The 'New Institutional Economics' and the Changing Fortunes of Fairs in Medieval and Early Modern Europe: the Textile Trades, Warfare, and Transaction Costs


Abstract

This paper revisits, modifies, and combines elements of three major 'institutional' international-trade models, none of which has yet fully received the attention that it deserves, to provide a new explanation for the growth, decline, and then rebirth of internationally-oriented fairs in the European economy, serving financial as well as commercial functions, from the 12th to late 16th centuries. The three distinguished models that provided the major inspiration for this paper are, in the chronological order of their publication: (1) the Van der Wee thesis (1970) on the macro-economic impact of the major shifts, first, from continental, overland-trade to maritime-based routes, and then back to continental-overland trade routes, over this same four-century era; (2) the North-Milgrom-Weingast 'institutional' model (1990) on the role of law-merchant courts and judges in reducing incentives to cheat or renege on contracts in fair-oriented trade amongst 'unacquainted' participants (i.e. in the Champagne Fairs), and thus in reducing transaction costs in international trade; and (3) the Epstein model (1994) on the various ways in which the later-medieval regional fairs further reduced transaction costs in commerce (even if his model implicitly contradicts elements of my own favoured Van der Wee model). The central theses of this paper are that: (1) the changing intensities, scope, and nature of late-medieval and early modern-warfare played the decisive role in determining the fate of international fairs: (a) that the consequences of such warfare fatally undermined the economic viability of the earlier medieval fairs (English, French), by raising to a prohibitive level the transportation and other transaction costs involved in overland-continental trade, and more particularly in the mass-market trade in cheap, light textiles, on which these fairs had fundamentally depended; and thus conversely (b) that a restoration of relative security combined with other factors that reduced both transportation and transaction costs led (in accordance with the Van der Wee model) to a revival of continental, overland-trade, to a revival and even more dramatic growth in international trade in cheap textiles, and to a rebirth and renewed pre-eminence of international fairs in early modern European commerce; and (2) that the financial role of fairs was as important as their commercial role; and thus that another major factor in the pre-eminence of early-modern international fairs were financial innovations that led to full negotiability of both private and public forms of credit – especially the rents, innovations developing chiefly out of fair-based law merchant courts (thus leading us back to the North-Milgrom-Weingast model). The chief criticisms of these models, or parts of them, lie in their inadequate or wrongly formulated explanations for the decline of the Champagne and English fairs, either by adducing incorrect arguments (North-Milgrom-Weingast) and/or by neglecting the very major adverse consequences of the spreading stain of chronic, debilitating, and ever so disruptive European and Mediterranean-wide warfare from the 1290s – and not from the Hundred Years' War era, consequences that also fatally undermined the international trade in, and thus the production of, the cheap light textiles, over the next two centuries. Such analysis is extended to criticize other favoured models to explain the decline and fall of the Champagne Fairs: the De Roover 'commercial revolution' thesis on Italian branch-plant firms with their use of bills-of-exchange; the Bautier-Verlinden model on the 'industrialization of 14th century Italy'; and the most favoured one of all – the establishment of the Italian galleys route, the direct sea-route, to NW Europe. One merely has to point out the dramatic impact of the revival of overland, continental trade routes and of so many international, fairs from the 15th century, to see why these three latter theories lack credibility in explaining a general commercial-financial phenomenon on the supposed 'decline of fairs' in the international economy.

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Le Monnier, John H. Munro The 'New Institutional Economics' and the Changing Fortunes of Fairs in Medieval and Early Modern Europe: the Textile Trades, Warfare, and Transaction Costs. Institutions in the 'Birth of Europe': Long Distance Trade, Fairs, and Transaction Costs No institutions were more important than fairs in the early commercialisation of the European economy, following what Robert Lopez called 'the Birth of Europe', from the late tenth and eleventh centuries. This was the very era, according to the well-known if now unpopular Pirenne thesis, in which Europe experienced the rev The merchants also pushed for remarkably modern innovations in contracting institutions (such as the colleganza) that facilitated large-scale mobilization of capital for risky long-distance trade. Over time, a group of extraordinarily rich merchants emerged and in the almost four decades following 1297 they used their resources to block political and economic competition. Puga, Diego and Trefler, Daniel, International Trade and Institutional Change: Medieval Venice's Response to Globalization (August 2012). NBER Working Paper No. w18288. Available at SSRN: https://ssrn.com/abstract=2127552. Diego Puga. New Institutional Economics eJournal. Subscribe to this free journal for more curated articles on this topic. FOLLOWERS. Munro, John H. (2000): The 'New Institutional Economics' and the Changing Fortunes of Fairs in Medieval and Early Modern Europe: the Textile Trades, Warfare, and Transaction Costs. Published in: Fieri e mercati nella integrazione delle economie europee, secoli XIII - XVIII, Atti delle “Settimana di Studi” e altri convegni, no. 32, Istituto Internazionale di Storia Economica F. Datini , Vol. 32, No. 1 (2001): pp. 405-451. This paper revisits, modifies, and combines elements of three major ‘institutional’ international-trade models, none of which has yet fully received the attention that it deserves, to provide a new explanation for the growth, decline, and then rebirth of