

## Long-Distance Trade in Medieval Europe

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Subject: Economic History Online Publication Date: Jun 2020

DOI: 10.1093/acrefore/9780190625979.013.558

### Summary and Keywords

Traditional historiography has overestimated the significance of long-distance trade in the medieval economy. However, it could be argued that, because of its dynamic nature, long-distance trade played a more important role in economic development than its relative size would suggest. The term *commercial revolution* was introduced in the 1950s to refer to the rapid growth of European trade from about the 10th century. Long-distance trade then expanded, with the commercial integration of the two economic poles in the Mediterranean and in Flanders and the contiguous areas. It has been quantitatively shown that the integration of European markets began in the late medieval period, with rapid advancement beginning in the 16th century.

The expansion of medieval trade has been attributed to advanced business techniques, such as the appearance of new forms of partnerships and novel financial and insurance systems. Many economic historians have also emphasized merchants' relations, especially the establishment of networks to organize trade. More recently, major contributions to institutional economic history have focused on various economic institutions that reduced the uncertainties inherent in premodern economies.

The early reputation-based institutions identified in the literature, such as the systems of the Maghribis in the Mediterranean, Champagne fairs in France, and the Italian city-states, were not optimal for changing conditions that accompanied expansion of trade, as the number of merchants increased and the relations among them became more anonymous, as generally happened during the Middle Ages. An intercommunal conciliation mechanism evolved in medieval northern Europe that supported trade among a large number of distant communities. This institution encouraged merchants to travel to distant towns and establish relations, even with persons they did not already know.

Keywords: long-distance trade, Middle Ages, Europe, commercial revolution, market integration, merchants, reputation, institutions

# The Commercial Revolution and After: Patterns and Trends

The development of trade over long distances in Europe during the centuries following the collapse of the Western Roman Empire remains unclear and subject to controversy. The evidence is scanty and fragmented, but it is certain that trade never ceased. It seems that the volume of trade declined in most of the west during the Merovingian period (5th–7th centuries). In the Carolingian period (8th–9th centuries) the volume of trade continued to diminish, especially in regions bordering the Mediterranean Sea. The 10th century marked a change in trade conditions. Trade between the Christian realms and Islam began to replace the earlier state of continuous hostility, and the Mediterranean ceased to be a barrier between the European West and the lands of North Africa and the Middle East.

The later decades of the 10th century and the early years of the 11th saw a recovery of western and central Europe from the destruction of successive waves of invaders and the rebuilding of the decimated population. A surplus began to accrue and was manifested in the building of churches across the continent. It was also invested in the creation of new social and political institutions and in the outward thrust of Europe, driving the Muslims from Spain and Italy, conquering parts of the Levant, building commercial societies, and expanding the frontier of the European settlements in central, eastern, and northern Europe. The change started at different times in different parts of Europe. It was earlier in Italy than in France, and earlier in much of France and the Rhineland than in the rest of Germany. The last areas to be touched by the expansive economy were Scandinavia, east-central Europe, and the interior of the Balkans (Crouzet, 2001; Lopez, 1987; Pounds, 1988).

In the 1970s, the economic historian Lopez (1976) coined the term *commercial revolution*, which he referred to the rapid expansion of European trade from about the 10th century until the devastating plague pandemic in the middle of the 14th century. During this period, “commerce ... became the most dynamic sector of the economy in one country after another, and merchants were the main promoters of change” (p. 86). Even before Lopez, another prominent economic historian, Henri Pirenne, talked about “revival of trade,” referring to the same economic expansion (Lopez, 1976; Pirenne, 1936).

For this period there are few statistical indicators, but an indisputable trend was the growth of long-distance trade, that is, trade across jurisdictional boundaries. Pirenne (1936) and more recently Greif (2006B), argued that that long-distance trade was the key to economic development of the commercial revolution. According to Pirenne, medieval commerce advanced from the beginning under the influence not of local but rather of export trade: “It was this alone which gave birth to that class of professional merchants which was the chief instrument of the economic revival of the 11th and 12th centuries ... The impetus was given by long-distance trade” (Pirenne, 1936, pp. 142–143).

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Traditional historiography has overestimated the size and importance of long-distance trade, which is much better documented than local trade. There is no doubt that in medieval times only a tiny share of output was traded across international boundaries. Agriculture did not lose its place as the occupation or livelihood of the overwhelming majority; indeed, it was still predominant over much of Europe for many years after the beginning of the industrial revolution. Even if long-distance trade expanded from an almost zero point in the 10th or 11th century, this does not address the question of the importance of trade volumes to the overall efficiency of medieval economies (Clark, 2007; see also, Crouzet, 2001; Lopez, 1976; Ogilvie, 2011). In medieval Europe, population growth was considerable, urbanization accelerated, and the division of labor increased. However, it is not easy to explain these changes. Were they due to improvements in agricultural productivity, technological innovations, political integration, or efficient economic organizations, or some other economic variable?

It could be argued that long-distance trade played a more important role in economic development than its relative size would suggest, because of its dynamic nature. Trade that integrated markets by crossing geographical, political, and cultural boundaries necessarily faced severe problems related to information asymmetries, exchange characterized by the separation over time and space, and the difficulties in enforcing contracts. Therefore, long-distance trade was the most likely sector of the economy to perform as a testing ground for institutional innovations, for example, that were perhaps later to be adopted in other fields of the economy. Moreover, it has been shown that medieval over-regional trade had a long-lasting effect on contemporary regional development, as it positively influenced city development both during the medieval period and in the long run (Wahl, 2016).

During the commercial revolution, the volume of European imports from beyond the Mediterranean began to increase. More bulky goods began to arrive at the ports of Italy and southern France. In the 12th century the balance of this trade underwent a fundamental change. Europe had been a colonial, underdeveloped region. From the 12th century, however, Europe had goods to sell other than slaves or bullion, as the export of cloth and metal goods began to be used increasingly to pay for the import of alum, silks, and spices from the Muslim world and Byzantine Empire. Trade also developed in the northern seas. It differed profoundly from that of the Mediterranean, as it was based on demand in the less-developed north for manufactured goods like cloth and luxuries, such as wine, produced in northwestern Europe. The northwest received the products of the northern areas in exchange, such as salt fish, furs, and skins. The volume of this northern trade appears to have increased continuously through the Middle Ages, but its character changed little. The north remained a colonial sphere, exporting raw materials in return for the manufactures of the more developed west.

While the evidence for the nature and volume of European trade after the 10th century is scant, expansion was likely manifested in the establishment of fairs, markets, and urban centers. The growth of the port cities, which were overwhelmingly dependent on seaborne trade, is evidence of this. In the Mediterranean, Amalfi, the preeminent Italian

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port, was replaced by the larger port of Pisa, and then by the even more important ports of Genoa and Venice. The movement of commodities from the Italian ports across the Alps or through the Rhone valley to central Europe also suggests a steadily expanding volume of trade (Crouzet, 2001; Lopez, 1987; Postan, 1987; Pounds, 1988).

There were two regions that in all respects became the most economically active: northern and central Italy as well as Flanders and the contiguous areas in present-day Belgium and northern France. This bipolarity was to last up to the 16th century and was an important aspect of Europe's economic history. A breakthrough was thus achieved when a connection between those two poles was established. A number of fairs were held along the roads between the North Sea and the Mediterranean, but around 1180 the fairs of Champagne became by far the most important. There were six of them each year, in four different towns east of Paris. Merchants from the north brought woollens and linens, which they sold to Italians, who brought silks, spices, and other products from the Orient (Crouzet, 2001).

After a long expansion, there was an economic decline in the middle years of the 14th century that is generally believed to have been associated with the spread of the Black Death. The Black Death was followed by a depression, the length of which is a matter of conjecture. The development was not identical in every part of the continent and it did not necessarily have a straightforward impact on trade. The overseas trade of England, for instance, increased to a great extent between 1300 and 1525. The Baltic Sea region also seems to have been an exception to other parts of Europe. The Baltic Sea was far behind the core regions of Europe to begin with, and the continuous migration gave an economic impetus. The effects of plague epidemics were also less dramatic in that region than elsewhere (Bernard, 1972; Brittnell, 1993; Cipolla, 1989; Pounds, 1988).

As statistical evidence is scarce, it not easy to compare trade in different parts of Europe. Spufford (2002) provides an interesting comparison between the Baltic Sea and the Mediterranean. He has estimated the relative volume of maritime traffic in both regions, on the basis of customs records and other sources. According to Spufford, the only safe comparison one can make is that between Lübeck and Genoa in the years between 1379 and 1384, when the seaborne trade at Genoa was five or six times greater than that at Lübeck. Since Lübeck is generally conceded to have been dominant in the Baltic and to have had a very large share of the Hanseatic trade, while Genoa was rivaled but not yet overshadowed by Venice, it is clear that Mediterranean trade was many times greater in scale than that in the Baltic, which supports the distinction between the developed south and developing north (Spufford, 2002).

There is no doubt that markets for commodities between various European trading centers began to integrate in the late medieval period. This is even more obvious in the case of financial markets, which integrated more easily than others, as indicated by quantitative studies. There is evidence of long-distance convergence in interest rates in the 15th century, although it is much more visible from about 1500 to 1630. Perhaps surprisingly, in the early modern period integration advanced mostly in the Roman Empire and less in

Italy. This suggests that legal congruence and collective liability functioning within a political system characterized by the cooperation of groups of towns promoted a set of institutions that supported market integration (Chilosi, Schulze, & Volckart, 2018; Volckart & Wolf, 2006).

## Town Communities and the Organization of Trade

In medieval times, markets were poorly attended because participants were few and widely scattered, and information about them was hard to get. It is difficult to measure the transaction costs of such constrained trade, but merchants addressed the problem by assembling scattered merchants and their agents at yearly or seasonal fairs, such as the Champagne fairs. The fairs addressed the problem that, without them, markets would have too few participants, so the risk of not getting on with the price-setting process was pressing. Fairs with hundreds or even thousands of participants were obviously better attended, and the likelihood that deals could be concluded increased (Persson & Sharp, 2015).

Similarly, towns advanced the concentration of trade but, unlike fairs, they provided a permanent meeting point for local and foreign merchants. The commercial organization based on towns enabled the development of permanent urban governments for the administration and protection of trade, and the evolution of bodies of law to adjudicate disputes arising between merchants. The concentration of trade and merchants into towns also facilitated the accumulation of a much greater stock of more reliable market information, compared to traditional forms of itinerant merchants acting as private entrepreneurs (North & Thomas, 1989).

One of the most distinctive characteristics of medieval towns was their political-legal status as self-governed communities. In the Middle Ages, the rise of towns and other forms of communities, such as guilds, fraternities, and universities, reflects the related decline of kin-based social structures. Interest-based communities seem to have been a uniquely European phenomenon. Corporative structures could evolve in the absence of strong states and because of the weakening kin-based structures, such as ethnic groups and clans. Town communities as economic corporations represented horizontal bonds and collective activities, in contrast to vertical feudal ties between lords and their vassals. Taken together, these two structures of power characterized the medieval society in the West (Reynolds, 1984; Sprandel, 1988; Ullmann, 1967).

In the absence of strong central powers, communities were a natural solution to organize individual activities in a collective way. As a community, merchants could create a collective good that would be unavailable to nonmembers, for example peasant-merchants who had no organization behind them. Merchants of a town community could share the high start-up costs of protection and transaction governance as well as the benefits of greater market power. Furthermore, in relatively small and closely knit communities with little di-

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vision of labor, members could spend a lot of time socializing, talking, and observing each other's behavior. Personal familiarity helped to integrate the community and keep it tightly knit, with the enforcement of institutions and social constraints on behavior. Social interaction within a group also facilitated transmitting information about other members and thus provided the necessary condition for the success of a reputation mechanism within the community (Grafe & Gelderblom, 2010).

The primary (commercial) function of towns was to organize intercommunal trade between suppliers, clients, and merchants of different communities. The communal organization had many benefits in medieval society, which was characterized by slow communications and few public enforcement mechanisms. Communities advanced impersonal trade because merchants could start trade relationships even with partners they did not know. It was not necessary to have a personal relationship with every potential partner based on reputation, as the community provided confidence (systemic trust). At least in theory, merchants could expect the foreign town communities to follow the institutions known to everybody and, if needed, to enforce their members to do the same.

Historical case studies of town communities in virtually every part of Europe illustrate that they were never single-purpose organizations. Rather, they performed a multitude of economic, judicial, social, cultural, and political functions. From the merchants' point of view, town communities and, in particular, town councils as their representatives offered a centralized, coordinated organizational form that was able to respond to the various potential problems of international trade. These organizations had obvious advantages. First, town councils were used for mutual cooperation and communication based on correspondence, advancing their coordinating activities. Second, councils were able to react rapidly and accurately, as their members, mayors, and aldermen were merchants themselves and thus experts in problems related to trade. A dispute had to be settled swiftly to minimize the disruption of business, especially in the case of a merchant visiting a foreign town. Furthermore, mayors and aldermen were physically as well as socially close to other merchants, which facilitated their role as judges in commercial disputes. In this respect, the councils were a much more suitable forum for commercial matters than public (royal) courts. The expert role of councils was further emphasized by the quest for truth and the standardized investigation process, which included the use of witnesses and swearing an oath, for example (Greif, 2005, 2006B).

The distinction between town and village, urban center and countryside, has always been difficult to draw. They may have been similar in function, but they were far apart in status. The medieval town was separate in law and in institutions from its countryside, just as it was, in some cases, physically cut off by its walls. Towns were densely built and highly nucleated compared to the countryside. Nonagricultural activities were of course more important in towns that contained merchants and craftsmen. However, one must not stress the dichotomy too much, because in most towns agriculture was included among their occupations. As a matter of fact, in all except the largest medieval towns, rural pursuits were important and, in some instances, dominant (Pounds, 1988). Towns played very different commercial and political roles in different parts of Europe. In France and partic-

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ularly in England the urban communities remained under the strict control of the state. In both countries the crown succeeded in restraining the pretensions of towns without, as a general rule, alienating them. Only in Italy, Germany, and to a more limited extent the Low Countries did some towns achieve a sufficient degree of freedom and independence to allow them to pursue their own policies. In northern and central Italy, the sovereignty and independence of the city was carried to the extreme. The towns annexed the surrounding territory and eliminated what remained of rural feudalism, until the whole country became a mosaic of city-states.

Towns were highly heterogeneous in size and the limits of their political power varied greatly. In Germany, for example, only the free and imperial cities were independent city-states, whereas most towns were small, possessed limited powers, and served only local needs. Not all German towns even had strong political guilds or councils. Certain port cities in Europe benefited from staple rights, usually granted by rulers, which required ships to unload their goods at the port and to display them for a sale for a certain period, normally three days. English kings used the export of wool, one of the most valuable raw materials in medieval Europe, in the advancement of political policy, by directing wool trade through a single European port, the staple. The location was changed several times, according to the English relations with the Low Countries, between Dordrecht, Antwerp, Saint-Omer, and Bruges, and it was finally established in Calais. In the Rhineland, staple right was rigorously enforced by Cologne, Mainz, Strasbourg, and Basel, whereas Paris and Rouen possessed staple rights on the Seine (Pounds, 1988; Wahl, 2019). There was a revealing contrast between the commercial organization developed in the Baltic Sea region and that in the Mediterranean. In the Baltic, there were a few dozen towns, most of them small. Even the biggest ones, such as Lübeck and Danzig, were relatively small compared to the largest European centers. In the Mediterranean and particularly in Italy, there were fewer but much bigger cities. Centers such as Genoa or Venice were sufficiently large to ensure the safety of their merchants abroad by themselves, even to a degree that coordination with the ports in which they traded was unnecessary. In the Baltic, on the other hand, coordination between the numerous small towns was a necessary condition for mutual exchange (Greif, 2006B).

In northern Europe a distinct organization evolved to support long-distance trade, the Hanseatic League. From early on, the Hanseatic League was the supreme power in the Baltic Sea region. The origins of the league date back to the 12th century, when the first unions of merchants in northern Germany were formed. The rebuilding of Lübeck in 1159 is often seen as the root of the Hansa, because it meant the reorganization of commerce in all of northern Germany. In 1241, Lübeck formed an alliance with Hamburg, controlling the important trade route between the Baltic and North Seas. This alliance can be considered as a precursor of the league, as it formed the basis for the cooperation of merchants in northern Germany. The most important aspect of the formation of the Hansa was that it was able to control, from the 13th century onward, the commercial axis between Novgorod, Tallinn, Lübeck, Hamburg, Bruges, and London. This mainstream of trade connecting the East and the West remained the foundation of the Hansa throughout

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the Middle Ages. This axis was also fed by Finnish foreign trade (Dollinger, 1970; Ellmers, 1985; Hammel-Kiesow, 2008).

Defining the organization of the Hanseatic League is difficult, and was problematic during its existence. In an attempt to characterize the legal nature of the league in the 1460s, the Hanseatics stated that the Hansa was neither a society nor a corporation. It owned no joint property, no joint till, no executive officials of its own and was a tight alliance of many towns and communities that allowed them to pursue their individual trading interests securely and profitably. The Hansa was not ruled by merchants, and every town had its own ruler. It also had no seal of its own, as sealing was done by the respective issuing town. The Hansa had no common council, but discussions were held by the representatives of each town. There was no obligation to take part in the Hanseatic meetings and there were no means of coercion to carry out their decisions.

According to a widely held opinion, the Hansa was a community of North German towns whose merchants participated in the Hanseatic privileges abroad. Although one might expect that the Hansa would have taken the trouble to draw up an official list of member towns and keep it carefully up to date, nothing of the sort can be traced. It seems that this was left deliberately unclear. Modern historians have arrived at a figure of more than 180 merchant towns, taking a "Hansa town" to mean a town whose citizens enjoyed Hanseatic privileges abroad. Nevertheless, despite the loose organization, contemporary foreign merchants recognized their Hanseatic competitors as belonging to a group that shared exclusive privileges (Dollinger, 1970).

Early 21st-century research has shown that the image of the Hansa as a huge trading empire was a false interpretation. Yet in spite of its structural weaknesses and the supposed characteristics of its organization, the Hansa survived almost 500 years, until the 17th century. It is extraordinary that so many towns, so different and remote from one another, should for such a long time have been able to engage in so many corporate activities and remain so loyal to a community of which they were voluntary members (Ewert & Selzer, 2009).

The community's long existence resulted from the favorable geographical situation of the Hansa towns between northeast and northwest Europe, forming a line of communication and trade between the regions. In addition, common interests bound the mixed collection of towns together. More often than not, the Hansa succeeded in satisfying the desire of the merchants of the North German towns for mutual aid and support in the protection and advancement of their interests abroad. The league remained viable as long as the solidarity based on the interdependence of the member towns continued, keeping in check the mutual disagreements and disputes. The weaknesses became more apparent in the later Middle Ages because of internal conflicts and external rivals (Holland, England), including the rise of the new nation-states (Denmark, Sweden, Russia) (Dollinger, 1970; Hammel-Kiesow, 2008).

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There was a clear contrast between the Hanseatic and South German merchants' practices. It has been said that the Hanseatics had businesses and southern merchants had a business. The Southerners founded powerful, long-lasting firms, often around a single family, in which the principal partners supplied both capital and management skills, whereas the Hanseatic merchant, however extensive his business may have been, figured less as the head of a great commercial undertaking than as a participant in a number of separate businesses. One of the most striking examples of a South German merchants' dynasty is the Fugger family of Augsburg. In the 15th and 16th centuries, the Fuggers accumulated enormous wealth through as international merchant bankers and venture capitalists who controlled much of the European economy (Brady, 1996; Irsigler, 1985).

## The Merchant and His Business

In the Middle Ages and for some time afterward, specialization of trade was not yet developed in the modern sense, and a merchant was a trader, sometimes the head of a manufacturing enterprise, and very often a money lender, all at the same time. As a trader he generally dealt in a variety of products, in cloths as well as spices, salt as well as metals. Even the distinction between wholesale and retail trade did not exist. The one recognizable difference among merchants was that some operated on an international scale and others were petty, local merchants (Cipolla, 1989). Long-distance trade was centered on an individual merchant. There was a continuum from an individual peddler, the simplest form of trade, to informal and formal partnerships, the use of agents, and more or less stable networks of merchants. The primitive type of itinerant trader seems to have existed only in the early Middle Ages.

In the later Middle Ages, itinerant traders were replaced with independent merchants who entrusted delivery of merchandise to a clerk or skipper. This change in the organization of trade, intimately connected with the rapid decline of the fairs of Champagne after 1300, had clear advantages. The sedentary merchant, no longer compelled to continually sail to foreign ports and to face the personal risks involved in traveling, could conduct several enterprises at once. He conducted his business at home, from his office. Surrounded by a small staff, he sat at his own desk, corresponding with his business associates or clerks in other towns. He still traveled occasionally, mainly to personally meet his business partners. Normally, however, the goods he stamped with his own trademark and dispatched were entrusted to a clerk or ship captain and were accepted at their destination by a partner, all of whom worked as the merchant's agents (de Roover, 1963; Dollinger, 1970).

Personal relations among merchants and their suppliers, creditors, agents, and customers were the cornerstone of long-distance trade in the medieval and early modern world (Gelderblom, 2003; Müller, 1998). Merchants had to ensure that their agents' discretionary power was used to their best advantage. From the merchants' point of view, the fundamental problem was how to monitor those agents overseas. In the premodern economy, the agency problem was potentially even more severe than in modern economies,

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above all because of the slow communication. How could merchants ascertain if the output before them was the maximum amount they should have received or whether their agents had cheated them? The ability of agents to behave in their own self-interest occurs in situations of asymmetrical information and uncertainty. In medieval long-distance trade, skippers in particular may have had more accurate information on prices and other relevant matters than the merchants, considering their central role as carriers of information between trading parties. The presence of uncertainty meant that outputs could not be linked invariably with inputs or agents' efforts (Carlos & Nicholas, 1990; Greif, 1989; Persson & Sharp, 2015).

It seems that in different times and in different environments, agency relations in trade were characterized more by trust than by mistrust, contrary to the common view in the vast agency literature. This was the case in the Mediterranean in the 11th century, in the Mexican California in the 1830s and 1840s, and in the and early modern northern Europe, for example. How was the agency problem resolved, even in the apparent absence of close and repeated relations? In both the Mediterranean and in the Mexican California, agency relations were governed by a collectivity (coalition). Merchants could use collective punishment to respond to their agents' misconduct. The operation of the coalitions was based on uncoordinated responses of merchants located at different trade centers. Within the coalitions, a reputation mechanism mitigated the commitment problem by linking an agent's past behavior and his future payoff (Clay, 1997; Greif, 1993, 2006B). A similar system based on merchants' networks and functioning information transmission also existed in northern Europe. In the case of medieval overseas trade in the Baltic Sea region, a comparable system supported the operation of a reputation mechanism. Although we cannot identify the origin of every skipper, most of them were members of the same town communities whose merchants' goods they carried. Collective, communal reputation mechanism and the related third-party enforcement thus provided an incentive for the agents to behave honestly, enabling an almost impersonal use of agents (Kallioinen, 2012).

There were many kinds of risks involved with long-distance trade, which was characterized by slow communication, asymmetric information, different interpretations of facts among merchants, and limited contract enforceability. Merchants operated in a highly complex and uncertain environment. Unanticipated events and multiple interpretations of existing agreements were always possible under these circumstances, implying that the definition of a contract violation was often ambiguous. Moreover, the trading parties negotiated their contracts with their domestic customs of trade and informal rules of conduct in mind. Thus, in addition to everyday problems such as various exchange rates, different units of measure, or the condition in which the goods would arrive, risks encountered in overseas trading were characterized by legal and political uncertainties. Consequently, medieval long-distance trade seems to have involved particularly high transaction costs.

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Merchants, of course, had several means to cope with these risks. Marine insurance, a common commercial practice in the Mediterranean from the middle of the 13th century onward, remained unknown in the Baltic Sea region up to the second half of the 16th century. However, it was a common practice to reduce risks by dividing the ownership of a ship into several shares. Division into eight shares was normal in the 15th century, but there are also examples of 16, 32, and even 64 shares. Furthermore, merchants tried to ship commodities on several vessels to minimize the risk of losing all the goods. The most basic strategy of risk diversification was certainly to avoid specialization in trade, which was a natural part of entrepreneurial behavior in premodern times. By spreading their activities to different economic sectors and geographical areas, merchants diminished their risk level by avoiding dependence on a small number of commodities, partners, or towns (Cipolla, 1989; Dollinger, 1970; Jeannin, 1972; Müller, 1998). Even the establishment of universities and the training they provided in Roman and canon law has been linked with increased economic activity in Germany. After the conclusion of their studies, students lived in cities around universities, providing legal expertise in contracting, which reduced the uncertainty of trade (Cantoni & Yuchtman, 2014).

## Intracoalition and Intracommunity Institutions

In the study of medieval economic history, the focus has traditionally been on business techniques such as the appearance of new forms of partnerships or novel financial and insurance systems. Many have also analyzed merchants' relations, especially how they established and maintained networks to organize trade. More recently, major contributions to institutional economic history have explained the expansion of medieval trade by referring to various economic institutions that reduced the uncertainties inherent to premodern economies. The literature is generally optimistic about the efficiency of institutional arrangements that could provide security and enhance trust even when trading crossed the geographical, cultural, and political boundaries that separated communities. There is a wide consensus that beneficial institutions provide order and predictability to human interaction by reducing opportunism and uncertainty (González de Lara, 2008; Greif, 2006B; Kallioinen, 2012; Milgrom, North, & Weingast, 1990).

Everywhere in medieval Europe, merchants created institutional arrangements to minimize the many risks and uncertainties related to business, supporting interaction between urban communities and groups of economic agents. An *institution* is a social mechanism that coordinates the behavior of merchants and other economic agents, leading to the regularity of behavior. If an institution is effective and is internalized by (most) participants, it will generate uniform behavior in similar situations (Greif, 2006B; Hodgson, 2006). Because trade, like all economic activities, is a social act, it brings together groups of people who often have very different cultural understandings of the terms of interaction. People can trade without sharing some rules of the game, but in different cultures there are different understandings about various trading practices. This is where shared and mutually internalized institutions can help. Individuals do not necessarily need to know more than the institution in the form of a social rule to engage in social interaction.

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The institution aggregates private information about the others' expected behavior and distributes it in a compressed manner (Eggertsson, 2001; Greif, 2006B; North, 1990).

In the Middle Ages, the paramount question of institutional development concerning long-distance trade was how to create an institutional structure that could advance a regularity of behavior between a large number of distant communities and between merchants who did not necessarily know one another. The analysis of the speed of Black Death from one city to another used as a proxy for trade between the cities indicates the importance of institutions. Both national and local borders in Europe in the 14th century had a negative impact on the speed of the dispersion of the disease. This suggests that political and related institutional fragmentation was a serious obstacle to trade, stressing the importance of the creation of institutions that could support long-distance trade (Boerner & Severgnini, 2014).

Previous research has identified some institutions that supported long-distance trade in the Middle Ages. One of the early institutions advanced overseas trade in the 11th century Jewish Maghribi community in the Mediterranean. Reputation was of utmost importance in the Maghribis's trading system. According to Greif, any agent accused of dishonesty was rejected by the entire community. Among the Maghribis, agency relations were governed by an institution that was based on self-enforcing collective punishment and was supported by an intrinsic social communication network. They did not need formal courts or judges to enforce contracts because the informal mechanism of collective retaliation and community-based sharing of information worked well within their homogeneous cultural system. Ultimately, however, the Maghribis' failure to rely on third-party enforcement mechanisms such as courts required great social investments in reputation and restricted their trade to socially narrow circles (Greif, 1989, 1993).

A different response to overcome some of the transaction costs associated with medieval trade was based on the private code of laws (the law merchant) and private judges that adjudicated disputes among pairs of traders. This institution that existed in the Champagne fairs in France in the 12th and 13th centuries provided for independent, private judges to keep records of those transactions where a dispute had arisen. While the judges had no power to enforce their judgments, reputation effects alone were usually sufficient to induce traders to accept the judgments and pay whatever dues they owed. The law merchant did away with the necessity of repeated interactions between any pair of traders. It made reputations portable across the community of traders and thereby overcame the problem of asymmetrically distributed information. Communication costs were low, since the merchants visiting the fairs resided at the same place. The institution was, however, limited to a single marketplace where a single judge could keep track of all trade disputes and, therefore, it was not effective in a larger setting of trading localities (Milgrom et al., 1990).

From the 11th century, the Italian city-states represented a new political order in medieval Europe. As independent political powers, the city-states were able to create distinct institutions to support their commercial activities. In Genoa, a new political system

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was introduced in 1194. At the center of the new system was a political institution called *podestà* (power), a non-Genoese who governed the city. The Genoa merchants could benefit from the long period of relative political order. They relied on a formal legal system that supplemented a bilateral reputation mechanism to punish cheating partners. This institutional system thus combined public coercion based on courts with private reputation. It was better adapted to anonymous or impersonal exchange than the collectivist organization of the Maghribis, and it was therefore more applicable to govern intergroup agency relations in conditions of expanding trade (Greif, 1994A, 1994B, 2006B).

In the High Middle Ages (1050–1350), Venice became wealthy through its control of trade between Europe and the Levant, and also because of the expansion into the Adriatic Sea and beyond. Crucial to this expansion was an active financial market through which Venetians mobilized their savings into risky investments in overseas trade. According to González de Lara, a public-order, reputation-based institution supported the Venetian financial market. In this institution, the state (Venice) generated the rents required to motivate a merchant to keep his affiliation with Venice, gathered the information needed to detect a contractual breach, and punished a merchant if he cheated. It was reputation-based in the sense that the merchant was motivated to submit to the Venetian authorities and comply with his contractual obligations due to the threat of legal sanctions and that of losing his reputation with the state and thus access to state-generated rents. Exclusive commercial privileges, protective convoys, and staple rights in Venice motivated merchants to submit to Venetian authority. As a merchant's future gains from keeping his city affiliation and honest reputation with the state was greater than what he could obtain by opportunistic behavior, it was in the merchant's best interest *ex post* to return to Venice and render a true account. Since this was known *ex ante*, the merchant was able to commit and the investor trusted him. Mutually beneficial investments in overseas trade were hence made possible (González de Lara, 2008).

These reputation-based institutions have raised some doubts in the recent literature. Greif's argument about the role of the Maghribis's coalition and the effective use of ostracism has been disputed. According to Goldberg (2012A, 2012B), if relationships between a pair of merchants broke down irrevocably, both parties maintained relations with the many other merchants in their shared circle. Among the commercial letters from the Cairo Geniza, Goldberg has not found any case of an individual being ostracized even after an accusation of serious misconduct spread through the network (Goldberg, 2012A, 2012B; Edwards & Ogilvie, 2012A). It has also been argued that there were no private judges at the Champagne fairs. Instead, the fairs offered a combination of different courts that the visiting merchants could make use of. This system was supplemented by a dedicated fair court, but its judges, the fair-wardens, were also princely officials and did not prevent foreign merchants from enforcing contracts at other levels of the princely justice system (Edwards & Ogilvie, 2012B). Van Doosselaere (2009) has maintained that the success of Genoa was based on social closure of the local merchant elite. It was not so much institutions that led to growth, but rather the oligarchic families that were able to manipulate institutions in their favor: "It was not economic optimization that drove the dynamics of medieval economic institutions but instead changes in the partner-selection pattern

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that reflected the transformation of the structure of social ties” (Van Doosselaere, 2009, p. 212).

These mechanisms had other weaknesses, too. They were not optimal in the changing conditions when trade expanded, the number of merchants increased, and the relations became more anonymous, as generally happened during the Middle Ages. In such conditions, reputation-based mechanisms alone, such as the coalitions of the Maghribis, would have faced great difficulties in overcoming the problems of asymmetric information. Private judges similar to those of the Champagne fairs, even if they existed, were not an option. That institution was restricted to a single marketplace in which a single judge could keep track of all trade disputes, so it was not suitable for trade between various communities and an almost infinite number of traders residing in different locations. Similarly, the socially restricted nature of the institutions adopted in Genoa and Venice undermined both systems, as they primarily supported the merchants from those city-states. The striking fact is that the Venetians almost solely contracted with each other, and even in Genoa less than 20% of trade took place between a Genoese and a non-Genoese (González de Lara, 2008; Greif, 1994B). Reputation-based institutions similar to the systems of the Maghribis, Champagne fairs, or the Italian city-states were not created to support impersonal trade, and they do not seem to have governed trade relations in the northern Europe.

## Intercommunal Institutions in Long-Distance Trade

To overcome problems associated with intracoalition and intracommunal institutions, another arrangement that relied on the communal organization of trade was created. The community responsibility system was built on self-governed communities, intracommunity enforcement, and joint communal liability in intercommunity disputes. It enabled large-scale impersonal exchange over time and space throughout most of Europe beginning as early as the 10th century. Even this institution had weaknesses in regard to increasing anonymous trade, and it seems to have been abolished by the 13th century (Greif, 2006A).

Under the community responsibility system, a local urban community court held all the members of a different commune legally liable for default by anyone involved in contracts with a member of the local community. If the communal court of the defaulter’s community refused to compensate the injured party, the local court could confiscate the property of any member of the defaulter’s community present in its jurisdiction as compensation. The threat of retaliation provided strong incentives for traders to stick to the terms of the contract. For a trader, the main concern was whether the other community considered the continuation of intercommunity trade valuable enough for its court to enforce intercommunal contracts. The community responsibility system was a public-order, reputation-based institution. By rendering a community’s collective reputation a valuable asset, the

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system motivated partial communal courts to protect alien merchants' property rights and to dispense impartial justice.

However, with growing city sizes and the increasing number of traders and trade deals, cities became more anonymous places where social control diminished. Less credible characters were able to slip onto the stage and externalize retaliation costs to the wider community. The risk of being caught up in retaliatory actions increased. Moreover, the unwinding of retaliatory actions was a costly affair. It involved substantial time losses for all traders involved and often required a lot of bargaining among many parties. By the late 13th century, if not earlier, authorities in many parts of Europe were attempting to change or abolish the community responsibility system and to institute alternatives. The community responsibility system had serious weaknesses. It rendered every honest merchant from another community vulnerable to the consequences of nonpayment by opportunistic fellow citizens. Reprisals usually led to counter-reprisals, thus seriously hampering trade. Early documents mention collective responsibility among merchants as a nuisance, an obstacle to trade, and a bad practice that had to be abolished or at least regulated. With the extension of trade in the 13th century, such a system was no longer tenable (Greif, 2006A, 2006B).

In medieval northern Europe, the inter-communal conciliation mechanism evolved to support trade among a large number of distant communities. It was widely used in long-distance trade in the Baltic Sea region from at least the 12th century until the early modern period. The intercommunal conciliation mechanism had developed as a response to the problems merchants faced in overseas trade. Following the normal practice of the institution, merchants involved with a dispute did not themselves travel to a foreign town. The conciliation was conducted through correspondence between town councils. At first, a merchant could himself try to find a solution to the dispute he had with a foreign merchant. If this did not pay off, he could appeal to the council of his own community, as happened in the previous examples. If the council considered the merchant's claim to be justified, it could write a letter on the merchant's behalf.

Conciliation took place between town councils, and not the merchants involved with the dispute, combining individual liability and communal enforcement. The intercommunal conciliation mechanism was a multilateral, public-order institution. First, it coordinated the settling of disputes between at least two groups of merchants belonging to different communities. Second, the investigation of disputes, information transmission, and enforcement were all in the hands of a specific organization, the town council. Councils identified those who were involved with the dispute, then provided information on the parties and the nature of the dispute not only to the members of their own community but particularly to the council of the other party, and finally took action for the enforcement of the dispute in the form of intercommunal conciliation.

It could be argued that the intercommunal conciliation mechanism encouraged merchants to travel to distant towns and establish relations even with persons they did not already know. It was, therefore, dynamically efficient and suitable for expanding long-dis-

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tance trade and new opening opportunities. The intercommunal conciliation mechanism marked a transition to individual legal responsibility, presumably being a link between the earlier reputational and community responsibility mechanisms and the later centralized legal system (Kallioinen, 2017).

The creation of new institutions undoubtedly advanced trade and market integration in the Middle Ages. However, institutional development was not always favorable. Venice is an illustrative example of a negative institutional trajectory. From the end of the 10th century until 1297, Venetian merchants created novel innovations in contracting institutions that facilitated long-distance trade, such as the limited liability contract known as the *colleganza*. However, starting from 1297, a group of powerful merchants used their resources to block political and economic competition. In particular, they made parliamentary participation hereditary and erected barriers to participation in the most lucrative segments of long-distance trade. Thus, in Venice, the development of political institutions first led to more inclusive arrangements in response to the booming trade but then became exclusive again, a process that was hardly favorable to Venetian trade (Puga & Trefler, 2014).

## Conclusions

The shift in medieval economic history from business techniques or merchants' networks, for example, to institutions has revived the debate related to the roots of early economic growth in Europe. Greif (2005) has suggested that the institutions created in Europe, and especially those that supported long-distance trade, may explain the rise of the West. According to Greif, European individualism and corporations were pivotal to late medieval institutions that permitted impersonal trade and the thrust of economic development in general. Central to Greif's hypothesis is the assumption that long-distance trade is the key economic development. It is also based on the idea that beneficial institutions are a necessary condition for an expanding trade. Greif also argues that the institutions created in the Middle Ages had an impact on later outcomes and that Europe evolved along a distinct institutional path that started in the Middle Ages, in contrast to the Muslim world and other civilizations of that time (Greif, 2006B).

The outcomes were favorable and long-distance trade, by and large, expanded in Europe in the Middle Ages. Despite the potential for opportunistic behavior, trade was generally characterized by trust more than by breaches and conflicts. It was ultimately through trust that beneficial institutions promoted trade. However, did institutions lead to the growth of trade, or did increased trade volumes provide incentives to generate institutions that facilitated it? In Clark's (2007, p. 731) words, "Did the institutions create the trade in medieval Europe or did trade possibilities create their own institutions?" (see also Shirley, 2005). These causalities are inherently difficult to identify and even more difficult to prove. Basically, if we follow the reasoning that beneficial institutions have efficiency-enhancing effects (e.g., the growth of trade), the causal factor (institution) happens before the beneficial effect, which occurs at a later stage. To generate this kind of

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consequence explanation, it is necessary to verify how efficiency-improving institutions are selected and how they survive (Persson & Sharp, 2015).

There is some rough consensus among economic historians and economists that institutions are important for growth. The presumption is that individuals discover and adopt institutional arrangements that enable them to cooperate with one another more efficiently. However, our present state of knowledge of medieval institutions does not provide sufficient answers to the question of which particular set of institutions was decisive for the rise of the West, to what extent those institutions relied on the ones inherited from the past, and whether those institutions were exclusive to the European economy. Understanding the interplay among individual behaviors, environment, and the institutions that led to the revival of trade in medieval Europe remains an open problem.

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