Cities of Commerce

The Institutional Foundations of International Trade in the Low Countries, 1250-1650

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1. Introduction

(Please note: very incomplete referencing)

The growth of European trade between 1000 and 1800 was a formidable achievement in view of the continent's extreme political and legal fragmentation. The attempts of sovereign rulers to centralize their government provoked rebellions and outright civil wars, while territorial and dynastic conflicts between princes exposed merchants to marching soldiers, confiscations, trade embargoes, or increased fiscal demands.[1] In the fourteenth century privateering emerged as the preferred strategy to hurt rival powers.[2] In peacetime privateers often turned pirates and continued to prey on shipping.[3] In addition to violence, long-distance traders were confronted with opportunism because they could not observe what happened to the money or merchandise they left with other merchants. These agents could harm their principal's interests because they were lazy, incompetent, or outright dishonest, and if they did, contract enforcement was often difficult due to the legal boundaries that separated the two parties. And yet, in spite of these political and legal problems, European trade continued to grow in late medieval and early modern Europe.

Why did violence and opportunism often harm but seldom destroy trade? The preferred answer of most economic historians, based on the commercial success of the Italian city states, the Dutch Republic, and England, is that central governments whose

[1] Munro***; Spufford.
[2] (Glete 2002); (Thomson 1994); (Tilly 1990).
[3] Braudel, Mediterrannee, II, hfdst 7, p. 508-535; Pérotin-Dumon, Pirate, 211; {Tenenti, 1959 #1849} 45-59; Lopez & Raymond, Medieval Trade, 303-305; {Bruijn, 1993 #1649};

actions were constrained by mercantile elites were more committed to the protection of private property, invested in the protection of overseas trade, and developed a legal system to enforce contracts.[4] However, long-distance trade also expanded in places and periods where no such governments existed. According to Avner Greif this was possible because merchants formed coalitions or guilds to enforce contracts between trading partners and to organize collective action to keep rulers from preying on their property.[5] Indirectly, however, the proper functioning of these mercantile associations may have rested on governments controlled by merchants. The German Hanse, for instance, was a coalition of independent cities, and many other *hansen*, *naties*, and *consulados* were established by urban governments.[6] Cities could indeed overcome the political and legal fragmentation of Europe because they were the hosts of international markets, they could adapt their local legal system to the needs of foreign traders, and they had the economic, if not the political power to constrain sovereign rulers.[7] But not every city was controlled by merchants and, as Larry Epstein and Sheilagh Ogilvie have pointed out, even if they were the town magistrate could choose to favor some over others to the detriment of the economy at large.[8]

In this book we will argue that the growth of European trade depended on the efforts of individual cities to protect merchants. Cities no more than central governments were able to solve all problems, and indeed much of their effort went into supporting private solutions between merchants, and the prodding of central government to lend military or

[4] North & Thomas, Rise; North, Structure and Change, following Lane***; See also Glete 2002, 2-3, 214-215.
[5] Greif 1989, 199*, 2006. GMW, See (Planitz 1940); (Oexle 1981); (Oexle 1985) for evidence on merchant guilds in the 10th and 11th centuries.
[6] (Dollinger; Trivellato; Durstelerl; Edwards & Ogilvie).
[7] (Spufford; Epstein; North, Milgrom Weingast).
[8] Epstein 2000; Dessì and Ogilvie; Oglivie 2011

political support, but local governments did create the legal, commercial and financial environment that allowed merchants to prevent violence and opportunism, or to compensate the damages they suffered. We will demonstrate that Europe's commercial cities adapted local institutional arrangements, not because merchants dominated their municipal government, but because they expected to gain from trade.[9] As European trade expanded, the prosperity of an individual city increasingly depended on its connections with other cities, and as long as they stood to gain from these network ties, regardless of the political participation of merchants, they continued to adapt property rights institutions and contracting institutions to the needs of merchants.

INSTITUTIONAL FOUNDATIONS

The European economy entered a new era when long-distance trade started to grow in the eleventh century. Commercial exchange had been far from absent in earlier times but the scale and scope of transactions grew and closer connections were forged between the trading worlds of northern and southern Europe. Between 1000 and 1300 merchants in Venice, Genoa and other Mediterranean ports established a regular trade with the Levant to sell textiles and to purchase valuable Asian silk and spices. Elsewhere in Europe international exchange was less developed before 1300 but a regular trade in grain, fish, timber, and textiles did exist between ports in the North Sea and Baltic Sea areas.[10] In the twelfth century durable ties between the commercial worlds of northern and southern

[9] (Acemoglu et al. 2005), 550.

[10] (Findlay and O'Rourke 2007); (Spufford 2002); (Munro 2001); (Lopez 1971); (Van der Wee 1970); On European trade before 1000: (McCormick 2002).

Europe was forged at the fairs of Champagne, and to a lesser extent those of southern England and Flanders, where English, German, and Flemish merchants bought oriental luxuries from Italian traders who in turn purchased high quality textiles from the northern Europeans.

Fairs are one of the earliest examples of the profound influence local governments had on the organization of international trade. The towns hosting the fairs coordinated between them to create cycles of four, five, or six consecutive events that allowed merchants to engage in quasi-permanent exchange.[11] Face to face meetings between traders were important because they allowed simultaneous exchange, i.e. spot transactions that left no residual claim on either side. To stimulate the gathering of as many buyers and sellers as possible, the authorities waived taxes and guaranteed the save arrival, sojourn, and departure of merchants. The hosts of the fairs also secured the speedy resolution of commercial disputes and they developed financial institutions – i.e. clearing facilities and *lettres de foires* – tailored to the needs of the visiting traders.[12]

The fairs lost their purpose, however, as more and more merchants began to transact outside the set time periods. Frankfurt, Leipzig, Lyons, and Medina del Campo continued to attract large numbers of foreign buyers and suppliers until the eighteenth century, but everywhere else fairs either disappeared or they were transformed into permanent markets, for instance in Bruges and Antwerp where the temporary facilities of the fairs evolved into a lasting commercial infrastructure.[13] Cities without a history of

[11] Verlinden, Sombart ; Volume La Foire ; Irsigler, "Jahrmärkte", 11-15; Irsigler, "Fernhandel"; Rösch, "Italienischen Messen", 50-51; Bartier***. See Munro, "New Institutional Economics", for an overview of the history of the Champagne fairs; (Johanek and Stoob 1996) ; (Cavaciocchi 2001).
[12] Postan; Van der Wee; Munro
[13] (Hirschfelder 1994); (Van der Wee 1963); (Dietz 1910). Munro, "New Institutional Economics", 24-26; Braudel, *Civilisation*, vol. 2; Braudel, Afterthoughts, 27; Epstein, "Regional Fairs"; Sneller, *Deventer*, 45-65, 94-108; Slootmans, *Paas- en Koudemarkten*; Van der Wee, *Growth*, vol. 2;

fairs were equally forthcoming in the creation of market institutions. They increased the number of public vending locations or they empowered local hostellers to provide accommodation and organize the sales and storage of goods.[14] The basis logic of these local arrangements was the same everywhere: the concentration of trade in a limited number of places. Indeed, the daily gathering of merchants at the exchanges of Amsterdam and London in the seventeenth century and the limited opening hours of these venues were a stark reminder of the routines of medieval fairs.

International traders benefited from these local efforts to organize exchange but trade by definition implied the movement of money and goods between cities. To govern these transactions medieval merchants collaborated in guilds like the German and Flemish *hanses* or the Spanish *consulados*.[15] These more or less formal associations of merchants from a particular country, city, or group of cities, demanded safe-conducts from foreign rulers, and they organized collective action in case their hosts – or other merchants for that matter – damaged or seized their property.[16] Merchant guilds also negotiated tax rebates, toll exemptions, or monopolies with foreign rulers, thus maximizing their members' income from commercial and financial transactions. Finally, the guilds reduced the risk of slacking or cheating agents. The personal relations that evolved within these associations made it easier to collect and disseminate information about the creditworthiness of business partners, and to secure honest trading between them, their home government and foreign host agreed to give the guild leaders the legal

[14] (Grafe 2001); (Houtte 1983); (Greve 2001).
[15] Merchant guilds will be the common denominator for all privileged organizations of merchants trading *outside* their own town or country of origin (Mauro, "Merchant communities"). Besides these associations of merchants abroad there existed *local* merchant guilds that united all merchants of one particular town, regardless the geographical scope of their activities. The extensive literature on local guilds in medieval Europe is summarized in Dessi and Ogilvie, "Social Capital".
[16] Greif et al., "Coordination"; Dollinger, *La Hanse*; Bracker et al. *Die Hanse*; Häpke, *Weltmarkt*, 50-58, 129; Van Werveke, "Hansa"; Goris, *Etude*.

power to settle commercial disputes abroad according to the customs and usages of their home town.

Merchant guilds nevertheless disappeared from the commercial heartland of Europe between 1450 and 1650. Merchants continued to participate in extensive networks based on kinship and friendship but, with the exception of peripheral markets like Russia or the Ottoman Empire, they stopped delegating political and legal control to mercantile associations. The change is remarkable because at the same time they engaged in more complex business transactions on the basis of contractual agreements that different from the local customs in the host town. Which rules to follow then, and who should enforce them? Several legal historians have argued that the emergence in medieval Europe of a *lex mercatoria* to bridge the legal distance between strangers. This law merchant would have constituted a set of unequivocal contracting rules recognized by local courts and applicable to all merchants regardless their origin.[17] The historical evidence, however, only reveals the establishment in the thirteenth and fourteenth centuries of procedural rules for the speedy resolution of conflicts involving strangers.[18] Notably during fairs these procedures helped to secure timely payment and delivery, but they offered no solution for the settlement of more complex commercial and financial disputes. These kinds of conflicts continued to pose a serious challenge to merchants and rulers well into the early modern period, simply because Europe remained a patchwork of local and regional jurisdictions each with their own legal traditions.[19] The problem of legal diversity became particularly acute in the fourteenth and fifteenth centuries when merchants began to settle abroad for longer periods of time. They no longer restricted

[17] (Benson 2002); (Berman 1983); (Trakman 1983).
[18] (Baker 1986; Piergiovanni 1987); (Basile et al. 1998); (Kadens 2004).
[19] Volckart 2004; (Kadens 2004); (Epstein 2000).

themselves to simple sales and purchases and regardless of whether they traded with locals or fellow countrymen, they had to overcome the discrepancy between their home rules and local legal customs.

In theory, strong sovereigns could have solved this problem through legislation and the creation of central courts.[20] In the fifteenth century merchants in England, for instance, regularly appeared before the Court of Common Pleas, among others, to settle commercial disputes.[21] Foreign traders in the Burgundian Netherlands, on the other hand, ignored their right to bring lawsuits directly before the Great Council of Malines, because proceedings were slow and costly, and because many judges were unfamiliar with their commercial practices.[22] Instead of using central courts, alien traders asked their hosts for permission for cconsular courts to settle conflicts within their own community according to their own rules. Between 1400 and 1600 these demands were readily met in commercial centres in France, the Low Countries, and Scandinavia.[23] The establishment of consular courts in this period, even if it encroached upon the legal authority of town magistrates, fitted very well in an urban environment in which sovereign lords, churches and craft guilds also had their separate jurisdictions.

Consular jurisdictions for foreign merchants nevertheless disappeared because local magistrates took control of the adjudication of maritime, commercial, and financial conflicts between all merchants.[24] This transition to unified local jurisdictions was generally very smooth because urban magistrates often had longstanding experience with

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[20] (Piergiovanni 1987).
[21] (Baker 1986), 348, 352-354; (Rogers 1995), 12-20; (Munro 2003)..
[22] (Van Rompaey 1973); see chapter 7.
[23] (Lindberg 2007 (forthcoming)); (Grafe 2001); (Brunuelle 1989); (Ulbert and Bouëdec 2006). See chapter 7 for the Low Countries.
[24] (Nörr 1987), 196-198; (Piergiovanni 1987, 1987); (Gonzalez de Lara 2008); (Greif 1994); (Volckart and Mangels 1999), 443; (Basile et al. 1998), 42, 69-70, 114; (Baker 1986), 349ff; (Niekerk 1998) I, 198-200, 225-229, 245-246; (Jados 1975), xii; (Lane 1962) 24, 33, 36; (Grafe 2001); (Kowaleski 1995) 179-221.

the adjudication of conflicts between local businessmen, if not the enforcement of commercial transactions at periodic fairs.[25] Merchants benefited because the magistrates were committed to a speedy resolution of conflicts and the fixed costs of establishing the local court system were borne by the local community, but one pressing concern remained, i.e. which rules to apply in legal proceedings between two parties from different legal traditions. One solution was to rely on arbiters who could weigh the interest of one party against the other and consider their different backgrounds in order to reach an equitable settlement. Town magistrates also appended their local customs with contracting rules from other areas, however. This process gained momentum in the long sixteenth century when trade between different parts of Europe expanded, and merchants began to adopt foreign practices in, for instance, insurance and bills of exchange.[26] The introduction of the printing press added to this process of legal adaptation as specialist writers began to publish about the organization of trade in different towns and countries.[27]

URBAN COMPETITION

The overriding importance of cities in the adaptation of institutional arrangements to changes in the economic and political environment brings us back to an old literature on the European economy, in which cities were considered the focal point of economic development. Notably Fernand Braudel described how cities stood out as capitalist

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[25] (Lane 1962); (Nörr 1987); (Kessler 2007); (Ruysscher 2009);
[26] (Niekerk 1998)
[27] (Kadens 2004); (Donahue 2005); Hoock et al. Ars mercatoria.

islands in a traditional Malthusian world. In his view these trade centers or 'places marchandes' were the focal point of long-distance transfers of money and goods and together constituted a truly international economy.[28] Building on his own work and that of Immanuel Wallerstein, Braudel identified within this network of functionally equivalent cities the now classic succession of a handful of major commercial centers: Venice, Antwerp, Genoa, Amsterdam, London, and New York.[29] Braudel and Wallerstein believed that the competition between sovereign rulers was instrumental in the shift of commercial hegemony form one city to the next. The rise of Amsterdam and London, for instance, Braudel attributed to the violence with which Holland, France and England gained access to Mediterranean markets in the seventeenth century.[30] There is, however, an underlying dynamic of urban competition that explains how initially bilateral relations between individual cities coalesced into a Europe-wide multilateral urban network, and how cities could obtain a more central place within this network.

In his groundbreaking study on the urban network of early modern Europe Jan de Vries demonstrated that urban population figures support Braudel's qualitative statements about the shift of commercial hegemony from the Mediterranean world to the Atlantic. He also showed that Europe's urban system between 1300 and 1650 was characterized by a relatively even *rank-size distribution*, which means that a considerable number of cities in the network were of equal size, up to the point that by 1600 there were seven cities with the potential to become to principal node in this network. De Vries' observations in combination with those of Braudel, suggest that there was indeed a long period in the history of pre-industrial Europe in which a large number of cities participated in an

[28] Braudel, Civilisation Materielle***; Braudel, *Afterthoughts*, 26.
[29] Braudel, *Afterthoughts*, 85-86.
[30] Braudel, Afterthoughts, 88-89; Wallerstein, Modern World System; Rap,

emerging international market economy, each of them with a considerable chance of becoming an important if not dominant player in European trade. This in turn implies that many cities had a strong incentive to adapt local institutional arrangements to the needs of international traders.

But were local governments powerful enough to shield merchants from the many risks of a politically and legally fragmented Europe? Cities were safe havens in a dangerous world but their magistrates' monopoly of violence did not extend beyond the city walls, and thus the intervention of a higher authority may have been necessary to protect traders. Initially the intervention of sovereign rulers was limited to the formal recognition of foreign nations and paper promises to safeguard their property, but as the power of European princes grew they began to offer diplomatic support, they organized armed convoys, and they established central courts, both to allow local and foreign merchants to resolve conflicts, and to give neutral traders a chance to obtain compensation for damages inflicted by privateer. The strongest states even deployed their navy to patrol trade routes and this kind of deterrence could certainly pay off, for instance with the Dutch squadrons cruising in the Baltic Sea. The downside, however, was that sovereign rulers used their military power to fight each other, and to repress social and religious protests within in their own territories – violent encounters that could do great harm to commercial cities.[31]

To prevent the breakdown of trade as a result of violence, cities relied on a double line of defense. On the one hand, the sovereigns' military operations were predicated upon the financial support of the major cities in their realm. Charles Tilly, Willem Blockmans, and others have demonstrated that sovereigns needed both the fiscal

[31] Israel, Dutch Primacy.

resources and the lending capacity of urban centers to fund their wars. Unless they had access to alternative revenues rulers were little inclined to put the financial support of commercial cities on the line. Further protection for merchants in major trading centers issued from the ongoing attempts of these cities optimize their commercial, legal and financial infrastructure. As they developed institutions to support the exchange of not just goods but for money, credit, insurance, and transportation services, risk management became easier for merchants because they could better diversify their trade, invest in joint ventures, and insure themselves against natural and man-made disasters.

But did such a favorable interaction between merchants and magistrates always occur? Local or foreign business elites might also try and use their privileged position to exclude competitors.[32] This occurred in Venice and Lübeck in the sixteenth century when local merchants feared their city would became a commercial backwater, but it also happened in an emerging market like London after 1550 when the interlocking membership of new chartered companies allowed the city's leading merchants to extract monopoly rents.[33] Neither in Venice nor in London this collusion lasted, however, because new investment opportunities required the entry of outsiders. This is indeed what characterized the long sixteenth century in Europe: commercial cities competed through openness rather than exclusion because the presence of a multitude of traders each with their own distinct pattern of supply and demand, enhanced the liquidity of markets and strengthened a city's competitive position. And just like financial markets today this process reinforced itself: when one group of merchants began to use it to store goods, to

[32] ((Dessi and Ogilvie 2004), (Ogilvie 2007)

[33] Braudel, *Afterthoughts*, 57-58; Gelderblom (2009); Scott, *Constitution*, I, 107-110, 120-127; II, 50; Tawney, *Business*, 78-81; Boulton, *London*, 322; Brenner, "Social basis", 365-368; Ashton, *City*, 25-26; Ashton, "Parliamentary Agitation"; Braddick, *Nerve*, 206-208.

remit money, to take out credit, others would follow, and this in turn stimulated the local government to try and facilitate business operations for the merchant community at large.[34]

THE CASE OF THE LOW COUNTRIES.

To explore under what circumstances a city's commercial potential translated into an optimal mix of public and private institutions for the governance of trade, we study the business organization of local and foreign merchant communities in Bruges, Antwerp and Amsterdam. Between 1250 and 1650 the three ports stood at the crossroads of long-distance trade in Europe.[35] From the mid-thirteenth century onwards merchants from Italy, Spain, Portugal, France, England, and the German lands gathered in the Bruges to exchange their goods. By 1400 the Flemish port hosted more than a dozen *foreign nations*, as the communities of strangers were typically referred to. In the fifteenth century a growing number of foreigners began to visit the fairs of Antwerp on a regular basis and after 1500 they moved to the Scheldt port permanently. The composition of Antwerp's business community changed in the sixteenth century as merchants born and raised in the Low Countries were increasingly engaged in European trade. In Amsterdam, the city that succeeded Antwerp after 1585, merchants from the Low Countries had gained the upper hand over traders from other parts of Europe.

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[34] (Michie, Cassis).

[35] {Murray, 2005 #1837}; {Van Houtte, 1982 #919}; {Van der Wee, 1963 #634}; {Lesger, 2006 #1756}; {Jonker, 2000 #347}.

We begin our analysis in Chapter 2 with a general description of the history of the local and foreign merchant communities engaged in long-distance trade in Bruges, Antwerp, and Amsterdam. Our analysis of the number of merchants present, the extent to which they were formally organized in *nations*, and the products and markets they traded in, reveals the central position the ports of the Low Countries obtained in European commerce. Chapter 3 then analyzes the way in which the exchange of goods and money was organized in Bruges, Antwerp, and Amsterdam. The cities adapted public vending locations to changes in the size and composition of the merchant community and they regulated the market in such a way that merchants could transact without any public interference. But merchants could not always see transactions through from the first contact to the final payment, which is why they relied on hostellers who offered not only accommodation and storage facilities, but also acted as their brokers and commission agents. The hostellers *cum* brokers played a crucial role in all three cities until the moment merchants became permanent residents and started building their own information networks. From then on they only needed brokers to negotiate deals outside their own circle of acquaintances. Local magistrates obliged and reorganized the brokers' profession into a subservient group of information specialists.

The creation of well-functioning local markets made Bruges, Antwerp, and Amsterdam was obviously attractive for foreign merchants but unless they decided to always accompany their merchandise, they had to find other ways to bridge long distances. Chapter 4 shows that border crossing transactions were typically embedded in personal relations with relatives and friends. To instruct foreign agents the merchants used extensive correspondence and they kept private accounts to monitor their operations.

This was not entirely informal, however, as the leaders of some nations, and eventually also local judges in the Low Countries, accepted business correspondence and private accounts as legal proof. This complementary relation between private and public institutions is further explored in Chapter 5, when we consider the way in which merchants dealt with disputes over business transactions. We review the available evidence on commercial litigation in Bruges, Antwerp and Amsterdam to show that merchants used a combination of peer pressure, arbitration, local court proceedings, and, occasionally, appeals to central courts to end their disputes, albeit with an overwhelming preference for amicable settlement.

Chapter 6 shows that it was much more difficult for merchants and rulers to deal with the political fragmentation of Europe. The turbulent political history of the Low Countries in the late medieval and early modern period allows us to explore how political fragmentation influenced the organization of international trade. Initially, Bruges, Antwerp, and Amsterdam belonged to relatively small polities – the county of Flanders, the duchy of Brabant, and the county of Holland, respectively. In the first half of the fifteenth century the dukes of Burgundy brought these areas under one rule, and their attempts at political, administrative, and legal centralization of the Netherlands were forcefully continued by Emperor Charles V and his son Philip II in the sixteenth century. As they built their states, the dukes of Burgundy, the Habsburg kings, and the Dutch Republic also engaged in wars with other countries. Both these international conflicts and the constant struggle between local and central authorities caused serious damage to merchants, so much so that the Flemish Revolt (1477-1492) and the Dutch Revolt (1568-1588) ended the commercial hegemony of Bruges and Antwerp, respectively.

The Low Countries nevertheless remained at the heart of European commerce for two reasons. On the one hand, several cities in the area competed for commercial leadership, which allowed for a relatively smooth transfer, first from Bruges to Antwerp, and then from Antwerp to Amsterdam. On the other, merchants and rulers were able to develop a number of strategies to deal with losses. Chapter 7 will document how the sophistication of the cities' commodity and financial markets in particular allowed merchants to share, spread, and transfer the risks of violent assaults that issued from the Europe political fragmentation.

8. Conclusion

(Please note: references to be added)

The history of European trade between 1000 and 1800 is a history of urban competition. There were a large number of potential gateways with good overseas and overland connections to areas with marketable surpluses and to other commercial centers. These cities competed with each other to attract merchants not just on the basis of their structural endowments but also through their ability to protect local and foreign merchants against violence and opportunism. In the Low Countries, Bruges, Antwerp, and Amsterdam reached the top of the urban hierarchy because of their excellent location, and because they repeatedly adapted their commercial, legal, and financial infrastructure to the needs of local *and* foreign merchants.

Bruges' commercial ascent began with the city's inclusion in the cycle of Flemish fairs in 1200, just like Antwerp's dominance originated in the fairs of Brabant it began to host in the beginning of the fourteenth century. The fairs were important for foreign visitors because the city promised protection on the way to and from the fairs; it built a temporary infrastructure to reduce search costs and secure easy payments; it policed the market while the fairs were in motion; and it offered speedy resolution of conflicts before in the local court. These institutional arrangements were also flexible, and when trade began to spill over to the time in between fairs, Bruges simply expanded the legal and commercial infrastructure to function on a permanent basis. Antwerp did the same in the late fifteenth and early sixteenth centuries when the number of resident traders increased. After the fall of Antwerp in 1585, when Amsterdam was confronted with the immigration of hundreds of Flemish, Dutch, English, and German merchants the city also reorganized its public vending locations and port installations to facilitate regular exchange between the newcomers.

The creation of a physical infrastructure did not suffice to support exchange, and the city also regulated the work of specialized intermediaries, including hostellers who played a key role in the business operations of temporary visitors. When these foreigners began to settle for longer periods of time they received a special legal status to allow them to organize trade according to their own preferences. In Bruges the *foreign nations* developed into fully-fledged corporate bodies with their own chapels, nation houses, and consular jurisdictions. The merchants of the German Hanse in particular built a strong internal organization to negotiate with their hosts about commercial regulation and compensation for violent assaults. Although there were French and English merchants who traded in Bruges without special privileges, most alien traders who stayed there for a longer period valued a common social and religious life, and wanted to settle business disputes with associates, employees, and shipmasters according to the laws of their home towns. Again, Antwerp followed a similar trajectory. After the forced departure of foreigners from Bruges in 1488 Antwerp extended extensive privileges to lure them to the city.

The franchises of foreign merchants gradually lost their appeal, however. In the first half of the sixteenth century more and more foreigners in Antwerp ignored their *nations*, and merchants from France did not even have a special status. In Amsterdam in the seventeenth century aliens traded entirely without legal and economic privileges. The foreigners in Antwerp and Amsterdam were willing to forego a privileged status because the town magistrates made every effort to adapt local institutional arrangements to their business needs, in particular with regard to the legal system. Foreign merchants continued to work with family and friends in their businesses but they stopped using their consuls to negotiate protection or to settle commercial disputes between them. Instead the merchants used a well-functioning system of arbitration in which fellow traders adjudicated business conflicts, and they used specialized local courts, which applied a mixture of local and foreign customs to matters of insurance, exchange, insolvencies. This prevented lengthy and costly court proceedings and it allowed merchants a wide choice of debt and equity contracts to secure both the honest behavior of their trading partners and the compensation for losses from violent assaults.

In combination with the regulation of market exchange, the legal efforts of Bruges, Antwerp, and Amsterdam greatly enhanced the freedom of merchants to organize transactions privately and in accordance with their own usage and customs. The cities' abilities to prevent violence against trade were much more limited, however. Under normal circumstances the safety of merchants within the city walls was guaranteed, and the cities could even pressure rulers in their hinterland to protect traveling traders, but urban rebellions did lead to repeated riots or even occupation by sovereign troops. Moreover, the cities lacked the military resources to protect merchants on their way to and from the Low Countries. From very early on foreigners received safe conducts from the counts of Holland and Flanders and the Duke of Brabant but these promises to protect them while they sojourned in their territory had no practical purpose other than providing a legal basis for compensation in case damages did occur. For actual protection the foreign nations depended on naval protection of their home rulers, for instance the Italian galley fleets and the *Friedeschiffe* put into service by the Hanse against pirates in the Baltic Sea in the late fourteenth century. In 1550, however, Charles V's proposition to offer similar protection to ships sailing to Spain was denounced by Antwerp's magistrate as a roundabout means to secure a military presence in French waters. It was only after 1588 that the Dutch Republic managed to organize regular convoys like the one's organized for Italian, German, and Spanish merchants before.

Indirectly, however, the cities were indispensable for the protection of merchants at sea. Both in the Low Countries and elsewhere in Europe urban governments were responsible for the organization and funding of the admiralties that organized naval escorts. What is more, the liquid markets of commercial cities allowed merchants to deal with violence through private risk management, which in turn suggests that the improvement of contracting institutions could make up for the insufficient security of private property rights.

It is tempting to take the succession of Bruges, Antwerp, and Amsterdam as leading international markets as a unique success story predicated upon an extremely favorable political and economic geography. For the Low Countries were strategically located between major markets in northern and southern Europe, as a result of which the region's ports were a splendid meeting point for merchants from all over the continent. Moreover, the area's political fragmentation and high urbanization combined to create strong cities capable of shaping institutional arrangements according to the desires of its merchants. On the other hand, none of these cities managed to maintain its lead, not just because changes in supply and demand favored their rivals inside or outside the Netherlands, but also because these cities were equally capable to develop appropriate contracting and property rights institutions. The adaptation of institutional arrangements to strengthen commercial ties with other cities was indeed a European phenomenon, and if the succession of Bruges, Antwerp, and Amsterdam as leading markets deserves our attention, it is because it reveals the dynamics of this much more general process of institutional change.

First of all, the case of the Low Countries underscores Frederic Lane's observation, now more than fifty years ago, that merchants often used more than one institution to solve their problems, while at the same time the institutions they use had multiple purposes.[36] These multiple functions were performed by individual intermediaries like hostellers, by corporate bodies like the foreign nations but also by the government. In the ports of the Low Countries the aldermen's benches regulated local trade, registered contracts, adjudicated conflicts, and they bargained with the central government over a variety of issues. Even the central courts of the Low Countries combined the adjudication of prize cases with appeals to local verdicts and conflict resolution in first instance between foreign merchants. What matters more than these multiple functions per se, however, is the fact that merchants could rely on any of these services in addition to the multiple private solutions they developed within their own family or community. This highlights the second characteristic of institutions identified by Lane: merchants in the Low Countries always and everywhere combined several institutional arrangements to protect their trade, organize agency relations, and manage risks.

[36] {Lane, 1958 #542}.

This fundamental characteristic of economic organization – actors combine institutions with multiple functions - helps to explain why institutional arrangements changed in late medieval and early modern Europe. Multipurpose institutions could loose their competitive advantage when separate functions are provided in alternative ways. Consider the rise and fall of merchant guilds. At the height of the guild system the consuls of foreign nations liaised with the local authorities, supervised convoys, recorded commercial associations, and adjudicated conflicts. As cities took over the administrative and legal functions of the consuls they were no longer indispensable for merchants and quickly lost their other functions as well. A similar shedding of functions is found with the hostellers of late medieval Europe. They initially provided lodging and storage facilities for their foreign guests but they also brokered deals for them, and they acted as commission agents in their absence. When foreign merchants became permanent residents they no longer needed accommodation or local representation, and the brokers who replaced them played a more limited role.

The variety of institutional arrangements available to merchants in the Low Countries points to another important feature: institutional oversupply. As cities competed with each other, and merchants became familiar with alternative solutions to similar problems they could choose to change or append their own business practices. This was important because different economic circumstances may require different solutions and if institutional heterogeneity persists, this wider menu of choices can prevent lock-in. London, for instance, was able to by-pass the principles of negotiability applied in Amsterdam because Antwerp's rules were still available and a better fit to English circumstances. Institutional oversupply was indeed supported by individual cities who added to their customs rather than trying to codify a limited set of rules. Thus, Antwerp's customs continued to provide for a separate legal status of Portuguese and English merchants, and for the organization of fairs long after these institutions had lost their importance. But then, after the fall of Antwerp in 1585, Portuguese merchants revived their nation, and financial traders continued to follow the rhythm of the fairs for periodic clearing.

In the long run, however, the most striking feature of European international trade is indeed the growing similarity of commercial institutions across Europe. Many institutions that shaped the organization of international trade in the Low Countries were also found elsewhere in Europe: insurance rules, bills of exchange, double entry bookkeeping, price currents, brokers' regulations, arbitration, armed convoys, insolvency proceedings, the adjudication of prize cases, the acceptance of private documents as legal proof, et cetera. These similarities were not a serendipitous outcome but, notably with regard to contracting institutions, which almost by definition concerned border crossing transactions, the result of a very specific process of institutional change with cities as the major driving force. Cities were more important than sovereigns for the creation of contracting rules because the law pre-modern Europe was local. However, as litigation was costly and time consuming, commercial cities tried to give maximum freedom to merchants to contract according to their own usages. However, as merchants began to trade in multilateral networks, there emerged a growing agreement in applied rules between commercial cities in different parts of Europe, perhaps most notably with regard to financial techniques, and the use of their business letters and account books as legal proof. Town magistrates recognized the importance of unequivocal contracting rules for the organization of transactions across legal boundaries, and complemented local customs with relevant usages from other parts of Europe. This permeability of local customs was matched by an equally forthcoming attitude of merchants who did not hesitate to adopt new usages if they proved helpful to their business.

These dynamics of legal development in economic subsystems were certainly not unique to the late medieval or early modern Netherlands. Even if a *lex mercatoria* never existed, Emily Kadens has convincingly demonstrated the permeability of local customs, and in a recent study on seventeenth century Paris, Amalia Kessler has shows the willingness and the ability of the city's mercantile court to adjust its mode of operation to changing economic circumstances. The diffusion of merchant handbooks, and the emergence of an international culture of commerce also points to the fact that merchants and rulers habitually turned to other commercial centers for inspiration. But the process was even more general than that, witness the creation of a shared maritime law in the Mediterranean world, and a similar legal evolution on the coasts of the Atlantic and Baltic world. Likewise, the growing accordance in commercial customs between the towns that formed the Hanseatic League in the thirteenth century will have resulted from the obvious gains merchants could make when different places applied the same rules. The adoption of international standard for weights and measures in northwestern, the establishment of monetary unions in the German lands in the late medieval and early modern period, or the adoption of European contracting practices in New England, all point to the same rationale: in all these cases trade within urban networks created opportunities for more efficient trading if local customs and mercantile usage were sufficiently permeable.

The adaptation of institutional arrangements need not imply automatic improvement, however. Merchants were not always free to choose and their preferred solutions were not necessarily the most efficient ones. In the Low Countries favoritism of specific groups also existed and wars and urban rebellions did hurt individual traders more than once. Indeed, one should ask why local or central governments seemed so little inclined to favor some merchants over others, or to expropriate foreign merchants in their realm? In the Low Countries political participation cannot explain this because Bruges and Antwerp were ruled by artisans rather than merchants at the height of their economic power, while Amsterdam after 1578 was controlled by a small local merchant elite which actively sought to exclude Flemish merchants and other outsiders.[37] Collective action by merchants did not constrain the governments either. Apart from the fact that in the course of time fewer and fewer merchants belonged to corporate groups, the bargaining position of most foreign nations was very weak anyway, either because they did not make a unique contribution to the market or because their home governments were at war with rulers of the Low Countries. In fact only the German Hanse had a strong bargaining position but that did not only stem from its strong internal organization but also from the urban competition within the Low Countries, which allowed the Germans to obtain extra privileges and financial compensation through boycotts, as they could indeed easily relocate elsewhere in the Netherlands.

The exceptional situation of the German Hanse does in fact point to a more general logic of institutional change different from current models that highlight direct bargaining between merchants and rulers. The more or less constant flow of merchants between commercial cities in Europe before 1800 implies that merchants could

[37] (Blockmans) Gelderblom 1999

individually choose to move elsewhere if they believed other cities offered better business opportunities. Surely, the attraction of commercial cities was to a large part determined by location, both in geographic and political terms, but especially in the long sixteenth century many cities shared a favorable location with sufficient commercial potential. This led local governments to try and improve the organization of local exchange and create legal, commercial, and financial institutions to help merchants deal with violence and opportunism. Two mechanisms were at play. On the one hand cities with a very similar economic geography improved institutional arrangements to compete for the presence of the same group of merchants. On the other, urban governments were also eager to improve institutions to connect to cities whose resources were complementary to theirs. Most importantly, however, this institutional competition was a self-propelling force , because every institutional change that made it easier to transact in other cities reduced the opportunity cost for merchants to leave their current location.

Urban competition also explains why some cities were tempted to adapt institutions to favor one group of merchants or exclude others. The privileged treatment of traders would often seem a domestic affair, for instance if wealthy foreigners act as bankers of the host ruler, or if local businessmen dominate the polity, but there is often an implicit cost-benefit calculus attached, related to a city's position in the urban network. Merchant elites in fifteenth century Lübeck and Venice excluded foreigners from lucrative local trade because the cities' growth potential was limited and the incumbents feared declining incomes. In the 1550s Antwerp was willing to provide extensive premises for lodging, storage and sales to German and English merchants because the city deemed their presence crucial to maintain the city's competitive strength. The English crown only ended its preferential treatment of London's East India and Levant traders in the second half of the seventeenth century when new commercial opportunities promised to benefit a much larger crowd of traders, whose wealth, accumulated through new business ventures in the Atlantic world, eventually permitted the reorganization of England's public finance.

The one remaining question then is to what extent the efforts of cities to adapt institutional arrangements actually changed their position in the hierarchy of markets. Here it is important to distinguish the long sixteenth century (1450-1650) from earlier and later periods. Before 1450 the commercial centre of gravity was firmly located in the Mediterranean. There were regular connections between northern and southern Europe but most trade was bilateral with only a few highly diversified markets in northwestern Europe. In the long sixteenth century the trade between different parts of Europe not only expanded but it also became multilateral with merchants in all major markets directing extensive networks of foreign agents. Many merchants took up (semi-) permanent residence elsewhere in Europe they introduced their own usages but they also adopted local customs depending on their business requirements. Immigration in turn widened the menu of institutional choices for the host cities and the most successful among them invariably were very liberal in the adoption new usages. For instance, double entry accounts and business correspondence were accepted as legal proof by magistrates in every major trading centre, and new colonial settlements in the Atlantic world even saw the wholesale transplant of local customs from major European ports. The typical approach in every commercial city was to provide the commercial and legal infrastructure that was necessary to support the trade of all merchants, with little help from the central government and no need for either local or foreign traders to organize collectively.

Urban competition through the adaptation of institutional arrangements ended in the second half of the seventeenth century when all major improvements had spread over the principal ports of Europe's Atlantic economies. This diffusion eliminated the possibility to cut costs below the level of competitors through the adoption of superior commercial or financial techniques. What remained, however, were the institutional differences that existed between small and big cities, most notably with regard to the different liquidity of their markets. In Europe's major trading places liquid markets for goods, money and credit, i.e. markets with high turnovers that allowed instant delivery of any quantity at competitive prices, reduced costs because illiquid stocks of money and goods were easily converted into other, more liquid assets. Key to the proper functioning of these markets was the participation of a diverse crowd of buyers and sellers: the more actors were involved, the greater the liquidity of these markets and the lower the costs of the assets traded. Commercial cities like Amsterdam and London which ended up at the top of the hierarchy of markets gave merchants had access to the widest variety of goods and commercial services, and this allowed big merchants to diversify their investments at low cost, while more modest traders could use the local insurance market and new contractual forms, e.g. joint-stock companies, to insure against negative shocks.

Liquid markets emerged because local governments worked hard to adapt legal, commercial, and financial institutions to changing market circumstances, but sovereign rulers also developed a keen interest, especially in the liquidity of financial markets. Thus, Charles V gave maximum freedom to foreign merchants in Antwerp and in the

Estates General of the Dutch Republic took great care to leave the Amsterdam market undisturbed. The restraint of the central rulers was motivated by two considerations. The commercial cities were crucial sources of finance for the state and the liquidity of their markets offered merchants effective protection against the violence that issued from the never ending rivalry between European princes. Indeed, as the case of the Low Countries strongly suggests, the benefits of having at least one major commercial centre within their realm trumped the political strength of local or foreign merchants as the driving force behind the growing commitment of sovereign rulers to the safety of international traders early modern Europe.