horses.<sup>114</sup>

The basic economics behind the use of brokers is straightforward. The fundamental requirement of trading is information—information on trading opportunities (qualities and prices) and information on the reliability of potential counterparties. It made sense for brokers rather than individual merchants to invest in acquiring such information. If an

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<sup>110</sup>Alonso (2001)

<sup>111</sup>Everitt (1967)

<sup>112</sup>Reyerson (2002) Ch 3

<sup>113</sup>Reyerson (2002) quoting Debra Blumenthal.

<sup>114</sup>Favier (1998) Ch 3

individual merchant were to check out a trading opportunity and find it unsuitable, the information he acquired would go to waste. A broker, on the other hand, might be able to ‘sell’ this information to another merchant for whom the same deal might be more attractive.<sup>115</sup>

The same economics of information applied not only to trading in goods. Brokers also brought together seekers and providers of financing, both in the exchange market and in the market for partnerships.<sup>116</sup> They arranged sales and rentals of real estate.<sup>117</sup> Brokers even acted as matchmakers, receiving for their efforts a percentage of the dowry.<sup>118</sup>

Brokers provide their clients, too, with local information—on lodging and transportation, for example. Also, when necessary, they translated: brokers were often proficient in several languages: some were naturalized foreigners and specialized in serving visiting compatriots.<sup>119</sup> For example, many Gascon wine merchants trading in London spoke only Gascon and traded through brokers who spoke both Gascon and English.<sup>120</sup>

Brokers were generally regulated by the city or by a broker’s guild.<sup>121</sup> In London, brokers had to provide sureties and they were sworn and enrolled by the Mayor.<sup>122</sup> Such regulation was partly to protect traders. For example, it was common to prohibit brokers from trading on their own account so as to prevent possible conflicts of interest with their clients.<sup>123</sup> The presence of honest and reliable brokers made the market more attractive and increased market revenue. But the major reason for regulation of brokers was their

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<sup>115</sup>Bernstein (1992)

<sup>116</sup>London regulations that prohibited brokers from arranging loans (Bennett (1989)) suggest that this was a common practice.

<sup>117</sup>Favier (1998) Ch 3

<sup>118</sup>Reyerson (2002) p 96; Favier (1998) Ch 3

<sup>119</sup>Reynolds (1952). In Bruges, although regulations required brokers to be residents, many were in fact foreigners (Nicholas (1992) p 295)

<sup>120</sup>James (1971)

<sup>121</sup>Luzzatto (1953). In some cases (e.g. Bruges), there was a guild of brokers. In others, specialized brokers served particular guilds (e.g. the Arte della Lana in Prato: Marshall (1999))

<sup>122</sup>Bennett (1989) The level of their fees was set by the city.

<sup>123</sup>Favier (1998) Ch 3; Bennett (1989)

official function as collectors of tolls and taxes and as enforcers of market regulations. Visiting merchants were typically required to approach a designated official who would assign them a broker—often by lot, presumably to reduce the chance of collusion.

In addition to the sworn brokers, however, there were often unofficial brokers and others who performed essentially the same commercial function. Prominent among the latter were the innkeepers. As we have seen, inns were an essential component of any market. However, their importance went beyond merely providing accommodation. They also provided a convenient place to trade. Merchants negotiated over a meal and then sealed their bargain with a drink, with the innkeeper as witness. And because so the large number of merchants congregating there, inns were major centers of information.<sup>124</sup>

As we have seen, inns often specialized in hosting merchants who traded in a particular good or hailed from a particular city or region, making it easier for other merchants to find them. The innkeeper often come from the same place himself and could help his former compatriots find their way in his adopted city. This was the case in Bruges, where Hanseatic merchants favored innkeepers of German origin.<sup>125</sup> The inn would typically serve too as a terminus for transportation to and from the city or region in question.<sup>126</sup>

Innkeepers would often act as brokers for their guests.<sup>127</sup> They also provided other commercial services. In Bruges, they stood surety for their guests' transactions with locals and provided their guests with banking, accounting, and debt-collection services.<sup>128</sup>

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<sup>124</sup> “In their capacity as ‘newsrooms’ of early modern society, they fostered the exchange of rumours and gossip...” Kümin (1999) p 163

<sup>125</sup>Reyerson (2002) Ch 5

<sup>126</sup>On the role of innkeepers in transportation, see Kohn (2001e).

<sup>127</sup>“Innkeepers provided outbuildings for storage of clients’ goods and acted as brokers, using their knowledge of the market to match buyers and sellers from distant areas who would not have known each other” (Muldrew (1998) p40) “No other profession in the early modern period, apart from the clergy, possessed a comparable range of contacts or better facilities to bring people together and to know what was going on.” (Kümin (1999) p 164)

<sup>128</sup>Blockmans (1992); de Roover (1971). See Kohn (1999c) on the banking activity of innkeepers.

Innkeepers often also traded on their own account and sometimes entered into partnerships with their customers.<sup>129</sup>

### *Structured trading*

Most trading was unstructured, involving the matching of individual buyers and sellers either with the assistance of brokers or without it. However, there were examples of more structured trading. Auctions were widely used to sell off the assets of defaulting debtors and to liquidate stocks of unsold goods (the profession of auctioneer paralleled that of broker).<sup>130</sup> For this purpose, some inns converted halls or parlors into auction rooms.<sup>131</sup> In Venice, where the trading of visiting German merchants was tightly regulated, the goods they brought with them to Venice—bullion especially—were sold at auction.<sup>132</sup>

The most famous example of structured trading was to be found, however, at the fairs of Champagne.<sup>133</sup> There, trading was divided into discrete periods. The first week was for the entry of goods—including payment of the required tolls. Then there were ten days for the sale of cloth—six days for exhibition and four days for actual trading. This was followed by an eleven-day period for the sale of leather (cordovans). The final two weeks of trading were devoted to the sale of spices, drugs, and other goods sold by weight. Following this, there were four weeks for settlement. This structure had fully developed by the end of the twelfth century. Trading at other fairs was structured too—mainly to facilitate the payment of tolls and settlement (about which more presently)—but generally less so than at the fairs of Champagne.

The structure of trading at Champagne seems to have obviated the need for brokers: at least, none are mentioned in the historical accounts. Less structured fairs, such as those of England did rely on brokers: “Brokers were certainly among the more colorful figures

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<sup>129</sup>Murray (1990) on Bruges. In another example, the ‘innkeepers-fishmongers’ of Caux in Normandy and Dieppe entered into partnerships with owners of fishing boats and marketed the catch for them in exchange for half the profits (Favier (1998) Ch 3).

<sup>130</sup>Reyerson (2002) Ch 3 and Ch 6

<sup>131</sup>Everitt (1967)

<sup>132</sup>Lane and Mueller (1985) Ch. 9; Mueller (1979); Hoffmann (1932)

<sup>133</sup>Face (1958); Berlow (1971); Abu-Lughod (1989)

at [the English] fairs, mingling with the crowds to proclaim the virtues of various products and fiercely competitive with one another.”<sup>134</sup>

### *Closing the deal*

Once a bargain was agreed it had to be closed. Few bargains among merchants involved a simple spot exchange of goods for cash: most involved either a promise of future delivery or a promise of future payment or both. There was a great deal of trading on credit even in town markets.<sup>135</sup> Closing a bargain, then, meant the giving or exchanging of binding promises. Often this was done orally, before witnesses, typically with the payment of earnest money or ‘God’s penny’. If the time until the promised performance was considerable or if the amounts involved were large, it was prudent, in addition, to have a written record of the parties’ obligations.

Written records were often informal. The debtor might write an IOU to the creditor in the form of a letter obligatory or a bill of exchange. Or the debt might be inscribed in the book of the creditor. In some places, the use of wooden tallies was common.

There were, however, also records that were formal and official. The advantage of a formal record was that it expedited legal proceedings. The authenticity of an informal record was open to challenge, and it therefore had to be established in court. With a formal record this was unnecessary, and judgment could therefore be enforced immediately. Organized markets provided the means of officially registering debts in the form of official notaries and scribes.

In Mediterranean Europe the profession of notary had its origins in classical times. In the twelfth century, the pope and the emperor began to license notaries; later, princes, bishops, and cities did so too.<sup>136</sup> Notaries were trained professionals, either having served

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<sup>134</sup>Moore (1985) p 113. See also Van der Wee (1977) on Lyons; Bergier (1970) on Geneva; Kiessling (1996) on Frankfurt; Verlinden (1971) on the Flemish fairs; and Grafe (2001) on Medina del Campo.

<sup>135</sup>Masschaele (1997)

<sup>136</sup>Mitchell (1904), Usher (1934) p 49 et seq; Reyerson (2002) Ch 3. “A notarial act is a contract, will, or declaration drawn up in the presence of and by a representative of the universal Christian society, a ‘public person’, a notary. The notary received his commission to serve as a sort of consciousness of the Christian commonwealth from that commonwealth’s leaders—the pope, the emperor, or their authorized agents.” Herlihy (1958) p1-2

an apprenticeship or having received formal training at a university (Bologna offered a special course for notaries).<sup>137</sup> Notaries had to be literate both in the vernacular and in notarial Latin. The responsibilities of a notary were taken very seriously: by Genoese law, a notary who wrote a fraudulent document forfeited his hand.<sup>138</sup>

There was many notaries and they were busy. Around 1300, Pisa had some 300 notaries out of a total population of about 40,000; Florence had some 600 out of a total population of 95,000. In 1291, the notaries of Pisa recorded some 80,000 notarial acts. In Marseilles, a single notary recorded over a thousand acts in 1245—over sixty on his busiest day.<sup>139</sup>

Notaries set up their tables in public places, wherever business was conducted; they also received customers in their offices and made ‘house calls’.<sup>140</sup> They were expert in the drafting of agreements. Notaries not only drafted instruments of debt, but also bills of sale, partnership agreements, agency contracts, transportation contracts, insurance instruments, acts of litigation, appointments to office, acts of emancipation, wills, and other documents.<sup>141</sup>

Notaries were also important sources of information, especially on possible investments and on potential sources of financing (notaries often exploited these opportunities themselves, underwriting insurance or providing financing).<sup>142</sup> The crowd gathered around a notary’s table was a good source of the latest news and gossip.

A notary began his work by jotting down the details of the agreement in rough on a scrap of paper.<sup>143</sup> When all were satisfied with the draft, he rewrote it in his cartulary—a

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<sup>137</sup>Reyerson (2002) Ch 3; Murray (1983) Rolandinus Passagerius (d. 1300) wrote the standard text, *Summa Artis Notarie*, in 1256. It included a variety of standard forms for different types of document.

<sup>138</sup>Epstein (1994) p317-8

<sup>139</sup>Mitchell (1904), Kedar (1977)

<sup>140</sup>Pryor (1975), Byrne (1916); Reyerson (2002) Ch 3

<sup>141</sup>de Roover (1971); Reyerson (2002) Chs 3 and 6

<sup>142</sup>Kedar (1977)

<sup>143</sup>Pryor (1975); Herlihy (1958) Ch 1. Initially, notaries were witnesses to the original transaction; later, they witnessed only a ‘confession’ of a transaction that the parties had already agreed to (Reyerson (2002) Ch. 6)

bound volume that had the standing of an official record. If the parties desired a copy, the notary would redact one on parchment in his best handwriting. Because of the expense of a copy, the parties often sufficed with the record in the cartulary. Parchment copies were most frequently written when the agreement required performance in some other place.<sup>144</sup> Acts were cancelled—for example, when a debt was paid—either by a new notarial act or acquittal, by a paragraph added to the original act canceling it, or by simply crossing out the original act.<sup>145</sup>

The use of notaries spread slowly northward from the Mediterranean, reaching southern Germany and Paris in the mid-thirteenth century.<sup>146</sup> The Italians brought the practice with them to Champagne and Bruges.<sup>147</sup> In 1317 there were some 40 notaries working at the fairs of Champagne (Paris had 60), most of them from Italy or the Midi; it was possible, although not required, to register documents drawn up by these notaries under the seal of the warden of the fair to facilitate their enforcement.<sup>148</sup>

In northern Europe, although initially there were no notaries, there did exist similar arrangements for the official registration of debts. Municipal and guild authorities often offered this service.<sup>149</sup> In England, the Statute of Acton Burnell of 1283 and Statute of Merchants of 1285 set up a national system to ‘enroll’ debts. Registers were established in 15 major cities and at the great fairs.<sup>150</sup>

Official registration, by notary or by enrollment, was never universal. For many agreements, the benefits did not justify the additional expense and the reduction in

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<sup>144</sup>Herlihy (1958) Ch 1

<sup>145</sup>Reyerson (2002) Ch 6

<sup>146</sup>Murray (1983)

<sup>147</sup>Stabel (1997)

<sup>148</sup>Verlinden (1971); Bautier (1970)

<sup>149</sup>Berman (1983); Murray (1983); “The official registration of debt, which was similarly developed elsewhere in northern Europe during the thirteenth century, can be regarded as a functional substitute for the notarial registration of obligations which was characteristic of the Mediterranean world.” Britnell (1996)p148-9

<sup>150</sup>Bennett (1989) p119; Moore (1985)

flexibility.<sup>151</sup> At the fairs of Champagne for example, few merchants chose to take advantage of the *registre des foires*.<sup>152</sup> Over time, the use of notaries declined as traveling merchants gave way to resident agents and as the law increasingly recognized the validity of informal records.<sup>153</sup> By the fourteenth century, Italian merchants used notaries only rarely.<sup>154</sup>

### **Completing the deal: netting and settlement**

Some transactions, especially at retail, were spot transactions involving the simultaneous exchange of cash for goods. When merchants closed a deal, even if it was for ‘immediate’ execution, there was usually no more than a handshake and a payment of earnest money. Completion—the actual transfer of goods and settlement—followed later.

#### *The risks and costs of completion*

Completion involves risks. One party may perform, say delivering the promised goods, while the other does not, say failing to pay for the goods he has already received. This type of risk is known as principal risk. The simplest solution, of course, is delivery against payment: simultaneous exchange of goods for money. However, this is often either impossible or costly. Returning to our example, a second type of risk is that the first party may deliver and the second party may pay—but not on time. This is called liquidity risk. The reason this is a problem is because it may prevent the first party from fulfilling his own obligations to others, with possible further domino effects.<sup>155</sup>

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<sup>151</sup>On the relative advantages of formal and informal records, see Kohn (2003c).

<sup>152</sup>Bautier (1970); Moore (1985) The registers seem to have been used more for non-mercantile debt arranged in the financial market associated with the fairs.

<sup>153</sup>Berman (1983)

<sup>154</sup>Herlihy (1958) Ch 1

<sup>155</sup>Generally, completion involves a third type of risk—replacement risk. One party fails to perform, but the other has not yet performed his obligation. There is no direct loss in this case, but the second party now needs to find another deal. If that deal is less favorable than the original one, then there is a loss. Replacement risk seems not to have been much of a concern in the Middle Ages, because ‘uncovered’ forward sales were rare: in most cases, the seller had the goods when he committed to sell them. However, we shall see that markets for derivatives developed in the sixteenth century. Presumably, in those markets, replacement risk was an issue.

Organized markets in the Middle Ages helped mitigate principal and liquidity risk. They offered guarantees of payment as protection against the former and they provided credit facilities as protection against the latter.

Apart from the risks of completion, there are also costs. In the medieval economy, settlement in cash was especially costly and problematic.<sup>156</sup> Coins were poor in quality and scarce in quantity. Counting out and examining individual coins was a time-consuming and painstaking process, and it was often difficult to marshal enough coin to make large payments. Organized markets helped to reduce the cost of settlement. They sought to alleviate the coinage problem by providing moneychangers and mints. They also developed ways of minimizing the need for cash settlement through the netting of obligations and through the use of banks and instruments of remittance.

#### *Settlement in market towns*

In market towns, where retail trade predominated, most transactions were for cash. Market towns, especially the larger ones, often operated a mint to provide the necessary coinage. Indeed, territorial rulers, who controlled the right to mint coin, often accompanied the granting of a market with the granting of a mint. But not all transactions in market towns involved cash: wholesale transactions and transactions that were part of a regular and ongoing trading relationships often involved deferred payment.<sup>157</sup> To reduce the need for settlement in cash, the parties to these transactions often netted debts bilaterally and assigned the debts of third parties to each other in settlement.<sup>158</sup>

#### *Settlement at fairs*

Settlement arrangements at fairs were more structured. Trading was almost exclusively wholesale. However, the parties were often strangers to one another, so that the simple extension of credit was not a viable option. Payment in cash was problematic too, for all the usual reasons plus an additional one. Merchants preferred not to bring cash with them to the fairs but rather goods to trade: they expected to pay for their purchases

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<sup>156</sup>Kohn (1999b)

<sup>157</sup>Masschaele (1997)

<sup>158</sup>Kohn (1999a)

out of the proceeds of their sales.<sup>159</sup> To make it possible for them to do so, some fairs had systems of settlement that virtually eliminated the need for cash.<sup>160</sup>

The system of settlement at the fairs of Champagne in the thirteenth century was the prototype. We have seen that trading in Champagne was divided into periods. In the earlier periods, the buyers were predominantly Italians who paid for their purchases with credits at the fair banks. In the subsequent periods, merchants of other nations used the credits they had acquired in earlier trading to pay for their own purchases from the Italians.<sup>161</sup> The integrity of the system was ensured by the bankers, who guaranteed settlement.

Other fairs, such as those at Medina del Campo, relied on similar mechanisms.<sup>162</sup> Lier in the Low Countries, which hosted an important cattle fair in the fifteenth century, set up a *veetafel* (cattle board) that performed a role similar to that of the fair banks: it extended credit to buyers (from the region) and guaranteed settlement to sellers (who were foreigners).<sup>163</sup>

For some merchants, their sales and purchases exactly balanced out. But others ended the fair with a net credit or debit at the banks. A market developed in which those with credits lent to those with debits, to be repaid at a subsequent fair.

We can think of the system of settlement used at the fairs as a way of netting obligations against one another, obviating the need for settlement in cash. The market for inter-fair loans enabled yet further netting *across* fairs.<sup>164</sup> For example, a merchant who

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<sup>159</sup>See Kohn (1999d) on the economics of this decision.

<sup>160</sup>The English fairs do not seem to have developed a system of settlement, perhaps because of the better state of the coinage in England. Moore (1985)

<sup>161</sup>The bankers were willing to extend credit to Italian merchants, because they themselves were Italians and were therefore able more easily judge their creditworthiness and to collect any unpaid debts. The count allowed Siennese bankers to operate at the fairs beginning in 1222 (Verlinden (1971)). See Kohn (1999c) for a more extensive discussion of the fair banks.

<sup>162</sup>At Medina del Campo, the *bancos de ferias* offered those with credits at the end of the fair the option of immediate payment at a discount of 0.5-1.0% instead of waiting for those with debits to settle (they had 20 days to do so). Usher (1943)

<sup>163</sup>Van der Wee and Aerts (1979)

<sup>164</sup>Nicholas (1992) p 171

bought more than he sold at one fair could balance this by selling more than he bought at another: he did not have to settle his ‘deficit’ in the first fair in cash.<sup>165</sup>

Fairs were also centers for another type of multilateral netting—that involving remittance by bills of exchange. Merchants who wished to purchase at the fair more than they sold, or *vice versa*, needed a way to transfer the excess funds to or from their home city. Shipping coin or bullion was a costly way to do this: remittance by bill of exchange provided a less expensive alternative. To facilitate the netting of payments due on bills of exchange against one another and against debits and credits incurred during the fair, an organized market in bills of exchange was held at the end of the fair to coincide with the settlement period.<sup>166</sup>

Multilateral netting mechanisms such as these work better the larger the number of participants. So an additional advantage of concentrating trading at a fair—to be added to our earlier list—was that it facilitated netting and so reduced the cost of settlement.<sup>167</sup>

The combined markets for inter-fair loans and bills of exchange addressed the problem of liquidity risk. Merchants who lacked the funds to settle either their trading debts or their obligations on bills of exchange could borrow in one of these markets in order to meet their obligations.

Because settlement facilities were so good at the major fairs, many debts contracted elsewhere were made payable at a particular fair. Moreover, the markets for inter-fair loans and bills of exchange soon expanded beyond being merely liquidity facilities and became full-blown financial markets. So, in addition to, and out of, their function as market centers fairs became centers of settlement and finance.<sup>168</sup>

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<sup>165</sup>See Grafe (2001), for example, on the practice at the Castilian fairs or Farmer (1991) on the English fairs.

<sup>166</sup>See Kohn (1999d) for more on bills of exchange.

<sup>167</sup>Usher (1934) Ch 4

<sup>168</sup>Kohn (1999d)

### *Settlement in commercial cities*

Commercial cities too developed systems of settlement that minimized the need for cash. However, since trading in commercial cities was continuous rather than periodic as it was at fairs, different arrangements were needed.

For their retail trade, commercial cities, like market towns relied largely on cash. They too generally had mints to provide the necessary coin. Because foreign merchants visited in large numbers, commercial cities also had numerous moneychangers. These moneychangers, working with the mint, exchanged foreign coin and bullion for local coin.<sup>169</sup>

In some cities, moneychangers evolved into deposit bankers. Deposit bankers held cash for their customers, and they allowed them to make payments to others by transferring ownership of cash deposited with the bank. Deposit bankers also provided credit to their customers by allowing them to overdraw their accounts.

In wholesale trade, where deferred payment was the rule, there was a great deal of settlement by assignment of third-party debt. In fact, payment by transfer of deposits ('payment in bank') can be seen as an extension of assignment. It is a special case in that it relies on a central third-party of known credit whose debt is readily assigned by one merchant to another and so circulates quite freely.

Deposit banks were not the only ones to play the role of trusted third party. Many merchants held balances with the innkeepers and brokers and they settled with one another by transferring balances on the books of these intermediaries.<sup>170</sup> This allowed considerable netting before final settlement in cash or, more likely, 'in bank'.

Innkeepers and brokers often guaranteed settlement for the deals that they mediated. In Bruges, one study found that every single sales contract that involved deferred payment was guaranteed in this way.<sup>171</sup> Innkeepers in Ghent were required to post a bond with the city as security for their guarantees.<sup>172</sup> In Danzig, the city council guaranteed

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<sup>169</sup>Kohn (1999b)

<sup>170</sup>Nicholas (1992); Nicholas (1979) p41

<sup>171</sup>Nicholas (1992) p 299

<sup>172</sup>Nicholas (1987)

settlement of sales contracts.<sup>173</sup> Merchants were frequently concerned—not unjustifiably—about the safety of banks (one reason some preferred to keep their balances with an innkeeper). To allay such concerns, the city of Bruges guaranteed deposits at its banks to members of some associations of foreign merchants.<sup>174</sup> These various types of guarantee all helped to reduce principal risk.

Commercial cities, like fairs, had markets in bills of exchange. However, unlike the periodic markets at the fairs, these markets operated continuously.<sup>175</sup> In Bruges, the exchange market was held in the square opposite the inn of Van der Beurse, called the Beursplein; trading took place there each day during fixed hours, opened and closed by the ringing of a bell.<sup>176</sup>

In commercial cities, bank overdraft and borrowing in the exchange market provided protection against liquidity risk. Such protection was even more necessary than it was at fairs, because trading in commercial cities was continuous. Periodic markets that bunch many transactions at the same point in time face less liquidity risk than do continuous markets that spread transactions relatively thinly over time. As at the great fairs, these liquidity facilities evolved into general financial markets.

### **Resolving disputes: the law merchant**

Trading inevitably involves disputes. This is especially true when performance by one or both parties is deferred, which was the case with most transactions between merchants. Goods were not of the quality promised or not delivered on time; money was not paid as promised, or not paid at all. Organized markets had an incentive to provide a system of order to resolve such disputes. If an organized market provided a system of order that was quick, fair, and inexpensive, it would attract greater trading volume and earn greater revenue.

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<sup>173</sup>Samsonowicz (1994)

<sup>174</sup>See Kohn (1999c).

<sup>175</sup>The demands of settlement in a continuous market led to the evolution of the negotiable bill of exchange in sixteenth century Antwerp (Usher (1934) Ch 4; Kohn (1999d)).

<sup>176</sup>Blockmans (1992)

The likelihood that a dispute would arise depended on the nature of the transaction. A more complex transaction was more likely to go wrong. The risk of non-performance was also higher in transactions with strangers: their reliability was more uncertain, and the systems of order that existed within groups were either unavailable or ineffective. Efficient dispute resolution by markets was therefore of particular importance for these types of transactions. An effective system of order supported more complex transactions, and facilitated trading among strangers.

Any system of order consists of two parts. The first is a set of rules that defines what is expected. The second is a mechanism for enforcing the rules or punishing those who violate them. A system of order can be either informal or formal. With an informal system, the rules are simply the norms and customs that emerge naturally when people work and interact together. The mechanism of enforcement is reputation: an individual who violates the rules damages his reputation, and others will shun him. With a formal system of order, the rules are more explicit, in the form of conventions and laws. The mechanism of enforcement is a legal process before a court, which possesses the power to implement its judgments.

The process of trading, like any human interaction, generated norms and customs.<sup>177</sup> Traders moving from one market to another took these norms and customs with them and taught them to others. Useful ideas were emulated and spread from place to place, and bad ideas were dropped.<sup>178</sup> In this way, there evolved a body of merchant practice that came to be known as the *lex mercatoria* or law merchant. The core of this body of practice evolved in the Mediterranean. Some of it was very ancient—Phoenician and older—and some of it came from Greece or Rome. Early European traders absorbed these traditions through their contact with Byzantium and with the Arab world.<sup>179</sup> As commerce developed in Mediterranean Europe and later in northern Europe, Europeans too made their contributions to merchant practice.

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<sup>177</sup>Abolafia (1998)

<sup>178</sup>Benson (1989)

<sup>179</sup>Bewes (1923); Benson (1998)

Three principles were fundamental to merchant practice—good faith, reciprocity, and informality. Each of these principles emerged naturally from the necessities of commerce

As we have seen, most trading involved promises: true ‘spot’ transactions among merchants were rare. Consequently, for commerce to function at all, promises had to be kept: good faith was essential.<sup>180</sup> In the primacy it gave to good faith, merchant practice differed both from Germanic law and from Roman law: for example, neither of these considered an informal promise, devoid of legal form, to be binding.<sup>181</sup>

Trading involves the exchange of value for value, to mutual benefit—that is, it involves reciprocity. According to the principle of reciprocity, merchant practice required that transactions be entered into voluntarily and fairly, without duress or fraud. It required, too, that no transaction impose costs on the parties disproportionate to the benefits—that is, that the transaction be mutually beneficial.<sup>182</sup>

Finally, the profitability of trading depended on keeping transactions costs low. So merchant practice preferred low-cost informal procedures and eschewed costly formalities.<sup>183</sup> For example, merchant practice recognized account books or handwritten IOUs as evidence of debt and did not require official notarial registration. Similarly, it recognized the informal assignment of debts, without costly formal procedures.

Relying on these three fundamental principles, merchant practice evolved to regulate various types of commercial transaction such as sales, debt, and insurance. It also developed structures and rules for the basic commercial relationships of agency and financing. A substantial part of merchant practice crystallized in the standard documents and contracts that merchants used—bills of sale, bills of exchange, insurance contracts, partnership agreements, and so on.

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<sup>180</sup>“... the rule governing the performance of agreements was quite straight-forward—merchants were obliged to observe their commitments. Good faith was the essence of the mercantile agreement” (Trakman (1983) p 9-10)

<sup>181</sup>Mitchell (1904) Canon law, on the other hand, held that a man should be bound by his word. Canon law, which became ‘commerce-friendly’ in the eleventh century, may have been an important influence on the early development of merchant practice (Berman (1983), Bewes (1923)).

<sup>182</sup>Berman (1983) p 344; Benson (1989).

<sup>183</sup>Benson (1998)

There was considerable similarity in merchant practice across Europe. Partly, this was a result of borrowing and imitation. Partly, it was a result of similar problems giving rise to similar solutions. However, recent research questions the notion—put forward by some historians—that there was a ‘universal’ law merchant governing commerce throughout Europe.<sup>184</sup> It turns out that many specific practices varied from place to place. For example, in most places the payment and acceptance of earnest money made a sale final. However, in Sicily a buyer could withdraw from the deal by forfeiting the earnest.<sup>185</sup> Practice varied even within a single country. At the fair of St. Ives, earnest money did make the sale final. However, in some English towns the seller could back out by repaying double the earnest, and the buyer could withdraw by offering a fixed payment of 10 shillings.<sup>186</sup>

Merchants generally observed the norms and customs of merchant practice. Not to do so meant, at the very least, damage to one’s reputation and a consequently diminished ability to trade with others. When a dispute did arise, merchants preferred to resolve matters informally: they avoided, whenever they could, the cost and uncertainty of litigation.<sup>187</sup> Markets facilitated informal resolution of disputes. The same market professionals who helped merchants find and close a deal—brokers, innkeepers, and notaries—also helped them to resolve any dispute that subsequently arose. Others, too, provided informal mediation. In the cities of thirteenth century Flanders, for example, cloth halls appointed ‘hall lords’ to resolve disputes arising from sales of cloth. Some commercial cities appointed special arbitrators to resolve petty disputes.<sup>188</sup> At the fairs of Champagne, where most contracts were witnessed by Church officials, the parties were

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<sup>184</sup>Berman (1983) and Benson (1989) are among the recent historians who have emphasized the universality of the Law Merchant. Mitchell (1904) was an early dissenter, as was Usher (1934) Ch. 2. For new evidence and a summary of the debate see Sachs (2002).

<sup>185</sup>Mitchell (1904) That is, the parties treated the earnest as a premium on a call option.

<sup>186</sup>Sachs (2002)

<sup>187</sup>Kohn (2003c)

<sup>188</sup>Nicholas (1992) p135

bound to seek the judgment of these officials in case of dispute: those who failed to comply with their judgment risked excommunication.<sup>189</sup>

When merchants did decide to go to court, they faced a choice of venue. There were many courts to choose from. First there were the non-mercantile courts—the seigneurial court of the local lord, the court of the territorial ruler, and the ecclesiastical court. Then there were various courts established by different merchant associations—by guilds, towns, and merchant colonies.<sup>190</sup> Generally, merchants preferred the mercantile courts, and merchant associations often required their members to settle disputes in the court of the association. However, merchants did use non-mercantile courts when no mercantile court was available, or to appeal the decision of a mercantile court, or simply in the hope of a more favorable outcome.

Those who controlled market centers, the organizers of the market and the territorial rulers, established courts to resolve disputes. While these courts did generate revenue, their main purpose was to provide a service necessary to the functioning of the market.<sup>191</sup> As was the case with regulation, the courts of market centers served the interests of those who were in control. There was a tension, here too, between a desire to favor locals and a wish to maximize revenue from the market by making it attractive to strangers.<sup>192</sup> The courts of market towns, with little *entrepôt* trade and few strangers, tended unashamedly

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<sup>189</sup>Bautier (1970) With the French takeover of the fairs, merchants shifted to registering contracts with the warden of the fairs.

<sup>190</sup>See Kohn (2003d) on merchant associations and their courts.

<sup>191</sup>“It would be useful to re-examine the frequent claim by medieval historians that the right to hold court was an eagerly sought-after source of great profit among feudal leaders. That the abbot’s fair was a profitable enterprise cannot be doubted, but it would seem that, for the abbot of Ramsey, the fair court was a rather burdensome ancillary to that fair.” Moore (1985) p 200. At the fairs of St. Giles in 1299, for example, court fees amounted to only 3% of gross revenue (without accounting for the cost of operating the court).

<sup>192</sup>“It was... essential for towns or their lords to provide summary jurisdiction to settle arguments over debts or contracts, in a manner which ensured fair treatment for the trader from outside; otherwise, there would be no visiting merchants.” Farmer (1991)p424

to favor the locals.<sup>193</sup> The courts of fairs, catering exclusively to entrepôt trade and with most traders being strangers, generally provided them with impartial justice. The courts of commercial cities varied: some were relatively impartial, others were less so. In many market centers, associations of foreign merchants won the right to hold their own courts.<sup>194</sup> For example, in 1245 the counts of Champagne exempted the merchants of Rome, Tuscany, Lombardy, and Provence from the jurisdiction of the wardens of the fair and granted them the right to their own justice.<sup>195</sup>

Mercantile courts and non-mercantile courts that catered to merchants—such as the seigniorial courts of the fairs—adopted procedures that met the needs of their customers. While the legal process in non-mercantile courts tended to drag on—sometimes for years, merchants could not wait. This was especially true in the era of traveling merchants; but even later, when merchants relied on resident agents, time was money. Justice was therefore prompt. For example, in one case in Colchester in 1458, the plaintiff filed suit for recovery of debt at eight in the morning; when the defendant failed to answer the court’s summons at nine, ten, and eleven, the court, at noon, ordered his goods seized and valued. The appraiser reported back at four, and the court immediately delivered the goods to the plaintiff.<sup>196</sup> To expedite matters, and consistent with the informality of merchant practice, courts that served merchants tended to dispense with formalities and to disregard abstruse legal niceties. No professional lawyers were allowed, and technical legal argumentation was discouraged.<sup>197</sup> Often, there was no appeal.<sup>198</sup>

Fair courts, perhaps as early as the tenth century, were the first to rely on merchant practice (the law merchant) in deciding commercial disputes. As we have seen, fairs were a sort of “offshore” market, outside the general rules of society. Moreover, they were profit-seeking enterprises seeking to attract traders. So they had both the freedom and the

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<sup>193</sup>“There are hints that local pressure sometimes operated powerfully in favour of local men in debt disputes and this may have been one reason for using the royal courts.” Kermode (1998)p236

<sup>194</sup>See Kohn (2003d)

<sup>195</sup>[Verlinden, 1971 #839]

<sup>196</sup>[Farmer, 1991 #1974]

<sup>197</sup>Berman (1983) Ch 11

<sup>198</sup>Mitchell (1904)

motive to be innovative in their administration of justice.<sup>199</sup> Fair courts were special seigniorial courts set up by the lord of the fair to resolve disputes and to maintain order.<sup>200</sup> They dealt with commercial issues, but they dealt too with cases of assault and theft and with violations of health and safety regulations.<sup>201</sup> In commercial cases, fair courts sought to apply merchant norms and customs, and they called on juries of merchants to decide both issues of fact and issues of law.<sup>202</sup>

When towns gained the right to their own courts, beginning in the twelfth century, they naturally took merchant practice as their guide.<sup>203</sup> They generally adopted the procedures and the law that had already developed at the fairs. Some cities collected these laws in written codes, and these codes circulated, helping to unify the practice of commercial law.<sup>204</sup> The courts of territorial rulers, too, came to adopt the procedures of merchant courts and to apply the law merchant when dealing with commercial cases.<sup>205</sup> However, civil courts generally lagged behind mercantile courts in accepting innovations.

Courts mostly enforced their decisions by physical force—with the aid of bailiffs, sheriffs, or the ‘guards of the fair’. Enforcement was a problem, however, if the

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<sup>199</sup>“In times and countries... where the central power is weak and the merchant and his disputes appear before courts secure from all effective control, the growth of a separate law may be expected. It does not seem too much to say that out of the immunity of market and fair courts rose the Law Merchant.” Mitchell (1904)p27

<sup>200</sup>Sachs (2002) At St. Ives, the right to hold a fair was granted to the abbot of Ramsey by the king and this included the right to collect tolls and the right to hold a court. At some fairs, the normal town courts were closed for the duration of the fair (Farmer (1991)).

<sup>201</sup>Rogers (1995); Moore (1985) Major crimes, such as murder, went to the court of the territorial ruler.

<sup>202</sup>It was quite usual for seigniorial courts to call on a jury of the defendant’s peers to decide a case—not only in commercial cases. At the fair of St. Ives, the legal principles on which decisions were based in commercial cases included not only merchant practice but also the will of the abbot, the king’s will, and royal statutes Sachs (2002). See also Moore (1985).

<sup>203</sup>Mitchell (1904)

<sup>204</sup>“The Italian cities took the lead in collecting systematically and enacting the customary rules by which commercial activity was governed.” Berman (1983)p341. Examples include the Customs of Genoa 1056, the *Constitutum Usus* of Pisa 1161, and the Book of Customs of Milan of 1216.

<sup>205</sup>Rogers (1995)

defendant was not present or if he had insufficient assets with him. This was often the case in commercial disputes, especially at fairs. A common solution was to hold the townsmen of the defendant or the members of his merchant association responsible and to seize their goods to satisfy the judgment.<sup>206</sup> The fairs of Champagne, in enforcing debts registered in the fair registers, would send word to the defaulter's home city requesting that it collect the debt. If the city failed to do so, all merchants from the offending city would be excluded from the fairs.<sup>207</sup>

### **PRIVATE TRADING AND ITS CONSEQUENCES**

Much trading in the Middle Ages took place in organized markets. However, there was always significant private trading—trading that was not regulated or mediated by any organized market. Private trading took place on the fringes of the organized market in market centers and it took place completely outside market centers. The importance of private trading increased over the centuries, and this had a significant effect on organized markets.<sup>208</sup>

#### **Types of private trading**

The many and repeated attempts by towns to prohibit forestalling and trading outside the time and place of the official market are themselves testimony to significant 'off-market' trading.<sup>209</sup> Fourteenth-century Exeter, for example, designated specific marketplaces for the sale of oats and wheat.<sup>210</sup> Yet, despite heavy fines for trading outside these official markets, considerable private trading took place in neighboring streets and on the roads into the city. Vendors sold as well at retail in private houses, using unofficial measures.<sup>211</sup> Inns played an important role in wholesale trade, with the innkeepers themselves often involved in trading grain.<sup>212</sup>

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<sup>206</sup>See Kohn (2003d) on this system of 'community responsibility' (the term is Greif's).

<sup>207</sup>Bautier (1970); Bautier (1971)

<sup>208</sup>For example, Muldrew (1998) estimates that in seventeenth-century England the volume of private trading equaled the volume of trading in official markets.

<sup>209</sup>See Kiessling (1996) on Germany in the late Middle Ages.

<sup>210</sup>Kowaleski (1995)

<sup>211</sup>In many towns bakers, who traded too in the official market, would sell grain illegally from their shops (Gras (1915)).

In the wholesale trade of commercial cities, ‘off-market’ trading meant trading without the mediation of an official broker. As we have seen, unofficial brokers were common, with innkeepers often playing this role. Merchants also traded directly with one another, dispensing with the services of a broker altogether. In Bruges, for example, although the use of an official broker was required, the Italians often traded with English merchants directly. English merchants too did much of their business without the benefit of brokers.<sup>213</sup> In Venice, the extraordinary steps taken to prevent German merchants from trading outside the regulated market is testimony to the difficulty of preventing them from doing so.

Apart from private trading in market centers, there was extensive private trading in the countryside. Traders who met at a fair, for example, might arrange to meet at a later date for private trading “unhampered by the formalities and tolls of the fair.”<sup>214</sup> They would agree to meet on the estate or the farm of the seller or, frequently, at a convenient inn nearby.

The trade in English wool provides a good example of the growing importance of private trading.<sup>215</sup> In the thirteenth century, most wool was sold at the great English fairs, with merchants from Flanders being the principal buyers. However, by the fourteenth century, an increasingly large proportion was being sold directly to merchants. This was especially true for the output of the largest producers—the great monastic estates of the Cistercians. The purchasers—now mainly Italian—would ride from abbey to abbey, buying up the year’s crop and often contracting for several years’ crop in advance. To facilitate this trade, there were lists circulating of monasteries having wool for sale, with details on quantity and quality.

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<sup>212</sup>See also Everitt (1967) and Muldrew (1998) on the importance of inns as locations of private trading. The latter describes a transaction in which Nicholas Smith of Ipswich purchased ten combs of barley from a farmer, after examining a sample, and closed the deal by downing two pots of beer with him in the presence of witnesses.

<sup>213</sup>Nicholas (1979) p 41

<sup>214</sup>Farmer (1991) p 342

<sup>215</sup>The following is largely based on Power (1942).

The great estates of the monasteries, however, accounted for only part of the total output of wool. A larger amount was produced by a myriad of small owners and peasants.<sup>216</sup> Given the considerable transactions costs involved, it was not worthwhile for merchant exporters to purchase directly from these small producers. However, intermediaries gathered their output and resold it to the exporters. Among these intermediaries were the abbeys themselves. They would often contract to deliver considerably more than their own output, making up the difference with local purchases (this wool was known as *collecta* to distinguish it from abbey's own output).

Local merchants would also act as intermediaries, purchasing wool in the countryside and selling it to the exporters. As the great estates declined in the late Middle Ages, these 'woolmen' or 'broggers' (brokers) became increasingly important.<sup>217</sup> Broggers would generally purchase wool after the shearing in June and store it in their warehouses until November, when exporters—by the fifteenth century, no longer Italian but English 'staplers'—would come to buy from them. The exporters would examine samples and, if the wool met their satisfaction, contract to have so many sack-weights or bales delivered to London or to some other authorized port.

The story was much the same with grain. Perhaps as early as the twelfth century, London cornmongers were purchasing grain directly in the countryside, sometimes buying up the entire crop of large estates, to supply the London market. These dealers would store the grain in their own storehouses, selling it over time to London retailers and to large consumers.<sup>218</sup> Large consumers of grain generally preferred to buy from dealers. For example, in 1433, the abbey of Peterborough purchased 95% of its requirements from a single cornmonger and none at all at any market or fair.<sup>219</sup> By the sixteenth century, London retailers were buying directly from provincial dealers

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<sup>216</sup>“High rollers usually managed to sew up private contracts with major individual producers, but... the principal source of supply in this period came from the aggregate production of myriad peasant households.” (Masschaele (1997)p137)

<sup>217</sup>Hanham (1985)

<sup>218</sup>See Kohn (2001b).

<sup>219</sup>Farmer (1991) p421

(‘badgers’ or ‘broggers’) who often processed the grain for them—milling or malting it—before shipping it to London.<sup>220</sup>

There was considerable private trading too in manufactured goods.<sup>221</sup> For example, by the mid-thirteenth century, Italian merchants were no longer traveling back and forth to the fairs of Champagne, choosing instead to keep agents permanently in the north. These agents would go from town to town in the woolen-producing regions of northern France and Flanders, examining cloth and placing orders to be delivered at the next Champagne fair.<sup>222</sup>

From the fourteenth century, the nature of manufacturing began to change—both its organization and the type of goods it produced. Manufacturers increasingly ‘outsourced’ part of the production process to the countryside where labor was cheaper. In addition, as output shifted from luxury goods to relatively low-quality mass-market items, production increasingly took place in small towns and in the countryside rather than in the major cities.<sup>223</sup> Most of the trade in rural manufactures was mediated through private transactions with urban merchants rather than through organized markets. For example, in the sixteenth century, the town of Hondschoote was an important center of production of serges (a type of inexpensive woolen). Merchants from Antwerp generally had local agents who would buy fabrics for them from the town’s many *drapiers*—small producers, each employing two or three workers.<sup>224</sup>

### **The reasons for the growth of private trading**

Why the steady increase in the relative importance of private trading? As we have seen, organized markets had important advantages, most of which stemmed from the concentration of trading. However, as we have also seen, the benefits of concentration bestowed on those who controlled a market a certain degree of power. They exploited

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<sup>220</sup>Fisher (1935); Gras (1915) Ch. 7 has a detailed discussion of the various types of dealers involved in supplying London in the sixteenth century.

<sup>221</sup>And in minerals. The growing English trade in coal, for example, was organized by wholesale merchants in Newcastle. Britnell (1996) Ch. 7

<sup>222</sup>Bautier (1970)

<sup>223</sup>See Kohn (2001d) on these changes and the reasons for them.

<sup>224</sup>Van Werweke (1954)

this either to bias trading in favor of a particular group or to extract revenue from the market, so raising the cost of using it. Much of the private trading in and around organized markets was simply an attempt to capture the benefits while avoiding the costs.<sup>225</sup> Private trading away from organized markets not only avoided the costs, but also gave up the benefits— although, as we shall see, not entirely.<sup>226</sup>

Naturally, the increase in private trading meant a loss of revenue for the organizers of markets.<sup>227</sup> Individual towns could not do much about this. However, territorial rulers—the other principal beneficiary of revenues from organized markets—believed they could. In England, for example, where there was a dramatic growth in private trading in the sixteenth century, successive governments passed a series of laws intended to suppress private trading, especially in grain. Although the supporting rhetoric spoke of consumer protection and assuring the supply of food, it is pretty clear that the motivation was predominantly fiscal. The laws, however, were not particularly effective, and they created a great deal of ill will.<sup>228</sup>

Another reason for the growth of private trading, especially in commercial centers was an ongoing change in the way commerce was organized. At the beginning of the period, merchants themselves or their agents traveled with their goods to distant markets. However, during the thirteenth century, the traveling merchant or agent largely gave way to the resident agent who stayed in a distant market center for a period of years.<sup>229</sup> As a result of his continued residence, such an agent learned about trading opportunities and

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<sup>225</sup>In addition, small unofficial markets sprang up in places where people congregated. For example, in 1400 the bishop of Exeter suppressed an illegal market that had developed in the church and churchyard of Dotton in Devon (Bailey (1999)).

<sup>226</sup>The tension between the benefits and the costs of concentration of trading are seen today in the competition between securities exchanges and off-exchange trading: see Kohn (2003e) Ch. 17.

<sup>227</sup>“... a high and probably increasing proportion of the produce of the countryside evaded altogether the tolls and other restrictions imposed in formal markets and fairs; hence much of the decline in urban revenues in the fourteenth century.” Farmer (1991) p 421

<sup>228</sup>Everitt (1967); Overton (1996); Nielsen (1998) Merchants engaged in private trading were among the most enthusiastic supporters of the Great Rebellion, and one of the first acts of the Long Parliament was to repeal the laws against private trading.

<sup>229</sup>See Kohn (2003b) for the reasons for this change.

about the reputations of other traders. It was not surprising, therefore, that he would have less need for the services of a broker.<sup>230</sup>

Private trading outside market centers was driven by competition among merchants for sources of supply. The export trade in English wool is a good example. In the thirteenth century, English wool sold in Flanders for roughly double its price in England: despite taxes, transportation costs, and so on, profit margins were huge. “The key to these high profits lay in getting hold of supplies before the competition did, and the only way to do this successfully was to travel to the points of production.”<sup>231</sup> Italian merchants did just this, and they largely succeeded in taking this trade away from the Flemish merchants who had previously dominated it. It helped too, that the Italians had the liquidity to pay for their purchases in advance.<sup>232</sup> The expansion of private trading in sixteenth century England was driven by the same sort of competition among merchants. At the time, London was growing rapidly, with consequently rapid growth in the demand for supplies, especially of food and fuel.<sup>233</sup>

The changes in the nature of manufacturing also favored reliance on intermediaries over direct exchange in open markets.<sup>234</sup> Rural producers, unsupervised by any guild, turned out goods of greatly varying quality. Buying such goods from anonymous producers in an open market would have involved considerable risk. In contrast, a dealer who purchased on a regular basis came to know on whom he could rely. The continuing relationship with the dealer provided producers with an incentive to maintain

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<sup>230</sup>Favier (1998) Ch. 3

<sup>231</sup>Masschaele (1997) p 137

<sup>232</sup>Power (1942) The advance payments (*arra*) were a form of lending, much needed by the cash-strapped monasteries. Implicit rates of interest were quite high.

<sup>233</sup>“...a whole community of factors and drovers came into being to serve the London market—travelling up from the country, or traversing the provinces in search of cattle, corn, and fruit.” Everitt (1967) p 512 There was also a rapidly growing demand to supply the royal household and to provision the armed forces.

<sup>234</sup>Moore (1985) argues that while the fairs were appropriate for trading in fine woolens, other methods of trading were more appropriate for cheaper cloth.

quality.<sup>235</sup> The dealer himself, because of his continuing relationships with his customers had an incentive to offer goods of satisfactory quality.

### **The problems of private trading**

When merchants engaged in private trading, they gave up the benefits of an organized market.<sup>236</sup> Clearly, they were able find a deal without the help of the market, but some of the other benefits were harder to forgo.

As we have seen, market regulations, public records, and market courts provided traders with some protection against misbehavior by a counterparty. In private trading, without these safeguards, traders had to be much more careful in their dealings: dealings with strangers were particularly risky. Consequently, a great deal of private trading involved parties who were connected by family, place of origin, or continuing relationship:

The organization of private marketing resembled neither the corporate system of the market town nor the individualism of modern commerce.... private marketing was not without its own strict body of custom, and its bonds were still personal and local. It was, in a word, a system of enterprise operating within a network of personal connections.<sup>237</sup>

However, even personal connections did not ensure there would be no problems. The rapid expansion of private trading in sixteenth century England, for example, was accompanied by an equally rapid expansion in the number of lawsuits.<sup>238</sup>

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<sup>235</sup>The dealer typically not only purchased output, but also provided raw materials and financing. See Kohn (2001d).

<sup>236</sup>Bailey (1999)

<sup>237</sup>Everitt (1967) p 552. Similarly, in the private trade in English wool: “Merchants in Leicester expected to beat their competitors to the supplies of wool in the hinterland of the town because they knew where and when to go for the best markets, and they probably also counted on personal contacts and established reputations in their dealings with the region.” (Masschaele (1997) p138); “A network of well-nurtured contacts underpinned the wool merchant’s business and was one of his most important assets.” (Kermode (1998) p 201).

<sup>238</sup>Everitt (1967) suggests that the underlying reason for the large number of disputes was the generally low level of education and the consequently poor recordkeeping. See Kohn (2003c) on the demands of recordkeeping and on merchant education.

Private trading was particularly risky for smaller producers. A continuing relationship with them was less valuable to a potential purchaser, so cheating was less costly. Also, small producers were less well informed about market prices and about the trustworthiness of buyers. This meant that they were reluctant to extend credit, and this only added to the already high cost of trading with them. It was the small producers, therefore, who were most likely to continue to patronize official markets.<sup>239</sup>

As we have seen, organized markets lowered the cost of completing a deal by providing facilities for netting and settlement. This was one benefit of an organized market that private traders were loathe to forgo: indeed, they often did not forgo it. Private transactions that were closed somewhere else were often settled through the facilities of some organized market.<sup>240</sup> For example, the Italian merchants who visited Flanders to purchase cloth directly typically arranged to have the cloth delivered to the fairs of Champagne, where they would also make payment.<sup>241</sup> This allowed them to exploit the excellent system of settlement at the fairs, as well as the associated facilities for remittance and credit. Similarly, in England, merchants purchasing wool directly from producers contracted to have it delivered at the Boston fair and to pay for it there.<sup>242</sup>

Those engaged in private trading took advantage too of the market information produced by trading in organized markets. Private traders bargained over the price, but they needed a point of reference for their bargaining. This was provided by the prices current in organized markets.<sup>243</sup>

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<sup>239</sup>Bernstein (1992) describes a similar phenomenon in today's diamond trade, with smaller traders preferring to use the bourse and larger traders trading off-market.

<sup>240</sup>This is the case today with off-market trading in stocks that is cleared and settled through the systems of organized stock exchanges: see Kohn (2003e) Ch 17.

<sup>241</sup>Bautier (1970)

<sup>242</sup>Moore (1985)

<sup>243</sup>Muldrew (1998). There is again a parallel with off-market trading in stocks today, which relies on organized stock exchanges for price formation: see Kohn (2003e) Ch 17.

### The decline of markets and fairs

The steady increase in private trading reduced the volume of trading at markets and fairs. Many of them consequently ceased to be profitable and shut down.<sup>244</sup> In England, for example, between the thirteenth and the sixteenth century, the number of town markets declined by about two thirds.<sup>245</sup> The great fairs of England ended their role in international trade in the fourteenth century.<sup>246</sup>

The fairs of Champagne too came to an end in the fourteenth century. Although they were finished off by the wars that interrupted the inter-zone trade that they mediated, their decline had begun much earlier.<sup>247</sup> By the end of the thirteenth century private trading had largely eroded their role as a market for goods. Their settlement facilities, however, together with their associated markets for financing and remittance, continued to serve inter-zone trade. When the wars ended and inter-zone trade resumed, these settlement functions were taken up by other fairs—those of Brabant, Geneva, Lyons, and Piacenza.<sup>248</sup>

This same pattern of ‘degeneration’—from goods market to center for settlement and financial services—was repeated at the fairs of Castile in the sixteenth century. The fairs rose to prominence in the fifteenth century as centers for the export trade in wool—much like the English fairs several centuries earlier. However, the Burgalese merchants who controlled this trade increasingly purchased directly from producers, and used the fairs

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<sup>244</sup>Bailey (1999)

<sup>245</sup>Everitt (1967); Britnell (1996); Dyer (1989)

<sup>246</sup>Moore (1985) Ch 6. The structure of the fair was no longer needed because: “Sales of wool were increasingly negotiated in the wool-growing regions themselves, by professional wool staplers not concerned to sell cloth or other commodities in any quantity at the same time as they purchased the wool.” (p 220)

<sup>247</sup>Bautier (1970); “The money fairs grew later, it would seem evident *a priori*, out of the operations in the period of ‘exchanges’ in the Champagne fairs, the earlier periods of merchandising having faded out because no longer so necessary.” Reynolds (1952). On the effect of the war, see Kohn (2001a). War was also a factor in the demise of the English fairs and of the Flemish fairs, which came to an end at about the same time.

<sup>248</sup>See Kohn (1999d).

only for delivery and payment.<sup>249</sup> The financial market of the fair, originally an adjunct to its settlement system, ballooned in the sixteenth century when it became the center of government finance for the Spanish crown.<sup>250</sup>

Markets and fairs by no means disappeared entirely. Town markets, although fewer in number, continued to play an important role in retail trade. They remained the place where countrymen of modest means went to buy and sell food products and to purchase manufactured goods.<sup>251</sup> Far from disappearing, a large number of new regional fairs sprang up across Europe from the middle of the fourteenth century. The stimulus for this seems to have been contemporaneous changes that were taking place both in agriculture and in manufacturing.<sup>252</sup> In agriculture, there was increasing regional specialization and a shift from the production of grain to animal husbandry.<sup>253</sup> Most of the new fairs come into existence to facilitate the wholesale trade in livestock and animal products. In manufacturing, as we have seen, there was a shift from the production of luxury, high-quality textiles in the cities to the production of lower-quality, cheaper textiles in the countryside.<sup>254</sup> Some of the new fairs facilitated the wholesale trade in these mass-market woolens and linens.

### **Commercial deepening**

Private trading led to a proliferation of middlemen. Rather than producers and consumers trading with one another directly, producers increasingly sold to middlemen, and consumers increasingly purchased from middlemen. Over time, the chain of middlemen between producer and consumer lengthened and became more complex.

Retail trade shifted from open markets to shops: instead of buying from farmers and craftsmen in the market square, consumers bought from specialized retail merchants. Their shops offered consumers several advantages. Unlike markets, which were held only

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<sup>249</sup>Mathers (1988); Grafe (2001)

<sup>250</sup>Van der Wee (1977); Usher (1943); Davis (1973) Ch. 4; Grafe (2001)

<sup>251</sup>“... the economy of many small towns seem to have been bound up with the spending of consumers of modest means, above all the peasantry.” (Dyer (1989)p 325). See also Everitt (1967); Muldrew (1998).

<sup>252</sup>Epstein (1994); Epstein (2000)

<sup>253</sup>Kohn (2001c)

<sup>254</sup>Kohn (2001d)

once or twice a week, shops were always there, offering easy access to a wide selection of goods.<sup>255</sup> Also, shopkeepers offered their regular customers credit, payment by installment, and sometimes even loans.<sup>256</sup>

Some shopkeepers were local merchants who had chosen to specialize in retail trade. Such a merchant might become, for example, a ‘mercier’ selling fabric, lace, pins, thread, ribbons, buttons, and so on; or he might become a ‘grocer’ selling goods such as dried fruit, spices, drugs, soap, and sugar.<sup>257</sup> Other shopkeepers were craftsmen who, in addition to selling their own handiwork, became middlemen in goods they purchased from others. Bakers, for example, commonly sold grain and flour in addition to the bread and cakes that they baked.

For a shop to be profitable, there had to be a sufficient volume of business. So, naturally, shops emerged first in the bustling commercial cities of the Mediterranean: there were specialized retailers in Genoa as early as the mid-twelfth century.<sup>258</sup> Specialized retailers emerged later in other places, and were relatively common in many places by the sixteenth century.<sup>259</sup> In England, for example, the city of Norwich boasted no less than 150 grocers, 48 mercers, and 29 butchers.<sup>260</sup> Even the smallest towns had their shops: for example, in 1578 James Backhouse in Kirkby Lonsdale in Westmoreland offered his customers Spanish silk and French garters, Norwich lace and Oxford gloves, Turkey purses, groceries and stationery—a variety of goods that “would not have disgraced a York or Exeter or perhaps even a London shopkeeper”.<sup>261</sup>

The same differentiation and specialization that occurred at the retail level took place at all levels of trade. The expansion of the market led to a division of labor among merchants. There were merchants who specialized in gathering up the output—whether agricultural or industrial—in the producing regions. These merchants sold to others in

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<sup>255</sup>In the jargon of markets, shops offered immediacy and liquidity.

<sup>256</sup>Marshall (1999)

<sup>257</sup>Palliser (1983) Ch. 9

<sup>258</sup>Lopez (1987) In these shops, “Credit sales and sales by installment were commonplace.” p 370

<sup>259</sup>Muldrew (1998)

<sup>260</sup>Willan (1976)

<sup>261</sup>Palliser (1983) p 266

regional centers who specialized in trade with the larger commercial centers. There, yet other merchants sold the product either to exporters or to local retailers. There was a similar chain of middlemen linking importers and local retailers.<sup>262</sup>

### **The development of metropolitan markets**

Private trading and the resulting deepening of the commercial structure lowered trading costs. Obviously, private trading avoided the burden of tolls and taxes collected in official markets.<sup>263</sup> But it lowered trading costs in other ways too. Continuing relationships fostered trust and this facilitated the extension of credit and sale by sample. Regular shipment of goods from one place to another created a demand for reliable transportation and communications which led to the emergence of common carriers and mail services.

By the sixteenth century, lower trading costs created a number of extensive ‘metropolitan markets’ centered on major cities in northwest Europe—notably on Antwerp, Amsterdam, and London.<sup>264</sup> Such metropolitan markets were much larger than merely regional markets. The metropolitan market centered on London, for example, encompassed much of England and Wales.<sup>265</sup>

Within a metropolitan market prices tended to move together, differing from place to place mainly by the cost of transportation.<sup>266</sup>

The price of grain in London, for example, determined its price throughout its metropolitan market. London’s sphere of influence extended well beyond the regions that

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<sup>262</sup>Westerfield (1915) describes in rich detail the structure of English commerce somewhat later, in the period 1660-1760.

<sup>263</sup>Nielsen (1998) argues that attempts to restrict private trading in the sixteenth century may have improved the quality of local markets, but only at the expense of raising the cost of integrating larger areas into a single market.

<sup>264</sup>See Van der Wee (1963) on Antwerp, de Vries and van der Woude (1997) on Amsterdam, and Kerridge (1985) on London.

<sup>265</sup>Gras (1915); Kerridge (1988)

<sup>266</sup>“Irrespective of whether they passed through London or were transported cross-country, all goods sold at London prices, give or take the cost of carriage; and London was the head and heart of a congeries of all these metropolitan markets.” Kerridge (1985)p 216

supplied it directly. Although there was no trade in grain between London and Bristol, for example, Salisbury could supply either city, so that arbitrage by Salisbury cornmongers kept Bristol prices in line with those of London. Bristol, in turn, sent grain to South Wales, so the price there, too, tended to move with the price in London.

A metropolitan market was not, however, merely an extended hinterland for provisioning a metropolis. The metropolis was an entrepôt for trade within the area of the metropolitan market and for the trade of this area with foreign markets. In England, the relatively low cost of trading with London made it the natural outlet for the export of woolen cloth, England's most important export.<sup>267</sup> London also mediated the no less important *domestic* trade in woolens: as Daniel Defoe later wrote, "Norwich buys Exeter serges, Exeter buys Norwich stuffs, all at London."<sup>268</sup>

### **TOWARDS MODERN MARKETS**

Increased private trading and the consequent creation of metropolitan markets led to significant change in the organized markets of commercial cities. In the sixteenth century these markets were evolving from their medieval form into a new type of organized market—the 'bourse market'.<sup>269</sup>

The archetype of the bourse market was Antwerp. From the fourteenth century, Antwerp and Bergen-op-Zoom each hosted two of the annual cycle of four fairs of Brabant. By the late fifteenth century, Antwerp had grown into an important commercial center and was competing with Bruges for commercial dominance of the northern zone of European trade.<sup>270</sup> As the volume of business at Antwerp grew, trading increasingly

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<sup>267</sup>The monopoly of London merchants on much of the export trade certainly reinforced the position of London in this respect. There was a huge expansion of exports in the sixteenth century, from 20,00 cloths a year to 100,000, with a corresponding expansion of imports: much of this passed through London (Ramsay (1975)).

<sup>268</sup>Defoe (1869 [1725-7]) #1432], writing of the early eighteenth century, and quoted in Kerridge (1985)p 215.

<sup>269</sup>Ehrenberg (1928) uses the term 'bourse center' for this type of market. Kerridge (1988) calls it a 'mature metropolitan market'. Usher (1943) describes trading in such a center as 'warehouse trade'.

<sup>270</sup>See Kohn (2001b) on the rise of Antwerp as a major commercial center.

extended beyond the official time of the fairs—much to the annoyance of Bruges.<sup>271</sup> By the 1530s, Antwerp had displaced Bruges to become the center of trade, not only in the northern zone, but in the whole of Europe and in much of the world.<sup>272</sup> The fair had essentially become permanent.<sup>273</sup>

The organized market at Antwerp differed significantly from that of the typical medieval commercial city. It was much less regulated, allowing foreign merchants complete freedom to trade as they wished. Antwerp's trading system was also different: trading took place in warehouses and exchanges rather than in pitched markets and trading halls. And its methods of netting and settlement were new and different.

Antwerp was not the only city to develop a bourse market. Amsterdam and London were in the sixteenth century satellites of Antwerp. Like Antwerp, each was the center of an extensive metropolitan market and each conducted a significant *entrepôt* trade.<sup>274</sup> The organized markets of both cities evolved along lines similar to those of Antwerp. Lyons, another satellite, began like Antwerp as a fair and like it slowly became a permanent market with similar structure.<sup>275</sup> Even Bruges was forced by competition to imitate Antwerp in the structure of its organized market.<sup>276</sup>

### **Deregulation**

While Bruges had been relatively free by medieval standards—certainly compared to Venice—Antwerp went much further in allowing foreign merchants to trade as they wished. In Venice, foreigners were permitted to trade only with Venetians and in strictly controlled circumstances; in Bruges foreigners were allowed to trade with one another, but only through the offices of a local broker; in Antwerp, there were no restrictions at

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<sup>271</sup>Van Houtte (1977)

<sup>272</sup>Braudel (1984)p 142

<sup>273</sup>Bindoff (1958); Van der Wee (1963)

<sup>274</sup>Amsterdam was the *entrepôt* for trade with the Baltic, especially in grain: see Kohn (2001b). After the fall of Antwerp to the Spanish in 1585, business largely moved to Amsterdam, which rapidly replaced Antwerp as the great international *entrepôt*.

<sup>275</sup>Van der Wee (1977)

<sup>276</sup>Bindoff (1958)

all.<sup>277</sup> Antwerp was, indeed, a highly cosmopolitan city, where foreigners were welcomed and were treated as equals.<sup>278</sup>

The lack of regulation in Antwerp was to some extent a legacy of its history as a fair. The regulations, or lack thereof, of the fair became permanent together with the trading of the fair.<sup>279</sup> But the lack of regulation was also a consequence of the intense competition among the cities of the Low Countries for entrepôt trade.

In the fifteenth century, the dukes of Burgundy had vigorously promoted freedom of commerce in the Netherlands.<sup>280</sup> They had bought out tolls, guaranteed safe passage, improved the security of roads, suppressed inland duties, and granted generous privileges to foreign merchants. The removal of barriers to trade, both internal and external, led to intense competition among the commercial cities of the region to capture entrepôt trade. In the north, Amsterdam was the winner of this contest, and in the south it was Antwerp. For both of these cities, geographic location was an important factor, but for both there were also specific commercial reasons for their success. In the case of Amsterdam the most important was its increasingly efficient merchant marine. In the case of Antwerp, its competitive edge lay in its strategy of low taxes and commercial freedom.<sup>281</sup>

One reason Antwerp may have chosen this strategy was that the city was run not by its merchants but by a landed oligarchy.<sup>282</sup> The municipal government, therefore, cared little for protecting the interests of local merchants or producers. For example, when Bruges banned the import of English cloth to protect the Flemish textile industry,

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<sup>277</sup>Ehrenberg (1928); Pirenne (1938); Van Houtte (1966). “Antwerp was above all a market, that is to say, a neutral territory where merchants from all countries and of all religions came together in a state of perfect equality under an impartial protection. It was the realization of the ideal of fairs.” (Gens (1861) p344-5) quoted by Cox (1959) p 268

<sup>278</sup>de Roover (1956) p 105

<sup>279</sup>Ehrenberg (1928)

<sup>280</sup>Gens (1861) p341, quoted by Cox (1959) p 266

<sup>281</sup>Ramsay (1975). “Commercial freedom itself, then, became the basis of the city’s wealth.” Cox (1959) p268

<sup>282</sup>Ramsay (1975)

Antwerp quickly extended the English an invitation.<sup>283</sup> Those in control of Antwerp presumably hoped that by attracting foreign merchants and boosting entrepôt trade they would promote rapid urban growth and rising land values. If so, they were not disappointed.

There were parallels to the pattern of Antwerp in the early rise of London as a commercial center.<sup>284</sup> Between 1285 and 1298, Edward I had imposed on the city—against strong resistance from its merchants—equal rights for aliens (meaning merchants from other cities as well as foreigners). This freedom helped London capture much of the entrepôt trade that had previously been conducted at the great fairs.

### **Changes in commercial organization**

The trading system of Antwerp and of the other bourse markets differed from that of the typical medieval city because it had to meet different needs. Increased private trading contributed to, and was in turn promoted by, changes in business organization and in commercial practice. These changes—principally the use of commission agents and sale by sample—both facilitated and required changes in the trading system.

#### *Commission agents*

One of the fundamental requirements of pre-industrial commerce was the need for representation in distant markets. Initially, merchants, and then their agents, traveled with their goods. In the thirteenth and fourteenth centuries, as we have seen, merchants began to rely instead on resident agents and this led to an increase in private trading and to a decline in the importance of pitched markets and fairs. By the fifteenth century, the organization of long-distance trade was changing again. Rather than relying on employees or partners to trade for them in distant markets, merchants were increasingly relying on independent commission agents. These commission agents bought or sold for their principals or conducted financial transactions for them in exchange for a percentage of the value of the transaction.<sup>285</sup>

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<sup>283</sup>Bruges was forced to respond by liberalizing its own regulations as other foreign nations trading there threatened to move to Antwerp. Bindoff (1958)

<sup>284</sup>Moore (1985)

<sup>285</sup>See Kohn (2003b) on the reason for this change and on the details of the commission relationship.

Commission agents came from a variety of professions. Brokers and innkeepers began to act as commission agents for their customers rather than just as mediators who brought the parties together.<sup>286</sup> Although official brokers were prohibited from making bargains “without the purchaser and vendor being brought together”, they frequently did so nonetheless.<sup>287</sup> In London, clerks and porters at the cloth halls were well positioned to supplement their incomes by acting as commission agents for provincial clothiers—selling their products and purchasing materials for them.<sup>288</sup> Merchants resident in a particular market found it easy and natural to act as commission agents for merchants living elsewhere.<sup>289</sup> Often the merchants acting as agents were foreigners who represented compatriots back home. For example, merchants in England often relied on English merchants living in Antwerp to act for them.<sup>290</sup> Initially, merchants who acted as commission agents also traded on their own account. However, as the commission business expanded, some merchants began to specialize in it.<sup>291</sup>

#### *Sale by sample*

The general heterogeneity of goods of all kinds required buyers to examine them carefully before they purchased.<sup>292</sup> This meant that goods had to be shipped to the point of sale ‘on spec’, increasing the market risk of the seller as well as raising transactions costs. As private trading expanded, increasing trust between the parties made it possible to strike a deal on the basis of a sample and a downpayment. Goods were then delivered at a convenient place, with full payment contingent on inspection. Sale by sample both reduced the risk of the seller and minimized the unnecessary shipment of goods from place to place.

Already at Champagne in the second half of the thirteenth century, the Italian merchants who purchasing cloth in Flanders for delivery at the fairs, were doing so on the

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<sup>286</sup>See Gras (1915) on brokers. On innkeepers, see Kiessling (1996) for example on Germany.

<sup>287</sup>See Bennett (1989) on London in the fifteenth century; Nicholas (1979) on Bruges.

<sup>288</sup>Kerridge (1985) Ch. 15

<sup>289</sup>Van Houtte (1966); Van Houtte (1977); Ehrenberg (1928); Cox (1959)

<sup>290</sup>Willan (1959) Ch 1

<sup>291</sup>Edler (1938)

<sup>292</sup>Kohn (2003a)

basis of samples.<sup>293</sup> By the sixteenth century, sale by sample was a common practice. At the Castilian fairs, wool was sold by sample with the wool shipped, not to the fairs, but directly to a convenient port.<sup>294</sup> The practice was the same at Antwerp, with wool, wine, grain, and wood all traded by sample and delivered to various nearby ports.<sup>295</sup> In England, the agents of London merchants purchased cloth from clothiers in the provinces on the basis of samples or ‘scantlings’. When the cloths were ready, they were sent directly to the merchant’s warehouse for export or for sale at retail. Only if the cloths were rejected on grounds of quality were they sent to the open markets of the public sales halls. By the end of the sixteenth century, London merchants were ordering textiles by mail on the basis of patterns sent to them by the manufacturers.<sup>296</sup>

### **Changes in the trading system**

Private trading, increasingly through commission agents, and sale by sample made the traditional trading system of pitched markets obsolete. It was increasingly replaced by a new type of trading system made up of warehouses and exchanges.

#### *Warehouses*

As we have seen, merchants traveled to a fair or commercial city with their goods or sent them to an agent there. They stored their goods at an inn or in a storehouse and displayed them for sale either in an open market or in a sales hall. Alternatively, brokers brought them buyers who inspected the goods in the storehouse or cellar where they were kept.

It was natural that when merchants headed home, they would consign any unsold goods to the innkeeper, broker, or sales-hall clerk for subsequent sale. The next step was to dispense altogether with traveling and just send the goods to the commission agent. Similarly distant merchants would dispense with permanent agents of their own and send goods to a commission agent who would sell them out of his storehouse.

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<sup>293</sup>“There is strong... evidence that at those fairs goods were sold by sample, with inspection on acceptance, and almost entirely for paper promises to pay.” Reynolds (1952)

<sup>294</sup>Grafe (2001) Ch 3

<sup>295</sup>Van der Wee (1963)

<sup>296</sup>Kerridge (1988) p 216-7

In this way, sales halls and the storehouses and cellars of inns and commission agents evolved into warehouses. Warehouses were permanent trading places principally for wholesale trade, but also for retail sales to wealthy customers. The sellers mostly traded on commission. Unlike traditional sales halls which were organized more by place of origin, warehouses tended to specialize in particular types of good.

The warehouse facilitated trading among strangers. The existence and continued presence of well-known warehouses made it easier for traders to find a deal. The warehouse, like the pitched market, was a place where a potential buyer could inspect goods before buying them. The continuing presence of the warehouse meant that it could establish a reputation for price and quality. The value of this reputation acted as a bond that provided buyers with some assurance that they would be treated fairly.

The warehouse trade was a characteristic feature of the bourse markets of Antwerp, London, and Amsterdam and to a lesser extent of Lyons and Bruges. In Antwerp and Lyons, warehouses developed naturally as trading extended beyond the length of the fairs.<sup>297</sup> In Bruges, they emerged quite early among the innkeepers who served the Hanseatic merchants. In London, they emerged from the growing use of commission agents.<sup>298</sup> In Amsterdam, warehousing was associated initially with the grain trade.<sup>299</sup>

### *Exchanges*

While goods that required inspection before purchase were traded in warehouses, goods that could be sold by sample or sight unseen were traded on bourses or exchanges: “A bourse or exchange is an assembly meeting at frequent intervals, usually daily, consisting of the merchants and other persons, who meet for the purpose of dealing without exhibiting, delivering and paying for their goods at the same time.”<sup>300</sup> Thus, an exchange represents trading in its purest form. It is devoted exclusively to finding and closing deals, without the object of the deal itself being present, and with completion deferred until later.

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<sup>297</sup>For Antwerp, see Van der Wee (1963). For Lyons see Van der Wee (1977)

<sup>298</sup>Kerridge (1988) Kerridge (1985)

<sup>299</sup>Braudel (1984) de Vries and van der Woude (1997) Barbour (1950)

<sup>300</sup>Ehrenberg (1928) p 54

For such ‘pure’ trading to be possible, a number of conditions must be met.<sup>301</sup> Obviously, the good traded must be relatively homogeneous so that it can be traded on the basis of a sample or sight unseen. This permits *trading* to be concentrated, with all the consequent advantages, while allowing the goods themselves to be sent directly to their final destination. The second condition is that participants in the market should be reasonably well informed about factors affecting the price of the good. This allows a market price to emerge that represents the ‘opinion of the market’.<sup>302</sup> Transactions can be based on this price, eliminating the need for lengthy bargaining. Finally, there has to be a volume of trading large enough to support a regular market. Too little volume and the market becomes illiquid and market price becomes meaningless. Exchanges generally operated daily, with one or two trading session, each of a couple of hours.

The necessary conditions for an exchange were first satisfied in trading in financial instruments—specifically, in the markets for bills of exchange and inter-fair loans. Organized markets for these instruments could be found as early as the thirteenth century in many commercial cities and fairs.<sup>303</sup> In Bruges, the market for bills of exchange was held in the square outside the inn of van der Beurse—hence the name Bourse for this type of market. Of course, merchants coming together to buy and sell bills of exchange often took the opportunity to trade in other things, such as insurance, shares, and sometimes even commodities. However, exchange markets dealt primarily in exchange, and they were generally dominated by the Italian merchant bankers who were so prominent in the medieval money market. This traditional pattern began to change in late fifteenth-century Antwerp where trading expanded from financial instruments to commodities, and where merchants of all nations participated in the market.

Antwerp was the first city to construct a special building to house its exchange market—it opened its New Bourse in 1531.<sup>304</sup> Until then exchange markets had generally been held in the open air—in the *piazza* (as in Italy), or in a square by the Italian quarter (as in Bruges), or in an open area by the port (as in Amsterdam). Initially the New Bourse

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<sup>301</sup>Ehrenberg (1928)

<sup>302</sup>Van der Wee (1963)

<sup>303</sup>See Kohn (1999d) for more on exchange markets and their organization.

<sup>304</sup>Van der Wee (1977) p326

accommodated both trading in financial instruments and trading in commodities, but the growth in commodity trading eventually justified the establishment of a separate market—the ‘English Bourse’. In London in 1570, Sir Thomas Gresham built an exchange modeled on the New Bourse: Queen Elizabeth liked it so much she insisted it be known as the Royal Exchange.<sup>305</sup> Amsterdam eventually built an exchange of its own in 1611.<sup>306</sup> All these buildings were of similar structure: enclosed courtyards surrounded by galleries where traders could seek refuge in bad weather; a second floor above the galleries housed some very up-market stores. As in other marketplaces, trading in particular goods took place in set locations. There was also, of course, considerable private trading, which took place ‘off-market’ in the adjacent streets.<sup>307</sup>

Exchanges had all the usual appurtenances of an organized market. They had brokers to facilitate trading. They had notaries to record the closing of deals. They had regulations, which focused purely on improving market function—for example, setting times and procedures for trading and rules and standards for brokers.<sup>308</sup> They had arrangements for settlement—about which more presently. Exchanges also had their own mechanisms for resolving disputes. In Antwerp, the notaries mediated any disputes that arose out of the contracts they recorded.<sup>309</sup> In Amsterdam, the brokers chose from among themselves several ‘wise men’ (*goede mannen*) to act as arbitrators. Generally these private arrangements were quicker and more efficient than recourse to the civil courts.<sup>310</sup>

### *Brokers*

Brokers continued to play a vital role in bourse markets, and they enjoyed much greater freedom than before. The many brokers of Antwerp—both on the exchange and off—were largely unregulated. They did not have to register and they did not have to be natives: indeed, many were foreigners.<sup>311</sup> As commerce expanded rapidly in sixteenth

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<sup>305</sup><http://www.theroyalexchange.co.uk/html/history.htm>

<sup>306</sup>Tielhof (2002)

<sup>307</sup>Tielhof (2002)

<sup>308</sup>Ramsay (1975); Tielhof (2002)

<sup>309</sup>Van der Wee (1963)

<sup>310</sup>Tielhof (2002) Arbitration by *goede mannen* was common among all sorts of groups in Amsterdam.

<sup>311</sup>Ramsay (1975)

century London, so did the number of brokers there. There were attempts in the 1550s and 1560s to impose the usual medieval restrictions—for example, no trading for others, no usury, and no bargains between two foreigners—but without much success.<sup>312</sup> In Amsterdam, too, there were attempts to regulate brokers—they were even banned for a period in the early sixteenth century—but again success was minimal; from the 1530s, there were a growing number of unofficial brokers, known as *beunhazen* or *bijlopers*.<sup>313</sup> Brokers often specialized in one or few specific products, such as timber or grain. There were brokers, too, who specialized in finding their clients financing, insurance, and transportation.

### **Innovations in netting and settlement**

Settlement arrangements in sixteenth-century Antwerp differed significantly from those of the typical medieval city. This was partly the result of Antwerp's origin as a fair and its having retained and adapted the fair's system of settlement. It was also partly a result of the total ban on banking imposed by the Burgundian authorities which precluded the usual arrangement of settlement in bank.

Even though trading at Antwerp became continuous and the importance of the fairs declined, Antwerp retained the four annual settlement periods of the fairs. These evolved into the four 'quarter days' on which all debts were scheduled to be settled—on the tenth of February, of May, of August, and of November.<sup>314</sup> For example, when commission agents like the Van der Molens sold goods on credit for their clients, the purchasers would agree to pay at the next fair or, more often, at the fair after that.<sup>315</sup> In fact, it was customary to quote all prices *a tempo due fieri*.<sup>316</sup>

The advantage of this arrangement was that it allowed a great deal of netting, minimizing the need for actual settlement in cash. Much of the trading both on and off

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<sup>312</sup>Ramsay (1975)

<sup>313</sup>Tielhof (2002)

<sup>314</sup>Ehrenberg (1928)

<sup>315</sup>Edler (1938)

<sup>316</sup>Van der Wee (1977) p 307. The Van der Molen kept all their accounts from fair to fair and sent quarterly statements to their clients.

the exchange—in goods and in financial instruments—involved deferred payment.<sup>317</sup> This generated a large volume of obligations that were due on a particular quarter day. When that day arrived, outstanding obligations—mostly in the form of letters obligatory—could be set off against one another in a process known as the *scontro*.<sup>318</sup> For example, A would settle what he owed to B by assigning to him an IOU due from C; then B would pass on C’s IOU to D in settlement; and so on. In this way, C’s IOU would pass from hand to hand many times, extinguishing a debt each time. Indeed, it would frequently end up being returned to C in settlement, so extinguishing itself. This process of netting worked particularly well when C was a major merchant bank such as the Fuggers. In this case, there was negligible principal risk, so that traders were able to accept such instruments without hesitation. Moreover, with large amounts of *fuggerbriefe* circulating and with many merchants having obligations to the Fuggers, most eventually returned to the bank itself in settlement.<sup>319</sup>

The system of periodic settlement, because it allowed so much netting, greatly reduced liquidity risk. However, at the end of the day, some obligations still remained to be paid. Merchants without the funds to settle, but with sufficiently good credit, could put off the problem by rolling over their debt in the money market. They did so by issuing new obligations due at a later quarter day to pay off obligations currently coming due. In this case, a merchant bank would provide the necessary cash. Sometimes a merchant requiring funds to settle was simultaneously waiting for someone else to pay him. In such a case, he could obtain funds immediately by discounting the paper in question with a ‘money dealer’ or *kassier*: the discounting of commercial paper was another important innovation of the Antwerp market.<sup>320</sup>

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<sup>317</sup>Bindoff (1958)

<sup>318</sup>Braudel (1984)

<sup>319</sup> The development of this system of settlement by assignment—and the initial problems with it—led to some important legal innovations: see Kohn (1999c).

<sup>320</sup>See Kohn (1999c) on discounting.

## Speculation

It was only natural that ‘pure’ trading in commodities on the exchange—in the absence of the goods traded and with payment deferred—should expand beyond bargains for immediate delivery to include bargains for delivery in the future (forward transactions). The only modification required was that not only payment but also delivery was deferred. For spices—one of the most important commodities traded at Antwerp—forward trading was almost a necessity.<sup>321</sup> The king of Portugal normally sold cargoes of spices due from the Indies long before they actually arrived. Since spice prices were very volatile, members of the syndicates that purchased from the king faced a considerable risk that prices on arrival would be below the prices they had paid. To hedge this risk, they sold spices on the exchange for delivery when the fleet arrived. There were forward transactions too in other commodities such as grain, timber, and herrings.

Forward trading opened the way for various kinds of speculation.<sup>322</sup> Merchants could buy commodities forward with the intention of reselling before the date of delivery, hoping to profit from a rise in price. Alternatively, they could sell commodities short in the hope of profiting from a fall in price. That is, they could sell what they did not actually possess with the intention of covering by buying before the date of delivery at a lower price. It was only a small step from forward transactions to ‘premium transactions’ or options. These were forward transactions in which the buyer, or alternatively the seller, had the right to cancel by paying a stipulated premium to his counterparty. There were also futures-like contracts—wagers on a future price—that were settled by the loser paying the winner the difference between the wager price and the actual price.<sup>323</sup>

Speculation, although it was frowned upon by the authorities, improved the quality of the market. The presence of speculative buyers and sellers improved liquidity for other traders. Also, the ardent seeking of information by speculators and their trading on it helped to ensure that market prices quickly reflected all the information available.

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<sup>321</sup>Strieder (1931)

<sup>322</sup>Cox (1959) Ch XIV

<sup>323</sup>Van der Wee (1977). See also Kohn (1999g).

## A market for information

Like all market centers, bourse markets were centers of information. When merchants met to trade in public or in private, at an exchange or in a warehouse, they naturally exchanged items of news and gossip. Brokers, as always, accumulated market information as their stock in trade. For those goods that traded on exchanges, market information was readily available to all those who were present. Moreover, because trading on exchanges was relatively transparent, merchants could infer a great deal just by observing the trading of others.<sup>324</sup> The real innovation of bourse markets, however, was the emergence of an actual market in information.

Political information was as important to traders as strictly commercial information. War and peace, royal marriage or succession—all of these had an enormous impact on markets. Not surprisingly, therefore, market centers had always been the best places to pick up the latest news. For much of the sixteenth century, governments across Europe relied on their agents in Antwerp to keep them informed; merchants could gain favor by providing their rulers with the latest news.<sup>325</sup> The Fuggers published an internal newsletter, which they distributed to their branches across Europe and to favored clients.<sup>326</sup> A few enterprising individuals in Antwerp and in Amsterdam brought out the first newspapers—weekly newsheets (*tijdingen*) that they sold to subscribers.<sup>327</sup>

The sixteenth century saw the emergence in Antwerp, Amsterdam, and several other commercial cities of published price lists.<sup>328</sup> These ‘price currents’ were a direct outgrowth of trading on exchanges and of the growing reliance on commission agents. Exchanges supplied the necessary prices: as we have seen, trading on an exchange

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<sup>324</sup>“The information people possess is reflected in the decisions they make. Other people’s decisions are often easier to observe than the information they acquire. It follows that imitation of behavior is often an effective substitute for other ways of obtaining information.” (Casson (1997)p149). On the Bourse, observation and imitation were particularly easy.

<sup>325</sup>Ehrenberg (1928); Wilson (1925 [1572]) #1081]

<sup>326</sup>Klarwill (1924, 1926)

<sup>327</sup>Limberger (2001); Tielhof (2002)

<sup>328</sup>McCusker and Gravesteijn (1991) The earliest surviving examples are from Frankfurt 1581, Amsterdam 1585, Venice 1588, Hamburg 1592. There is evidence of their existence much earlier in Antwerp, probably from about 1540.

generated a market price that was a good indicator of the price at which transactions were actually taking place. Commission agents provided the demand for this information. They needed to convey to their clients credible information on the state of the market, so that their clients could be sure that they were obtaining for them the best possible terms ('best execution').<sup>329</sup> All this, of course, reduced transactions costs and attracted more business to the market. In another way, however, price currents lost the market trading volume because they made private trading off-market easier. One of the reasons to use a market is to obtain the best prices: if these prices are available off market, there is less incentive to actually use the market.

The details for Antwerp are obscure, but more is known about Amsterdam.<sup>330</sup> There, five of the brokers on the exchange were chosen by lot each Monday to prepare the weekly price list. At the end of the trading session, they would poll other brokers to make up a list of prices—including exchange rates on various cities and prices of commodities traded on the exchange. They passed on these numbers to a publisher, who had them entered by hand on pre-printed forms. The finished *prijscourant* was ready for distribution later the same day. Copies were delivered to subscribers in the city and mailed to subscribers in other towns. Copies were also placed on sale at the door of the exchange and at bookshops in the city. Among the subscribers were a number of specialized information brokers, who supplied information to merchants in other cities. One such broker, Heindrick Hubertsz van Rijnswick, would send out reports that included the latest price current together with additional information of particular relevance to the client in question.<sup>331</sup>

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<sup>329</sup>“Local merchants found them necessary both as an independent record of the latest prices and as a way to advertise the goods and services available to their customers. Individuals at a distance wanted to have the commodity price currents as a source of news about the prices of goods they hoped to sell there and as an independent check on the prices of goods recently sold there.” McCusker and Gravesteijn (1991) p29

<sup>330</sup>Tielhof (2002); McCusker and Gravesteijn (1991)

<sup>331</sup>Christiensen (1941) p219; quoted by Tielhof (2002). These information brokers performed much the same function as today's 'quote vendors' in financial markets, taking published market information and 'adding value'.

The emerging technology of printing was certainly a help in the creation of newspapers and price currents. Antwerp in particular, was a major center of printing and publishing—turning out, among others, commercial how-to books and texts on accounting and banking in a variety of languages.<sup>332</sup> However, while printing facilitated the emergence of a market for information, it was not the root cause. That lay in the changing organization of business and markets..<sup>333</sup>

### **The nature of the bourse market**

The bourse market, therefore, differed in many ways from earlier, medieval markets—freedom from restrictive regulation; reliance on commission agents; trading by sample; the use of warehouses and exchanges; use of the money market for netting and settlement; hedging and speculation; a market for information.

The central player in the bourse market was the commission agent. He acted for his customers as a broker—not in the medieval sense of *sensal*, but much as a stock broker acts for you today in the stock market. He received commissions to buy and sell and to borrow and lend. Generally these were ‘market orders’, to be executed at the best price available. Sometimes, however, they were ‘limit orders’—to sell if the price was above a stated level or to buy if it was below a stated level.<sup>334</sup> Commission agents took advantage of all the means of trading available: they executed their commissions on the exchange, or in their own warehouses or the warehouses of others, or they engaged in private trading for their principals. Van der Molen, for example, sent agents to Hondschoote to buy cloth for his Italian customers and had tapestries manufactured for them to order.<sup>335</sup>

Commission agents and bourse markets relied on a variety of support services. They needed to send to their principals and to receive from them goods, letters, and money. The necessary support services were not new, but they did receive renewed emphasis in the new bourse markets, and they developed considerably.

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<sup>332</sup>Limberger (2001)

<sup>333</sup>“We contend only that the publishing of commercial and financial newspapers in the sixteenth century is better explained by changes in commercial practice than by the introduction of printing. Publishing was the end; printing was simply the means to the end.” McCusker and Gravesteijn (1991) p 26

<sup>334</sup>Kohn (2003b)

<sup>335</sup>Edler (1938)

Bourse markets, and the metropolitan and international markets that they served, saw a significant development of transportation services with increasing professionalization and the emergence of a well-organized market for transportation.<sup>336</sup> Bourse markets also developed markets for marine insurance.<sup>337</sup>

Mail services developed in parallel: indeed, common carriers often carried letters as well as freight. The Taxis firm of Milan, for example, provided a regular mail service between Antwerp and Italy that carried both letters and small packages. The Van der Molen's had an account with Taxis that they settled periodically.<sup>338</sup> In England, Henry VIII appointed a Master of Posts to set up a mail service throughout the kingdom. Innkeepers, under contract, provided horses and riders and acted as local postmasters, delivering mail and packages locally.<sup>339</sup>

To a significant extent, the purchase and sales that commission agents executed for their customers offset one another. However, to cover the difference, they still needed to send and to receive funds or to obtain or to give credit. The market for bills of exchange served both as a means of remittance and as a market for credit. This market, too, while far from new, underwent considerable development in the sixteenth century to meet the emerging needs of the bourse markets.<sup>340</sup>

The bourse market that originated in the sixteenth century, particularly in Antwerp, was to mature in the seventeenth and eighteenth centuries in Amsterdam and London. It was to remain the model for commercial cities well into the twentieth century.

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<sup>336</sup>Kohn (2001e)

<sup>337</sup>Kohn (1999g)

<sup>338</sup>Edler (1938)

<sup>339</sup>Kerridge (1988)

<sup>340</sup>Kohn (1999d)

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