

Merchant Guilds in Hamburg and Königsberg: a Comparative Study of Urban Institutions and Economic Development in the Early-Modern Period

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In this study two major North European commercial cities – Hamburg and Königsberg – in the early-modern period are studied. The question is why only Hamburg became an important Atlantic trader while Königsberg remained economically stagnant. Hamburg, where merchant guilds disappeared in the sixteenth century, developed unique commercial institutions that laid the foundation for the city's subsequent growth by protecting the property rights of foreign and local merchants alike. The merchants of Königsberg managed to acquire extensive privileges through collusion with the state. Once entrenched, the merchant guild managed to defend its privileges until the state of Prussia was defeated by Napoleon.

1. Introduction¹

The growing importance of an “Atlantic economy” and the corresponding declining importance of the Baltic area as an economic region in the seventeenth and eighteenth centuries have been stressed in a number of studies in the last decades. In an important study, Acemoglu, Johnson and Robinson argue that the rise of the Western World after *circa* 1500 was closely linked to the growth of the Atlantic trade, and that for some countries, in particular the Netherlands and England, Atlantic expansion was boosted by induced institutional changes in a way that provided secure property rights for a broader segment of the society, allowing free entry into profitable business.

¹ I am grateful to Theresa Johnsson for her constructive criticism of this article. Financial support from the Swedish Research Council is gratefully acknowledged.

However, for other countries, institutional inertia caused by entrenched rent-seeking groups limited the possibilities for trading. Thus, as emphasised by Acemoglu *et al*, the status of a nation as an Atlantic trader is endogenous, i.e., the outcome of political and economic processes.² In this study, the outcome of political and economic processes for two major commercial cities engaged in the North Sea-Baltic trade – Hamburg and Königsberg – in the early-modern-period has been examined, and an attempt has been made to explain why only Hamburg became an important Atlantic trader, whereas Königsberg remained economically stagnant. The focus in this article is on formal institutions governing the privileges of merchant communities and their impact on institutional performance in commercial centres. Although these institutions differed in their exact structure, they are known as merchant guilds in historical literature. Merchant guilds were privileged associations of professional trades, and their role in economic development in early-modern European history is under debate. Some view these associations as a fundamental factor in the creation of “social capital” within the networks of brethren, while others view the guilds as important means for powerful merchants to monopolise trade, because the guilds’ legal privileges gave them the right to exclude people from membership.³ This study contrasts the two economic systems in early-modern Europe: a “laissez-faire” model, practised in Hamburg, and a “mercantilist” model, practised in Königsberg, Prussia’s economic centre in the seventeenth century. Furthermore, it explores why, despite being faced with opposition from powerful groups, Hamburg welcomed foreign merchants and became firmly integrated in the new world economy as an important Atlantic trader, which generated economic growth for the whole continent through its openness to immigration and wider economic participation. In addition, the study also explains why

² Daron Acemoglu, Simon Johnson, and James Robinson, “The rise of Europe: Atlantic trade, institutional change and economic growth”, *American Economic Review*, 95 (2005), p. 546.

³ Roberta Dessì and Sheilagh Ogilvie, “Social capital and collusion: the case of merchant guilds”, *CESifo Working paper* 1037 (Sep. 2003).

Königsberg, despite having state support in the guise of supporting mercantilist policies, failed to make the transition from an old-style European corporative town, where trade was reserved for a small privileged circle, to a modern European commercial metropolis. The growth of Hamburg has received some amount of attention in previous research, whereas the growth problems of Prussian Königsberg have received considerably less attention. Furthermore, the development of Hamburg into an important and flourishing commercial metropolis did not go unnoticed among the rulers of Europe. Was there, perhaps, a way to mimic its success? At least the rulers of Prussia, the rising great military power in central Europe, thought so. Several rulers of Prussia imagined that they had a road map to economic success: to invite and support foreign merchants who would bring mercantile knowledge to the realm. In 1686, the Elector of Brandenburg wrote to the council of Königsberg, the largest city of Prussia at that time, that "it is known from experience that trade always flourishes in those places where foreign merchants gather in large numbers."⁴ This conviction was repeated in the first decade of the eighteenth century, because the Prussian Royal Exchequer made the following analysis of Königsberg's commercial problems: "Amsterdam and Hamburg have, through the principles of free trade, become rich and populous; Lübeck and Königsberg, which do not permit foreigners, have declined."⁵

2. Königsberg: Prussia's Vantage Point towards the West

Königsberg was founded by the German Teutonic Order in 1255, and in 1457, it became the capital of East Prussia, when the Teutonic Order made the city the seat of power.⁶ In medieval times, it had

⁴ Gerhard von Glinski, *Die Königsberger Kaufmannschaft des 17. und 18. Jahrhunderts*, (Marburg 1964), p. 151.

⁵ Hugo Rachel, *Handel und Handelsrecht in Königsberg in Preussen im 16-18 Jahrhundert*, in *Forschungen zur brandenburgischen und preussischen Geschichte*, vol. XII, (Berlin 1909), p. 128.

⁶ Until 1724, Königsberg was divided into three separate towns. For the sake of simplicity, in this article the three towns will be treated as one.

been a member of the German Hansa, and in particular, amber had been an important product.⁷ In 1466, a peace treaty after the "Thirteen Years War" between Poland and the Teutonic Order stipulated that East Prussia should remain under the Order's control as a Polish fief. Königsberg was situated between the great Baltic entrepôt Danzig and the vast Lithuanian hinterlands. The city was in the shadow of Danzig, and its principal objective was to become an important trading station between the vast Lithuanian hinterlands in the east and Danzig. During the sixteenth century, Königsberg made an unsuccessful attempt to acquire a privilege that would force all the traders on the route between Danzig and Lithuania to unload and sell their goods to the merchants of Königsberg, instead of simply passing through the city on the river Pregel. The first attempt was made in 1565, when the Elector of Brandenburg (through inheritance, also the Duke of East Prussia) issued a privilege stating those terms.⁸ However, this ducal privilege was not acknowledged by the Polish king, and this so-called 'staple' privilege was reintroduced in 1622 after long negotiations.⁹ A turning point in the constitutional and economic history of Königsberg was the *Transactio* of 1620. The *Transactio* was a treaty between the guilds, the city councils of the three towns, and the ruler – the Elector of Brandenburg. The *Transactio*'s background is still unknown, but is presumed to be the result of conflicts of interest between the councils, guilds and the ruling Elector. For the Elector of Brandenburg, the *Transactio* was of great importance in his attempt to strengthen the ties between Prussia and Brandenburg. Königsberg was the main city of East Prussia, which was a fief of Poland, and the King of Poland naturally tried to block the attempts of Brandenburg to incorporate Prussia. Therefore, the burghers of Königsberg had some bargaining power with both the Polish king and the Elector of Brandenburg. By swearing allegiance to Brandenburg and

⁷ Fritz Gause, *Die Geschichte der Stadt Königsberg in Preussen*, vol. I, (Köln, 1965), pp. 130-141.

⁸ The Teutonic Order's Hochmeister Albrecht of Brandenburg-Anspach secularised the Order's holdings into a Duchy in 1525.

⁹ Rachel, *Händler*, p. 100; Gause, *Geschichte* I, p. 306.

in return receiving favourable trade privileges, the merchants of Königsberg were politically incorporated into Prussia. The Polish king acknowledged the sovereignty of Prussia in 1657, during the devastating Swedish–Polish war that had begun in 1655. After long negotiations, with mediations on the part of Sweden, France, Austria and Russia, as well as a huge sum of money transferred to the Polish negotiator, the Duchy of Prussia became an integrated part of Brandenburg.¹⁰ After the agreement, the Electors of Brandenburg were able to continue to strengthen the ties between Königsberg and Brandenburg.¹¹

Constitutionally, Königsberg and Hamburg differed in regard to their relationship with a central power. Hamburg was a largely independent city within the German Empire, whereas Königsberg was more tightly bound to a central power. Königsberg was an integrated part of Brandenburg-Prussia, and the capital of the eastern part.¹² At the end of the seventeenth century, its population of 40,000 was twice that of Berlin, the capital of Prussia.¹³ Similar to other cities, the real citizens were the merchants and artisans, although many other people also lived there. However, Königsberg was always heavily under the influence of a strong external ruler: the Teutonic Order, Poland or Brandenburg. In the eighteenth century, the kings of Brandenburg-Prussia extended their rule of the city, and it became a central and important Prussian city.¹⁴ Königsberg, the main city in Ducal Prussia, was also the place where the first King of Prussia, Friedrich I, was crowned. After many years of negotiations with Emperor Leopold I, the Elector of Brandenburg was able to crown himself as the “king in Prussia” in 1701.¹⁵

As mentioned earlier, the *Transactio* of 1620 was a turning point in the history of Königsberg. For the merchants, it meant that, for the first

¹⁰ Gause, *Geschichte* I, pp. 479-480.

¹¹ Glinski, *Königsberger*, p. 13.

¹² Rachel, *Handel*, p. 95.

¹³ Gause, *Geschichte* I, p. 560.

¹⁴ Glinski, *Königsberger*, p. 6

¹⁵ Fritz Gause, *Die Geschichte der Stadt Königsberg in Preussen* vol. II, (Köln 1968), pp. 3-6.

time, their interests were legally defined. Most importantly, the merchants were granted the right to have some influence on city affairs, and, since the *Transactio* contained several clauses aiming at making it difficult for foreign merchants to settle and trade freely in the city, this was a legally acknowledged result. Meier suggested that, in practice, only relatives of established merchants, either sons or sons-in-law, or someone married to a widow of a merchant could acquire the right to become a member of the merchant guild.¹⁶ A member of the merchant guild was allowed to carry out wholesale trade only within a specific branch, e.g., grain, and was prohibited to trade with other goods. For a merchant apprentice to acquire full rights, three citizens had to guarantee a large sum of 2000 dollars (*Tbaler*) for 6 years, in case he went bankrupt. Clearly, only the rich with connections could ever dream of becoming a merchant.¹⁷ Straubel emphasises that this group of wholesale merchants engaged in the "Polish" trade with grain, flax and ash were the smallest but the richest group of merchants.¹⁸ A further restriction was the compulsory "training time", varying between eight and thirteen years, first as an apprentice and then as a journeyman that the guilds required.¹⁹ Such requirements did not exist in Hamburg, but were common in most other cities around the Baltic.²⁰ As emphasised by

¹⁶ H. Meier, "Beiträge zur- Handels- und politischen Geschichte Königsbergs", *Neue Preussischen provinzialblätter*, 3rd series, vol. IX, (Königsberg 1864), p. 231.

¹⁷ Meier, "Beiträge", p. 232.

¹⁸ Rolf Straubel, *Die Handelsstädte Königsberg und Memel in friderizianischer Zeit: ein Beitrag zur Geschichte des ost- und gesamtpreussischen 'Commerciums' sowie einer sozialen Träger (1763-1806/15)*, (Berlin 2003), p. 262.

¹⁹ Straubel, *Handelsstädte*, p. 296.

²⁰ The crucial aspect in building a monopoly is the ability to exclude competitors by legal means. One way was to make it difficult for younger merchants to establish a business. Therefore, in various cities around the Baltic, entry restrictions were common. In Stockholm, a merchant apprentice had to endure 12 years of training; in Lübeck, 8-9 years; and in Riga, 10-13 years. In Danzig, no formal years of training were required: instead, all the applicants had to be approved by several institutions in the city, any one of which could reject the application.

See: Erik Lindberg, "Merchant guilds and urban growth in the Baltic Sea 1650-1850", in Hanno Brand and Leos Müller (eds.), *Dynamics of Economic Culture in the North Sea- and Baltic Region*, (Hilversum 2007), p. 60.

Meier, these regulations in Königsberg were imposed persistently until 1810.²¹

At the top of the guild system in Königsberg stood the merchants and brewers (*Grossbürger*s). They were spokesmen for the community of merchants and artisans, and among their most important privileges was the exclusive right to trade with foreigners.²² Conflicts between indigenous and foreign merchants were institutionalised through the *Transactio* of 1620, which stated that foreign merchants were not allowed to trade with other foreigners.²³ This, however, was an official acknowledgment of the prohibitions governing the trade conditions already in effect during medieval times. Nevertheless, from the ruler's perspective, foreign merchants brought human and physical capital to Königsberg, and this was, of course, attractive.²⁴ In Königsberg, the above-mentioned *Transactio* of 1620 guaranteed merchants (and brewers) a voice in the city administration. However, the merchants were a long way from dominating the council, and the Königsberg city administration was not an organ for the merchants' interests. As merchants were the most important tax-payers, they often had a say in financial matters, and when it came to relations with foreign merchants, the council and merchants were on the same side, because the council did not want to challenge the support from the tax-paying merchant community.²⁵ In contrast to, for example, Lübeck, the council of Königsberg was not dominated by a small group of patricians. The 455 different members of the Königsberg council between 1525 and 1724 belonged to 267 different families. Only a minority of the council members was or had been merchants: 71 out of 455 (16 percent).²⁶

Despite the political might of the Prussian rulers, the merchants of Königsberg successfully resisted most of the attempts to widen the

²¹ Meier, *Beiträge*, p. 232.

²² Glinski, *Königsberger*, p. 23.

²³ Glinski, *Königsberger*, p. 134.

²⁴ Glinski, *Königsberger*, p. 136.

²⁵ Glinski, *Königsberger*, p. 222.

²⁶ Glinski, *Königsberger*, p. 231.

franchise of those who were allowed to trade in the city. The principles of free trade, crucial for the kings of Prussia in promoting the country's commercial success, were not a viable alternative, as will be shown in this section. The Prussian rulers found it difficult to grant foreign merchants the right to trade freely in Königsberg. In the sixteenth and seventeenth centuries, several attempts were made by the rulers to strengthen the trading rights of foreign merchants. The city council simply refused to grant foreign merchants the right to trade, referring to the city's privileges that protected the interests of its own merchants.²⁷ Therefore, the kings decided to grant these rights by themselves and circumvent the town's privileges. The kings' motivations were economic, as declared in 1716: "capital multiplies, manufactories increase, consumption increases and the town and country prosper. All this is evident, and the city council must understand this and those who wish to become citizens should therefore not encounter any difficulties."²⁸

In the eighteenth century, the kings of Prussia increased their direct rule of Königsberg. The rulers of Prussia had a very positive attitude towards foreign merchants, artisans and others who could make an industrial or commercial contribution to the country. In particular, during the reign of the "Great Elector," foreigners were encouraged to settle down in Königsberg. However, in practice, few foreigners used the opportunity to settle down as burghers of the city. The single largest group were the French Huguenots, but according to the oldest preserved list of accepted burghers covering the period from 1746 to 1809, only about 50 Huguenots applied to become a burgher during this period.²⁹ There were 17 Dutch, of whom 2 were merchants.³⁰ Three weeks after the revocation of the Edict of Nantes in 1685, the Elector offered the fleeing Huguenots the possibility to come to his country and

²⁷ Glinski, *Königsberger*, p. 153.

²⁸ Glinski, *Königsberger*, p. 155.

²⁹ Carl Schultz and Kurt Tiesler, *Das Älteste Bürgerbuch der Stadt Königsberg (Pr.) (1746-1809)*, (Hamburg 1978), p. vii.

³⁰ Glinski, *Königsberger*, p. 160; Schultz and Tiesler, *Älteste*, pp. 135, 142, 182.

form their own colonies and religious communities (the Edict of Potsdam).³¹ As the Huguenots were bankers, merchants, physicians and manufacturers, this was a huge loss for France, and the Prussian government tried to benefit from the outflow of human capital.³² Between 1672 and 1700, about 20,000 French Huguenots immigrated to Prussia, but most settled in Berlin and Magdeburg.³³ The result of the Edict of Potsdam was more noticeable outside Königsberg. In Königsberg, only 32 French Huguenot families were resident in 1690.³⁴ One reason why only a few Huguenots were resident in Königsberg, despite the legal opportunities to do so, is perhaps the harassments from the indigenous burghers. The burghers, supported by city authorities, at the beginning of the eighteenth century confiscated goods from foreign merchants and made life, in general, difficult. The English commissioner in Königsberg, a son-in-law of one of the king's pharmacists, allegedly refused to apply for citizenship: he declared that, as a Königsberg burgher, he would have such a "bad reputation" that it would be difficult for him to conduct trade.³⁵ Whatever the reasons, Meier demonstrated that the number of foreign members in Königsberg's merchant guild was very small until the beginning of the eighteenth century, numbering some 20 persons in total.³⁶ The rulers' attempt to widen somewhat the franchise of who could become a merchant led to the trading regulation of 1734.³⁷ This law was enforced by the central authorities in Berlin, against the will of the merchants of Königsberg. It allowed persons not living in the three old towns of Königsberg, including some foreigners, to become

³¹ Gause, *Geschichte* I, p. 501.

³² Gause, *Geschichte* I, p. 558.

³³ Gustav Schmoller, "Die ländliche Kolonisation des 17. und 18. Jahrhunderts", in Otto Büsch and Wolfgang Neugebauer (eds.), *Moderne Preussische Geschichte*, (Berlin 1981), p. 919.

³⁴ Glinski, *Königsberger*, p. 161.

³⁵ Gause, *Geschichte* II, p. 30.

³⁶ Meier, *Beiträge*, p. 230.

³⁷ Hugo Rachel, *Die handels-, Zoll- und Akzisepolitik Preussens 1713-1740*, vol. 2:1, (Berlin 1922), p. 797.

members of the merchant guild. For Lutherans and Catholics, membership access was free, while for Calvinists access was forbidden. Furthermore, access was allowed only to those born in Prussia or in other German nations, and foreigners were able to become members of the merchant guild only with great difficulties.³⁸ However, as before, non-guild members were not allowed to trade with one another, and applicants' requirements remained demanding. Furthermore, the trade regulations of 1755 maintained stringent restrictions. Only Lutherans and Catholics were granted access to the merchant guild, and only persons from Königsberg or Germany could be considered. Foreign merchants, i.e. agents for merchants, for example from Amsterdam, could not trade with anyone but a member of the merchant guild, and they were not allowed to stay on in the city until the winter.³⁹ However, it is difficult to know how these regulations worked in practice. Local trade regulations forbade foreign merchants to sell their goods to anyone except a member of the local merchant guild, and these regulations were opposed by the central government in Berlin, which tried to encourage foreigners to settle in the city.⁴⁰ Foreign competition was most probably not a great threat to the local merchant guild, whose members were described by contemporaries as prosperous, with great political and judicial influence.⁴¹ However, irrespective of the new law, few foreign merchants ever became citizens and merchants. The ledger of the burghers between 1749 and 1809 (the oldest ledger to survive), shows 9,088 burghers. Of these, 12 were Dutch, about 50 were French (many with German names), and no one was English.⁴² Thus, in practice, the few foreigners contributed little to breaking the monopoly of the Königsberg burghers. As a result, Königsberg, partly owing to the regulated economy, was not an economic centre which buzzed with activity. Perhaps the foreign merchants residing in

³⁸ Meier, *Beiträge*, pp. 231-232.

³⁹ Meier, *Beiträge*, p. 234.

⁴⁰ Meier, *Beiträge*, p. 236.

⁴¹ Meier, *Beiträge*, p. 239.

⁴² Schultz and Tielser, *Älteste*, p. vii.

Königsberg might have deemed it sufficient to carry out business with the members of the merchant guilds without becoming members themselves. Not even the mighty Prussian nobility managed to acquire legal rights to trade directly with foreign merchants. There were several attempts to abolish the prohibition of the nobility's trading directly with foreign merchants in Prussia in the early seventeenth century. These attempts were made when the Prussian nobility was at its most influential, but, despite this, they never managed to break the Königsberg merchants' trade monopoly.⁴³

Königsberg's trading showed a pattern similar to Danzig's trading. The city's merchants were passive in the international markets, and carried out only some small trading in the Lithuanian hinterland. Furthermore, they based their fortune on the staple right, which was disputed, just as in Danzig. Merchants from Lithuania and Prussia opposed the fact that only merchants from Königsberg had the right to trade in the city with foreigners. Apparently, the merchants from Königsberg were successful in defending their position – all goods arriving in the city had to be taxed, reloaded, weighed and then sold to a merchant with *Burgerrecht* in the city.⁴⁴ However, this does not indicate that there were no foreign merchants in Königsberg; it simply means that these foreigners were not free to enter contracts, but were obliged to buy from one of the privileged few with citizenship. When the Elector of Brandenburg sought support from the merchants of Königsberg in 1648 to build an East Indian Company to compete with the Dutch, the merchants showed no interest, as "they had enough with the present level of trade."⁴⁵ Furthermore, the merchants of Königsberg had invested virtually nothing in an indigenous merchant fleet. In 1675, the total number of ships owned by the Königsberg merchants amounted at best to three, and in 1704, no ships were owned by a Königsberg merchant.⁴⁶

⁴³ Rachel, *Handel*, p. 112.

⁴⁴ Gause, *Geschichte* I, p. 520

⁴⁵ Rachel, *Handel*, p. 111.

⁴⁶ Rachel, *Handel*, p. 110.

Kaufhold, who otherwise holds a rather positive view regarding Prussian mercantilism, notes that the mercantilist policies were a failure in the foreign-trade sector. A number of import prohibitions and state support to indigenous manufactories caused long-lasting conflicts between the merchants of Königsberg and the central government. The merchants of Königsberg wanted to import whatever goods they wished, not the goods produced in other parts of Prussia.⁴⁷ However, the defeat by the French under Napoleon in 1807 led to drastic reforms in Prussian society. The abolishment of serfdom, guild privileges, and any differences between burghers and non-burghers in the cities were important moves away from a medieval, corporative society, and a step towards modern Prussia. In 1810, the special privileges for merchants were abolished. The underlying cause of this change is clear: corporative society, based on special privileges for certain groups, was grossly ineffective. Absolute, militaristic Prussia was unable to maintain an economic basis for itself.

There are four reasons why, despite the political will of the central authorities in Berlin, the merchants managed to defend successfully their entrenched position and their privileges. Firstly, as shown by Meier, during the seventeenth and eighteenth centuries, the merchants were the single most important group from which the rulers could borrow money. Meier suggests that if the rulers had been too hard on the merchants and abolished their privileges, they would have lost a source of lenders which could not be replaced easily.⁴⁸ Secondly, not only were the merchants able to provide loans quickly to the rulers, they were also the single most important group of tax-payers. Thirdly, particularly in the seventeenth century, during the on-going conflict with Poland, the merchants of Königsberg influenced the Polish king and the Electors of Brandenburg against each other.⁴⁹ Even later, the

⁴⁷ Karl Heinrich Kaufhold, "Preussische Staatswirtschaft – Konzept und Realität – 1640-1806. Zum Gedenken am Wilhelm Treu", *Jahrbuch für Wirtschaftsgeschichte*, 2 (1994), p. 64

⁴⁸ Meier, *Beiträge*, p. 238.

⁴⁹ Meier, *Beiträge*, p. 242.

city used its position to demand privileges from the rulers. Fourthly, the form of mercantilism practised in Prussia ("cameralism") was primarily focused on the development of industrial activities, and had very little interest in trade.⁵⁰ High import tariffs and import prohibitions were a source of complaints from the merchants. Furthermore, the central authorities in Berlin demanded that the merchants of Königsberg should import manufactured goods from the Berlin state-supported manufactories, which was a constant source of antagonism between the two cities.⁵¹

3. Freedom and Growth in Hamburg

The rise of Hamburg has traditionally been explained in terms of two factors: geography and culture. Firstly, the city occupied a favourable geographical position because of its proximity to the expanding Atlantic traders like England, the Netherlands and France. Secondly, Hamburg is said to have possessed a unique spirit of tolerance and freedom, which enabled its civic-minded merchant-entrepreneurs to profit from the expanding international trade.⁵² However, there is an element of circular reasoning involved in explaining the rise of Hamburg in terms of external geographical factors.⁵³ Its emergence as a marketplace was linked to the development of an urban hierarchy of commercial metropolises; it was not simply caused by external forces that acted to

⁵⁰ Kaufhold, *Staatwirtschaft*, p. 64.

⁵¹ Straubel, *Handelsstädte*, p. 387.

⁵² J.A. Faber, "Structural changes in the European economy during the eighteenth century as reflected in the Baltic trade", in W.G. Heeres *et al.* (eds), *From Dunkirk to Danzig. Shipping and trade in the North Sea and the Baltic, 1350-1850*, (Hilversum 1988), p. 92; Karen Newman, "Hamburg in the European economy, 1660-1750", *Journal of European Economic History*, 14 (1985); Helen Liebel, "Laissez-faire vs. Mercantilism: the rise of Hamburg and the Hamburg bourgeoisie vs. Frederick the Great in the crisis of 1763", *Vierteljahrsschrift für Sozial- und Wirtschaftsgeschichte*, 52 (1965).

⁵³ Erik Lindberg, "The rise of Hamburg as a global marketplace in the seventeenth century: a comparative political economy perspective", *Comparative Studies in Society and History*, 50 (2008), p. 642.

boost its commercial development. Doubts have also been raised concerning the spirit of liberalism and tolerance that historians traditionally have attributed to Hamburg. As emphasised by Whaley, a number of historians, beginning about 1800, have created an image of Hamburg as a city with a liberal and egalitarian spirit, forgetting or downplaying the numerous social upheavals that unsettled it from time to time.⁵⁴ Furthermore, many foreign merchants met opposition, particularly from the clergy, whose concern to preserve the purity of faith made them hostile to non-Lutheran merchants. Nevertheless, despite the opposition from some groups, Hamburg did develop a unique political economy (if not a political culture) where indigenous and foreign merchants were, in economic terms, treated more or less equally. This political constitution, as will be shown, helped to create secure property rights for foreign and local merchants alike, mitigated religious intolerance, and made Hamburg an attractive trading centre on a par with Amsterdam and London. The rise of Hamburg as a global marketplace and financial centre in the seventeenth century was a significant sign of the burgeoning integration of the European markets. In the early seventeenth century, the urban staple function in northwest Europe was largely concentrated in Amsterdam, while in the late seventeenth and eighteenth centuries, London and Hamburg rose to pre-eminence. Hamburg served as a hub for international trade, connecting markets in England, Germany, Hungary, Poland, the Baltic and the Mediterranean. Goods such as raisins, sugar, tobacco, salt, iron and leather changed hands, with the transactions reflecting the widespread mercantile network in which Hamburg participated. Furthermore, the commercial development of Hamburg and the rise of the Prussian state were important steps in creating a well-ordered and integrated urban network in Germany long before political unification.⁵⁵ Many have noted that the development of Hamburg was unique in Germany. No

⁵⁴ Joachim Whaley, *Religious Toleration and Social Change in Hamburg 1529–1819*, (Cambridge 1985), p. 8.

⁵⁵ Jan de Vries, *European Urbanization 1500–1800*, (London 1984), p. 115.

other German city had such autonomy or played such a central role in the European economy.⁵⁶ Even more remarkable is that Hamburg's rise during the seventeenth century took place outside the process of the formation of nation states. For example, the growth of London and Amsterdam was partly boosted by the formation of the states in which they were embedded. Hamburg rose to become northern Europe's third most important trading centre after London and Amsterdam, but without being a part of a larger territorial state. It became the centre for trade with the Mediterranean, mainly Spain and Portugal, as well as with England. Hamburg's commercial supremacy also involved domestic trade, which took place via the great rivers. The River Elbe, famous in historical literature as the partition between feudal, backward eastern Europe and market-oriented western Europe, ran through the city and ended at the North Sea. This waterway is sometimes considered to have given Hamburg a decisive advantage over Lübeck, which was situated close to the River Trave which flowed into the Baltic Sea and which had much less traffic. However, the advantages of having direct access to the River Elbe should not be exaggerated. From 1398, Lübeck had access to the Elbe via the Stecknitz Canal. It is true that ships travelling along the canal had to pass through a number of locks, but the canal represented a direct waterway between Lübeck and the Elbe. The canal had two main functions: to transport salt from the city of Lüneburg and to transport all kinds of goods between Hamburg and Lübeck.⁵⁷ A turning point in terms of Hamburg's shipping on the Elbe occurred in the 1560s. Until then, ships from Hamburg represented just 6 percent of all the ships travelling upstream to the German hinterland, but after 1570 this number rose to more than 30 percent.⁵⁸ Any further expansion of trade

⁵⁶ Franklin Kopitzsch, "Hamburg zwischen Hauptrezess und Franzosenzeit—Bemerkungen zur Verfassung, Verwaltung und Sozialstruktur", in W. Rausch (ed.), *Die Städte Mitteleuropas im 17. und 18. Jahrhundert*, (Linz 1981), p. 202.

⁵⁷ N. R. Nissen, "Neue Forschungsergebnisse zur Geschichte der Schifffahrt auf der Elbe und dem Stecknitzkanal", *Zeitschrift des Vereins für lübeckische Geschichte und Alterthumskunde*, 46 (1966), pp. 5-14.

⁵⁸ Nissen, "Neue", p. 12.

along the river was prevented by an infamous structure of internal tolls, which cut the trade between different German territories until the Customs Union of the nineteenth century. However, in general, the great German port cities were not situated close to the densely populated market areas (in contrast to the Dutch cities). The German port cities were located in agricultural areas that were neither significant industrial producers nor important consumer markets; consequently, purchasing power was low. Hamburg was a long way from the most important markets: Leipzig was 370 km away, Vienna was 700 km away and Berlin was 285 km away.⁵⁹ Thus, geographical factors alone cannot explain Hamburg's emergence as a global marketplace: instead, we must take a closer look at the political foundation of the city's commercial institutions, which enabled trade to expand.

As mentioned earlier, the great shift in Hamburg's history came in the sixteenth century, when the population began to grow, inland trade on the Elbe River began to expand, and English Merchant Adventurers were invited to settle in the city. One contributory factor to the transformation of the urban economy was the religious Reformation that swept through many German cities during the sixteenth century. In many cases, the Reformation also gave rise to political changes within the secular administration of the cities. Its effects were particularly sweeping in Hamburg. This was reflected in the constitution of 1529, called the Long Ordinance (*Langer Rezess*) because of its many paragraphs.⁶⁰ Many other cities, including Lübeck, were also affected by social and political unrest, but in general, the existing aristocracy managed to maintain or even strengthen their positions, even during the abolition of the Catholic institutions. Hamburg's 1529 Constitution had two important consequences: firstly, it acknowledged and formally recognised a number of institutions governed by merchants and artisans. Secondly, it explicitly defined a balance of power between different groups in the city, most importantly, between the burghers and

⁵⁹ Newman, "Hamburg", p. 77.

⁶⁰ Jürgen Bolland, *Senat und Bürgerschaft. Über das Verhältnis zwischen Bürger und Stadregiment im alten Hamburg*, (Hamburg 1977), p. 25.

the council, with the consequence that no single party could monopolise political power. Of course, some families had more political power than others, but, unlike Lübeck, in Hamburg there was no stable inner circle and all the council members were active merchants.⁶¹ Most importantly, for the first time, the burghers acquired the right to supervise the council's activities. This right was extended in 1562 to ensure that no tax increases could be implemented without the consent of the burghers, a competence that they often used to block such increases.⁶² As observed by Bolland, this principle of power-sharing was unique. This period was the zenith of a growing absolutism found across Europe. In the neighbouring principalities, increasing state powers were centralised in the hands of absolute rulers, whereas in Hamburg a mainly civil constitution was devised.⁶³ However, this does not imply that relations between the merchants and the council were always smooth, and the Long Ordinance contained a feature that was novel in Hamburg's history: paragraphs that defined how conflicts should be resolved.⁶⁴ The many disputes that had previously characterised the city's political life had generated no stable institutional foundations for governance.⁶⁵ This pattern of conflict was broken during the sixteenth century, and the subsequent constitutions renewed the principle of power-sharing. The 1712 Constitution was particularly important in ensuring political stability, and it remained the city's governing document until the French invasion in 1806. It confirmed that the most supreme power in the city should be divided between the council and burghers "for ever and unchangeably."⁶⁶

At the beginning of the sixteenth century, merchant guilds, like those in Lübeck, still existed in Hamburg.⁶⁷ However, the most conspicuous

⁶¹ Martin Reißmann, *Die hamburgerische Kaufmannschaft des 17 Jahrhunderts in sozialgeschichtlicher Sicht*, (Hamburg 1975), p. 326.

⁶² Bolland, *Senat*, p. 26.

⁶³ Bolland, *Senat*, p. 31.

⁶⁴ Kopitzsch, "Hamburg", p. 84.

⁶⁵ Bolland, *Senat*, p. 20.

⁶⁶ Kopitzsch, "Hamburg", p. 186.

⁶⁷ Rainer Postel, *Versammlung eines Ehrbaren Kaufmanns*, (Hamburg 1992), p. 11.

characteristic of Hamburg's social structure was the absence of such organisations in the sphere of foreign trade.⁶⁸ In 1523, a single merchant guild was created with the aim of uniting all the merchants under the umbrella of a single organisation, though it soon disbanded owing to internal disputes. We observed that Lübeck's merchants often argued over trade policies, and this may well have been the case in Hamburg, had Hamburg's guild system not been dissolved. Furthermore, it was no longer important for the merchants to maintain a united front against the council, because the Long Ordinance gave them and the other burghers a constitutional right to supervise city matters. Thus, the need for collective bargaining power was reduced. In 1558, the Hamburg Exchange was founded, the first in Germany, and this became the new marketplace for foreign and local merchants. For Hamburg, the time for organising the merchants into medieval-type guilds was over, and the old guilds retained only a fraction of their former membership.⁶⁹ With the Exchange, guild privileges no longer played a role in economic exchange. Consequently, Hamburg was the first German city to allow foreign merchants to reside locally, as the Exchange governed business opportunities. The presence of foreign merchants meant better business opportunities on the Exchange, even for local merchants. As a result, a social structure emerged that was closer to Amsterdam's than to those of Hamburg's old sister cities within the Hanseatic League.⁷⁰ A peculiar characteristic of Hamburg at that time was the large number of foreign merchants. In the seventeenth century, between 50 and 60 percent of the city's merchants were immigrants, and this large foreign element continued thereafter.⁷¹ The Dutch, Flemish, Portuguese and English were the largest groups.⁷² Hamburg, like Antwerp and Amsterdam,

⁶⁸ Reißmann, *Kaufmannschaft*, p. 325.

⁶⁹ Postel, *Versammlung*, p. 16.

⁷⁰ Klaus Spalding, *Holland und die Hanse im 15. Jahrhundert: zur Problematik des Übergangs vom Feudalismus zum Kapitalismus*, (Weimar 1973), p. 93.

⁷¹ Reißmann, *Kaufmannschaft*, p. 214.

⁷² Herman Kellenbenz, *Sephardim an der unteren Elbe: ihre wirtschaftliche und politische Bedeutung vom Ende des 16. bis zum Beginn des 18. Jahrhunderts*, (Wiesbaden 1958).

attracted these merchants by granting freedom of religion and commercial liberty. The city's prosperity was founded on free markets and competition, rather than on privileges and special treatment, as found in Lübeck, Königsberg or Danzig.⁷³ The presence of so many foreign merchants with their knowledge and important contacts was an important factor in the development of a commercial infrastructure in Hamburg, something unprecedented in Germany. The Hamburg Bank, the many merchant houses and insurance companies, the Exchange and a large commercial fleet were all indications of Hamburg's position as a global trading centre. Superficially, trade regulations in Hamburg appeared, in some respects, similar to those in other German towns. The city's burghers enjoyed the privilege of trading in the most important goods, such as cloth, linen, metals, pitch, tar and shipbuilding materials, as well as in many other items. However, these regulations were less restrictive in Hamburg, because it was relatively easy to acquire the right to become a merchant there, compared with most of the cities in early-modern northern Europe. In most other cities, aspiring merchants were required first to spend many years "training." For example, in Lübeck, this took between eight and nine years. However, Hamburg had no such requirements.⁷⁴

An important step towards making Hamburg an open city was a 1567 treaty between the Hamburg Senate and the English Merchant Adventurers. This has been termed a "milestone" in the history of Hamburg,⁷⁵ and, according to Michael North, Hamburg became "the continent's most English city."⁷⁶ The Merchant Adventurers had long been a dominant merchant community in England. By virtue of a royal charter, they monopolised the trade in semi-finished woollen cloth. By the first decade of the seventeenth century, they controlled about half

⁷³ Reifsmann, *Kaufmannschaft*, p. 9.

⁷⁴ Ernst Baasch, *Die Lübecker Schonenfahrer*, (Lübeck 1922), p. 48; F. G. Bueck, *Handbuch der hamburgischen Verfassung und Verwaltung*, (Hamburg 1828), p. 402.

⁷⁵ Reifsmann, *Kaufmannschaft*, p. xv.

⁷⁶ Michael North, *From the North Sea to the Baltic: Essays in Commercial, Monetary and Agrarian History*, (London 1996).

London's total exports, because cloth made up three-quarters of London's exports, and three-quarters of the exported cloth went to Germany and the Low Countries that were the company's privileged trading areas.⁷⁷ However, trade with the Low Countries became increasingly difficult, and when the English government accepted an offer to open a counting house in Hamburg, against the will of the other Hanseatic cities, English trade with Germany expanded. Thus, politics, and not geography, was responsible for the presence of the Merchant Adventurers in Hamburg. The first treaty was to run for 10 years, with the expectation that it would be extended. However, there was strong opposition from Lübeck, supported by the other Hanseatic cities, and, backed by frequent decrees from the Emperor that the English must be thrown out, the Hanseatic cities managed to obstruct the Merchant Adventurers' settling permanently in Hamburg.

However, in 1611, Hamburg and the Merchant Adventurers managed to establish another agreement that gave the English a permanent trading place, with favourable privileges. Again, they were invited at the initiative of the Hamburg Senate.⁷⁸ As a result, openness towards foreign merchants gradually increased, and by the mid-seventeenth century Hamburg had become the leading commercial centre in northern Germany. It was not only the English who were allowed to settle there; following the Dutch Revolt against the Spanish Habsburgs in 1567, many merchants from the Low Countries were welcomed. The fall of Antwerp in 1585 had similar consequences as the Senate welcomed many merchants seeking refuge, despite opposition from the craft guilds and the clergy.⁷⁹ Another prominent group was the Sephardic Jews who, in the aftermath of Philip II's annexation of Portugal in 1580, left that country to escape the Inquisition. The

⁷⁷ Robert Brenner, *Merchants and Revolution: Commercial Change, Political Conflict and London's Overseas Traders, 1550-1563*, (Princeton 1993), p. 3.

⁷⁸ W. E. Lingelbach, "The Merchant Adventurers at Hamburg", *American Historical Review*, 9 (1904).

⁷⁹ Herman Kellenbenz, *Unternehmerkräfte im Hamburger Portugal- und Spanienhandel 1590-1625*, (Hamburg 1954), p. 179.

refugees from Portugal were few in number—only about 20 households *circa* 1610—but they were prominent merchants with many contacts and a high turnover in trade.⁸⁰ The Hamburg Senate protected the Portuguese Jews as much as it did the English community.⁸¹ After the Revocation of the Edict of Nantes (which declared Protestantism illegal in France) in 1685, a limited number of French Huguenots arrived in Hamburg. The city's newly-won prominence on the European commercial scene was indicated by its 1663 exemption from the British Navigation Acts, i.e. the British parliamentary legislation that aimed at securing the English carrying trade. The Act of 1651, the first of several similar acts, was primarily aimed at the Dutch, and stipulated that goods could only be imported into England and her colonies in English ships or on the ships of the country producing the goods in question. The passing of the Navigation Act bill was a contributory factor in the Anglo-Dutch war of 1652–1654 and caused a great economic blow to Dutch trade.

Hamburg's exemption was of great economic value. Again, not all Hamburg's inhabitants appreciated the open policies towards foreigners. Some groups opposed the numerous privileges enjoyed by the English, such as tax exemptions; the gift of a large house, full freedom of trade in all areas except retailing, and freedom of religion.⁸² Resistance came from the Lutheran Church and artisans and retailers.⁸³ Recurrent demands were made that the Merchant Adventurers be expelled from the city, but these were rejected by the council and by leading merchants. As mentioned earlier, the Merchant Adventurers held a monopoly on the export of English cloth to Germany. When the English Crown dissolved this monopoly in 1688, membership of the company lost its importance, and the number of members fell.⁸⁴ The Sephardic Jews were generally wealthy and lived in the most affluent

⁸⁰ Kellenbenz, *Unternehmerkräfte*, p. 241.

⁸¹ Whalcy, *Religious Toleration*, p. 73.

⁸² Lingelbach, "Merchant Adventurers", p. 277.

⁸³ Kopitzsch, "Hamburg", p. 184.

⁸⁴ Lingelbach, "Merchant Adventurers", pp. 277–278.

quarters of the city. Their more-or-less open practising of their religion (though not in a public synagogue), combined with their ostentatious living, provoked protests against them. The 1660s marked the peak of the Sephardic Jews' prosperity, but in the 1690s the imposition of a special tax levy and a new contract between the Senate and the Jews destroyed the community. The Senate was under pressure from the people to deprive the Jews of their special protected status, and, faced with heavy taxes, increased collective insecurity and personal degradation, the wealthiest Jews chose to leave Hamburg for the Netherlands. Though a few Sephardim stayed on, the new contract and the subsequent migration marked the end of the Portuguese community.⁸⁵ Foreigners were a focus for popular discontent, and the prime reason for discontent with foreigners was religion. Concern for the purity of the Lutheran faith was the main theme that ran through the constitutional history of Hamburg after the Reformation, formally introduced in Hamburg in 1529.⁸⁶ Lutheran immigrants, including Dutch Lutherans, posed no problems, and they soon gained full civil and political rights. However, non-Lutherans were mainly discriminated against by being denied the right to worship in public. Lutheranism was the established religion and only Lutherans could become full citizens and hold public office. Religion alone determined participation in public affairs, including the administration of the established church. Therefore, the Lutheran clergy strongly opposed permitting other religions to worship publicly, because this would imply the possibility of non-Lutherans participating in public affairs. Some non-Lutherans (we do not know how many) stayed in the city permanently under the so-called *Fremdenkontrakt* (foreigners' contracts), whereas some became more assimilated by opting for limited citizenship.⁸⁷ As suggested by Reifsmann, most foreign merchants preferred not to become full citizens because, in economic terms, foreign merchants enjoyed

⁸⁵ Whaley, *Religious Toleration*, p. 80.

⁸⁶ Whaley, *Religious Toleration*, p. 23.

⁸⁷ Whaley, *Religious Toleration*, p. 12.

considerable freedom, regardless of their civic status.⁸⁸ The lack of general tolerance and liberal spirit suggests an even more important role played by the workings of the Hamburg Constitution. Conflicts were an integral part of the inner workings of the city's political life. As summarised by Whaley, turmoil was caused by a great variety of issues and shifting alliances, all concerning one main issue – sovereignty.⁸⁹ In the mid-seventeenth century, confrontations between the Senate and the burghers escalated, and by the century's end, antagonism between Senate and burghers was again rampant. Law and order could be restored only by means of intervention by an imperial commission. The Constitution of 1712 embodied a final clarification of the division of powers that had emerged in 1529. This Constitution, which was not replaced until 1860, provided the foundation of political stability in the city.⁹⁰ The foreign community in Hamburg played an important role in developing the new commercial infrastructure. It was the English Merchant Adventurers, the Portuguese merchants and the Dutch merchants who were behind the formation of the Bank of Hamburg in 1619, using the Amsterdam *Wisselbank* as a model.⁹¹ The Lübeck council immediately accused the new institution of harming Lübeck's interests. The Hamburg council scornfully replied that the bank was indeed very useful, but that the Lübeckers "had no experience, and could not understand [the] usefulness" of such things.⁹² Other European merchants undoubtedly valued the Bank of Hamburg more than the Lübeckers did, because it enjoyed a good reputation. In the early eighteenth century, an English commentator noted that "the Bank of Hamburg is reckon'd one of the best and richest, as well as one of the securest in Europe."⁹³

⁸⁸ Reifsmann, *Kaufmannschaft*, pp. 219-220.; Whaley, *Religious Tolerance*, p. 12.

⁸⁹ Whaley, *Religious Tolerance*, p. 17.

⁹⁰ Whaley, *Religious Tolerance*, p. 19.

⁹¹ H. Sieveking, "Die Hamburger Bank" in J. G. van Dillen (ed.), *History of the Principal Public Banks*, (The Hague 1934), p. 126.

⁹² Ernst Baasch, "Die 'Durchfuhr' in Lübeck. Ein Beitrag zur Geschichte der lübischen Handelspolitik im 17. und 18. Jahrhundert", *Hansische Geschichtsblätter*, 13 (1907), p. 128.

⁹³ Cited by McCusker. See: J. J. McCusker, *Money and Exchange in Europe and America, 1600-1775: A Handbook*, (Chapel Hill 1978), p. 61.

4. Discussion

The analysis presented in this article refutes recent theories explaining the persistence of guilds owing to their beneficial effects on society, and theories claiming that the ruling merchant elite was uniformly interested in maintaining and expanding the flow of commerce. In Hamburg, where the merchant guilds declined in importance, the constitution boosted economic development and economic growth. It is true that Hamburg's political institutions, which did not protect the property rights of all citizens, were highly undemocratic and boosted the powers of the merchant community. However, the secure property rights and a higher degree of economic freedom observed in Hamburg must be understood in relation to other cities and nations of the time, where privileged groups had much greater opportunities to act as harmful rent-seekers. The secure trading environment necessary for Hamburg's growth owed less to its geographical position and more to its unique political constitution. This political constitution helped to create secure property rights for foreign and local merchants alike, mitigated religious intolerance, and made Hamburg an attractive trading centre on a par with Amsterdam and London. However, in Königsberg, economic development was slow and institutional inertia was great. Hamburg, where merchant guilds disappeared in the sixteenth century, developed unique commercial institutions that laid the foundation for the city's subsequent growth by protecting the property rights of foreign and local merchants alike. The merchants of Königsberg managed to acquire extensive privileges through collusion with the state. The Prussian state's need for loans and tax revenues and political support against neighbouring Poland weakened its bargaining power in relation to its merchants. Therefore, despite explicitly recognizing the problems associated with giving monopoly power to indigenous merchants, this is exactly what the state chose to do. Once entrenched, the merchant guild managed to defend its privileges until the state of Prussia was defeated by Napoleon.

The findings of this article suggest some wider implications. It may be argued that medieval and early-modern urban commercial

institutions can be understood as those profiting from “club goods,” defined as the benefits of consumption, which are shared between a limited number of persons, i.e., “the club.” Club goods occupy a middle position between private goods, which are individually utilised or consumed, and public goods, which serve an infinitely large (or at least very large) number of people.⁹⁴ The problem with clubs is that, although they might provide their members with substantial benefits, they are exclusive. In medieval and early-modern Europe, guilds and other urban institutions acted as clubs. Urban privileges, i.e., the “club goods,” originated from the initiatives of feudal and ecclesiastical rulers, who demanded products and tax revenues from the cities’ merchants. In return, the latter were granted exclusive rights to trade. As the rulers were unable to supply security throughout the areas that they claimed to rule, or for everyone under their rule (i.e., to provide the public goods characteristic of most modern market societies), the privileges they accorded were valid only for certain places and for certain people.⁹⁵ Although individual privileges were bestowed, merchants and craftsmen usually received privileges for their organisations, namely the merchant and craft guilds. Guild membership was restricted to a few members, and, likewise, city administrations were more often restricted to a small circle comprising members of the local elite. The existence of club goods was based on the assumption that it is both feasible and desirable to exclude non-members from their consumption. Therefore, there were numerous legal clauses concerning who could become a guild member and who was eligible to serve on the City Council. While club members, by definition, enjoyed substantial benefits from membership, these advantages posed considerable inconveniences for non-members and for society at large. Indeed, the economists’ traditional view is that guilds acted like harmful rent-seeking monopolists, imposing dead

⁹⁴ James Buchanan, “An economic theory of clubs”, *Economica*, 32 (1965), p. 2.

⁹⁵ Oliver Volckart and Antje Mangels, “Are the roots of the modern *Lex mercatoria* really medieval?”, *Southern Economic Journal*, 65 (1999), p. 442.

weight costs on the rest of the society. Furthermore, there is ample evidence that the interests of the merchant guilds often led to the systematic discrimination of foreigners, women, Jews, peasants, urban proletarians and other similarly unwelcome parties.⁹⁶ However, the notion that the guild charters had a predominantly negative effect on economic and political development has not always been universal; in particular, an older generation of German social historians interpreted the privileges of the guilds in a largely positive light. For example, Georg von Below, Walter Stein and Otto Gönnerwein, in the first decades of the twentieth century, examined the Hanseatic trade rules in terms of how effective they were in strengthening the Hansa and in excluding the Dutch. Only Hugo Rachel questioned whether the protectionist privileges of the Hansa had long-term negative effects, because he presumed that the “reactionary” trade policies of the fifteenth and sixteenth centuries crippled commercial flexibility, and therefore spelt stagnation for the Hanseatic cities.⁹⁷ The positive view of guild privileges has recently been echoed by several economists who argued that merchant guilds were beneficial for overcoming transaction problems, while generating a large stock of social capital among social networks arising from guild membership.⁹⁸ Guilds are said to have enabled rulers to commit to commercial

⁹⁶ For a survey of the debate on whether guilds were beneficial for European economic development, see Sheila Ogilvie, “Whatever is, is right? Economic institutions in pre-industrial Europe”, *Economic History Review*, 60 (2007).

⁹⁷ Stuart Jenks, “Zum hansischen Gästerecht” *Hansische Geschichtsblätter*, 114 (1996), p. 9; Hugo Rachel, “Die Handelsverfassung der norddeutschen Städte im 15. bis 18. Jahrhundert”, *Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reich*, 34 (1910), p. 14.

⁹⁸ Avner Greif, Paul Milgrom, Barry Weingast, “Coordination, commitment, and enforcement: the case of the merchant guild” *Journal of Political Economy*, 102 (1994); Avner Greif, *Institutions and the Path to the Modern Economy: Lessons from Medieval Trade*, (Cambridge 2006).

The term “social capital” refers to the trust that is present in the social relations of a group of people, which arises when social networks correct what markets sometimes fail to do: gather correct data, enforce contracts, and mitigate collective action problems.

See: James S. Coleman, “Social capital in the creation of human capital,” *American Journal of Sociology*, 94 (1988) pp. S101-S102.

security, and they also assisted in contract enforcement, reduced risks in relations between principal and agent, and gathered and diffused commercial information. Furthermore, the guilds' ability to exclude many applicants from admission and to force apprentices to endure years of formal "training" is, in this view, an essential component of craft training and beneficial for the creation of human capital. In short, guilds are interpreted as representing a beneficial solution to a number of obstacles to efficient trading in the medieval and early-modern world. A further issue is whether merchant guilds assisted in contract enforcement, or, more widely, in increasing commercial security, as suggested by Greif, who stated that "guaranteeing the security of foreign merchants and their goods was problematic in medieval Europe and that ... historical evidence and theoretical reasoning suggest that a simple reputation mechanism could not completely resolve the problem."⁹⁹ Accordingly, "a specific institution, the merchant guild, was the most common success."¹⁰⁰ According to Clark's comments on Greif, the assumption that trade depended on the creation of elaborate institutions that emerged only in very specific contexts, is hard to reconcile with archeological records, showing the existence of long-distance trade long before settled agriculture.¹⁰¹ Moreover, there is no evidence that security guarantees given by rulers to guilds or individual merchants had any effect in increasing the overall security. In contrast, the opposite view, that merchant guilds themselves were a perennial source of insecurity, is suggested by a large number of studies, because entrenched guilds used their superior political bargaining power to harass and exclude foreign merchants.¹⁰² According to Gelderblom, medieval fairs and merchant guilds (e.g., the German Hansa and the *nations* of Italian merchants) were replaced in the late Middle Ages by "permanent

⁹⁹ Greif, *Institutions*, p. 100.

¹⁰⁰ Greif, *Institutions*, p. 101.

¹⁰¹ Greg Clark, "A review of Avner Greif's *Institutions and the path to the modern economy: lessons from medieval trade*" in *Journal of Economic Literature*, 45 (2007), p. 730.

¹⁰² Dessi and Ogilvie, "Social Capital", p. 7.

markets and individual merchants enjoying legal status.¹⁰³ Gelderblom argued that the decline in merchant guilds in the late Middle Ages was followed by an extension of privileges to members of foreign nations with permanent trading places characterised by “legal, commercial and financial institutions serving all merchants, regardless of their social or geographical background.”¹⁰⁴ An answer to the question as to whether these guild privileges had long-term negative or positive effects is highly relevant to understanding economic development from a historical perspective. To create an international urban network of commercial metropolises, property rights had to be internationally secure. The fact that only a few cities, such as Amsterdam, London and Hamburg, dominated the urban commercial network indicates that in Europe, from the sixteenth to the eighteenth century, the opportunities for institutions favouring growth were limited.¹⁰⁵ Thus, to explain the institutional basis of early-modern European commercial expansion, we need to look at urban institutions. As argued by David Ormrod, commercial dynamism in early-modern Europe was built, not on nation states, but on a system of cities and more or less autonomous city states.¹⁰⁶ Both the older generation of German historians and some modern social scientists have focused on the beneficial effects that the special privileges might have had on economic development. Merchant guilds are assumed to have declined after *circa* 1500, as they were no longer needed to guarantee commercial security. The adherents of this positive view of merchant guilds claim that merchant guilds arose with the encouragement of foreign rulers in order to solve problems related to commercial security. However, the Hansa did not feature, because foreign rulers

¹⁰³ According to Gelderblom, only in peripheral markets (Russia, the Ottoman Empire and Spain), were merchant guilds active until the eighteenth century.

See: Oscar Gelderblom, “The governance of early-modern trade: the case of Hans Thijs, 1556-1611”, *Enterprise and Society*, 4 (2003), p. 4.

¹⁰⁴ Gelderblom, “Governance”, p. 4.

¹⁰⁵ De Vries, *European Urbanization*, p. 96.

¹⁰⁶ David Ormrod, *The Rise of Commercial Empires: England and the Netherlands in the Age of Mercantilism*, (Cambridge 2003).

wanted the Hansa to be capable of boycotting them. As pointed out by Dessi and Ogilvie, the rise of the Hansa was pre-dated by their local guilds and it thrived only as long as they were recognised by the local rulers from whom they had received their original charters.¹⁰⁷ According to Greif, "trade in northern Europe prospered for a generation under the supremacy of the Hansa (... Commitment to security was no longer an issue."¹⁰⁸ However, although trade expanded during the medieval period, there is no evidence that chartered guilds caused this expansion in economic activity. Demographic changes and improvements in agricultural productivity are two other important factors whose relative importance is difficult to disentangle.¹⁰⁹ Although we accept that merchant guilds contributed to efficient long-distance trade, we must also consider their other effects. It is well known that the Hansa first forbade the use of credit in trade with Novgorod in 1295, and this prohibition was later expanded to trade with Flanders in 1401.¹¹⁰ Dollinger stated that these anti-credit policies were part of the Hansa's aim to achieve a monopoly in trade between the East and the West. As a result, a large part of trading in the Hansa area was carried out in the form of expensive and inefficient barter trade. The infamous "guest-rights" legislation in the Hansa towns prohibited trade between non-Hanseatic merchants in the Hansa towns. Furthermore, restrictions on the periods when foreigners were allowed to stay in the towns represented another cornerstone in the prohibitive legislation that characterised Hansa mercantile practices. One might argue that the debate about whether guilds were obstacles or vehicles to growth is relevant in the medieval context. However, as has been shown in this article, these medieval practices were reintroduced in Königsberg in the early seventeenth century and the merchant association in Königsberg made admission contingent on citizenship, ethnicity,

¹⁰⁷ Dessi and Ogilvie, "Social Capital", p. 6.

¹⁰⁸ Dessi and Ogilvie, "Social Capital", p. 108.

¹⁰⁹ Clark, "Review", p. 733.

¹¹⁰ Philip Dollinger, *Die Hanse*, 5th eds. (Stuttgart 1998), p. 270.

religion, gender, wealth, reputation, the approval of existing members, and the ability to pay the entrance fees."¹¹ Königsberg, Prussia's "lookout to the west," thus remained closed and the city never developed into a vibrant commercial city.

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¹¹ Cf. Ogilvie, "Whatever is", p. 670.

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