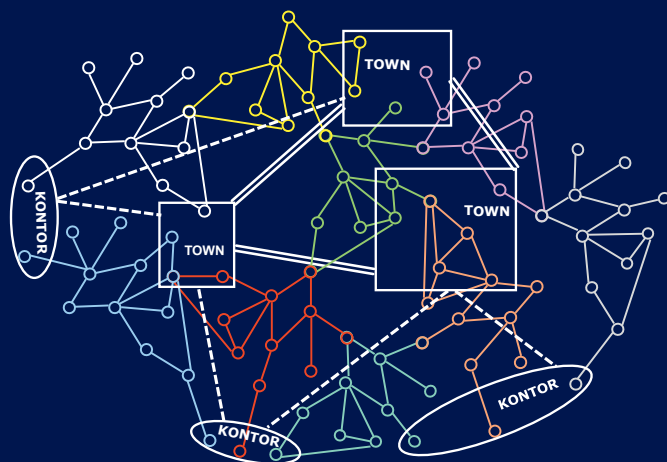


Ulf Christian Ewert / Stephan Selzer

Institutions of Hanseatic Trade

Studies on the Political Economy of a
Medieval Network Organisation



Ulf Christian Ewert / Stephan Selzer

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The merchants of the medieval Hanse monopolised trade in the Baltic and North Sea areas. The authors describe the structure of this trade system in terms of network organisation and explain, on the grounds of institutional economics, the coordination of the merchants' commercial exchange by reputation, trust and culture. The institutional economics approach also allows for a comprehensive analysis of coordination problems arising between merchants, towns and the 'Kontore'. Due to the simplicity and flexibility of network trade the Hansards could bridge the huge gap in economic development between the West and the East. In the changing economic conditions around 1500, however, exactly these characteristics proved to be a serious limit to further retain their trade monopoly.

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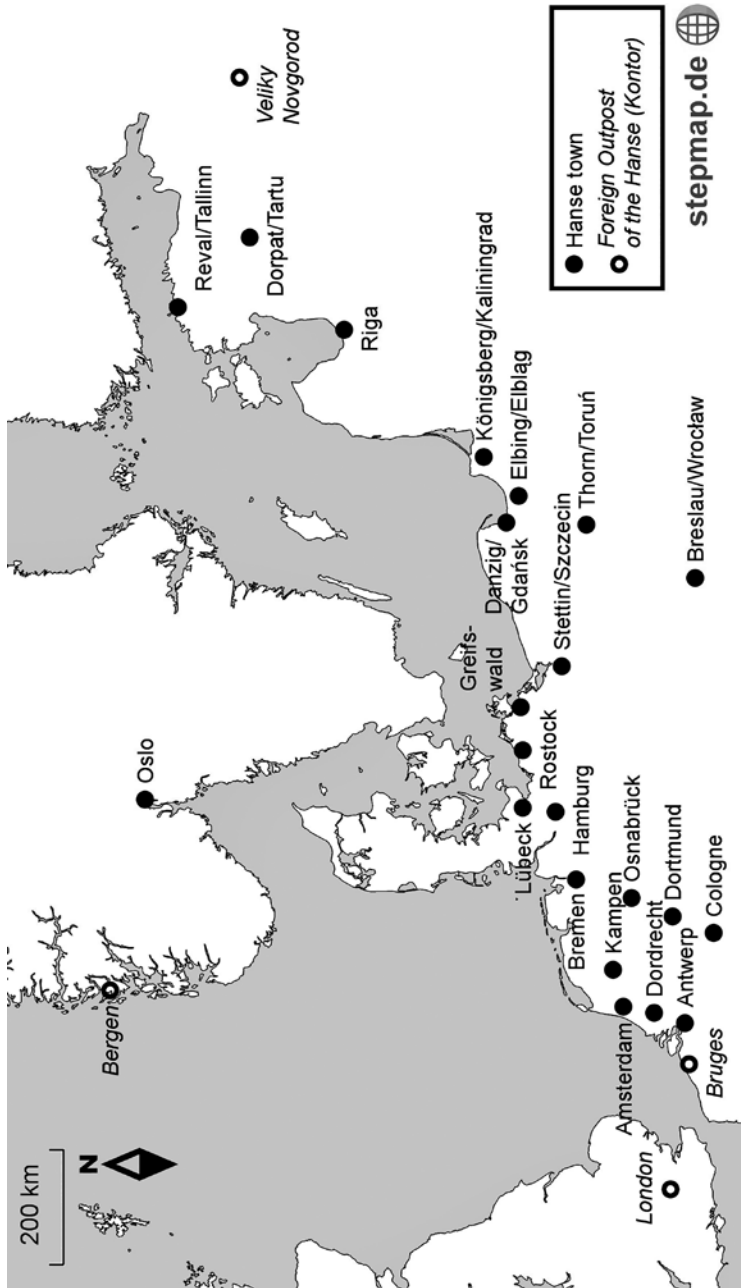
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Foreword

By the year 2000, the idea of networks had developed into social science mainstream. The concept was highly esteemed not only as a metaphor of modern society but also for providing social science and economics with tools seemingly capable of more accurately assessing the structure and dynamics of a world obviously becoming increasingly information-oriented and increasingly globalised. During the previous decade, by applying the pattern of personal networks to firms, an economic dimension was added to the concept of social networks, a concept which had already been in use for quite some time in sociology. In the economics' literature of the 1990s on business networks, then a new and immensely growing field, the network, known before only as a specific form of social structure, was now appraised as a sort of third principle of coordination for commercial exchange that existed in its own right beside the market and the hierarchy.

With this in mind, and deeply inspired by the early articles of Avner GREIF on the Maghribi traders, in which he used several aspects of the network concept for his description and analysis of a medieval Mediterranean system of trade that was based on culture, friendship and reputation without naming it a network (GREIF instead called it a 'coalition'), we prepared a working paper for an international business history conference in 2001. In this paper, we started to make use of the concept of network organisation with respect to the analysis of Hanseatic trade. Originally designed only to explain the astounding flexibility of the late medieval merchants of the Hanse in handling all relevant business information, the analysis soon turned to a much larger scope because we found an almost perfect match of theory with some stylised facts concerning the trading practices and the pattern of Hanseatic trade. By taking the concept of network organisation as a model of Hanseatic trade, we were able to show that many features of this late medieval institutional arrangement such as the dominance of small-size firms and reciprocal trade without formal contracting, a slow transfer of information between merchants, a lack of risk capital and certain forms of sociability among Hansards were either elements of a network organisation or directly related to this specific structural pattern. More-

over, since the concept of network organisation was originally developed in light of postmodern business firms, its high explanatory potential for a late medieval system of trade proved that a discussion, initiated by Wolfgang von STROMER in the 1970s, about the apparent backwardness of Hanseatic merchants compared to the emerging Upper German business houses was, in a way, an inappropriate judgement on the efforts of specific trade institutions.

Beginning with the publication of our study in German in the leading scholarly journal of Hanse research – the *Hansische Geschichtsblätter* – in 2001, the idea of networks became an increasingly important topic in the research into the Hanse, to which we contributed further with several other articles. We recognise, quite happily of course, that the issue of networks is still of interest in current Hanse historiography. However, the tone of the debate has somehow changed, and the concept itself is now mainly used in its obvious metaphorical sense rather than in a way allowing for further exploitation of its explanatory power. Describing the Hanse as a network would only repeat a self-evident fact. And to be clear, this is something we have never said. We have shown instead that the institutional arrangement found by the merchants of the Hanse for their commercial exchange can be described in terms of network organisation, and this particular finding then opens the floor for a further in-depth analysis of the institutional mechanisms which made the commercial exchange of Hansards work.

For the first time, this volume presents the different aspects of the medieval Hanse as a network organisation which we so far have presented to an international audience in separate working papers at international workshops and international conferences such as the *International Economic History Congress* 2006 in Helsinki, the *European Social Science History Conference* 2006 in Amsterdam, the *European Historical Economics Society Conferences* 2009 in Geneva and 2011 in Dublin and the *International Medieval Congress* in Leeds 2012. We are grateful to all those who helped to make this opportunity happen. This book intends to re-focus Hanse research on the issue of institutions and institutional arrangements of trade, on the interplay of these institutions and on its driving mechanisms as well as to re-connect the research into Hanseatic trade to the international debates in economics and economic history on incentive structures and the meaning of institutions in medieval trade.

Chapter 1

Hanse History and Economics – a New Institutional Economics Perspective on Hanseatic Trade

Points of Departure

This book is about the Hanseatic trade system and its institutions, which were invented, used and further developed by the merchants of the Hanse for their commercial exchange. We are not giving a comprehensive historiographical description of the medieval Hanse. Indeed, what we are aiming at is instead the explanation, on the theoretical grounds of institutional economics, of both the specific structure of this trade system and the mechanisms deployed to coordinate economic activities within it. This book can, and should, also be read as an attempt to mediate between two sciences. We attempt to describe and explain the structure and function of the late medieval Hanse and the commerce of its merchants by using economic theoretical concepts, namely from New Institutional Economics. Therefore, the book solicits understanding between the disciplinary cultures of medieval historical research and modern economics. It thus falls “between two cultures”, a very conscious positioning which follows the economic historian Carlo M. CIPOLLA, who sees economic history exactly there; between historical research and economics.¹ CIPOLLA’s reasoning is that, for economic historians, taking a position between these two cultures creates an exceptional opportunity to profitably function as interpreters between two very differently structured fields of research. However, not all historians feel safe in this position or role, but instead experience a strange inner strife. For instance, recent discussions concerning the purpose of economic history in Germany bear witness to this specific problem.²

1 Cf. CIPOLLA 1991; PIERENKEMPER 1995.

2 Cf. TILLY 1994; AMBROSIUS (ed.) 1996; SCHREMMER (ed.) 1998; BERGHOF / VOGEL (eds.) 2004; SCHULZ et al. (eds.) 2004.

When modern economic theory is applied to medieval history, there is always the potential risk that the result of such an undertaking might be appear like the moderation of a dialogue between the audibly impaired. It would, therefore, seem imperative to elucidate the concept of this book and our viewpoint. It is founded on two assumptions: firstly, the argumentation is based on the idea that the economic dimension is of key significance in understanding the medieval Hanse. This consideration might sound banal, but what is elaborated in the first section of this chapter is not as self-evident as it would or should seem. A careful analysis of the economic dimension of the Hanse should, and this is our second assumption, be organised as a fruitful exchange between historians with an economic interest and economists with an interest in history. Economic approaches, in particular New Institutional Economics and New Political Economy, would seem to offer an interesting invitation for those concerned with economic history. Therefore, for those who are unfamiliar with New Institutional Economics, its methodological basis and its concepts will be briefly outlined in the second section of this chapter. There, we will also present some approaches to certain Hanseatic phenomena by economists.

Hanse Research, the Economy and Economics

Research into the Hanse has always had a high standing within the field of medieval history, although its impact appears to be more or less restricted to historical research in Germany. This is mainly due to the fact that the medieval Hanse is still considered as merely a ‘German’ phenomenon. The still high reputation of Hanse research is undoubtedly connected to the fact that it has always possessed a great aptitude for integrating new issues, innovative methods and (naturally) the latest trends in science, an ability it has preserved to this day. For other fields of historical research – one may consider, for example, research into the history of war, engineering, councils or the German Peasant War – this is not always quite self-evident. The paradigmatical openness of Hanse history also mirrors the ongoing debate on what the Hanse really was, which presumably has prevented an ossification of Hanse research with respect to both its subject matter and methodology.

What the core of Hanse research should be has however in recent decades shifted a number of times. This is also due to the split into different eras of the history of the Hanse, e.g. early Hanseatic trade in the high Middle Ages, the late medieval Hanse or the Hanseatic League in early modern times. All these fields have naturally created their own pictures of the Hanse and the Hanseatic League, and will certainly continue to do so.³ What is more crucial is that in many of these concepts the economic dimension of both the Hanse and the Hanseatic League was only of marginal importance. Although there has never been a phase in which the economic aspect (or more precisely: Hanseatic trade) was totally neglected, it would nevertheless be exciting to examine the whole of Hanse research to ascertain the extent to which economics appeared in any of these images.⁴ With the following analysis can thus only central milestones of Hanse research be touched upon. Of course, a more detailed investigation would be necessary to examine all other non-scientific trends and interests⁵, whose impact on scientific research into the Hanse were also of considerable significance.

A connection with contemporary desires and hopes is particularly obvious in the beginnings of scientific research into the Hanseatic League in the nineteenth century, especially with regard to the establishment of the *Hansischer Geschichtsverein* (Hanseatic History Association) in 1870.⁶ The long-desired German national unity, which had finally been realised in 1871, was in a sense imported into the medieval world of the Hanseatic League, which then took on the appearance of a powerful union of cities whose naval power protected the interests of the German Empire in the North. Had the older, romantically inspired research already been lacking in an approach to the sheer economic power embodied by the medieval Hanseatic League⁷, after 1871 the economic history potential was finally and completely buried under a political, legal and constitutional view.

3 Cf. HENN 1994; HILL 2001.

4 Cf. SELZER 2010, pp. 6–12.

5 Cf. HOLBACH et al. (eds.) 2011.

6 Cf. von BRANDT 1970.

7 Cf. SCHWEBEL 1964, p. 15; POSTEL 1996.

It was primarily Dietrich SCHÄFER (1845–1929) who was responsible for such non-economic understanding of the Hanseatic League.⁸ His role can be deemed inappropriate when one considers that his nationalist-monarchist views would automatically have given rise to scientific backwardness. His scientific stance, which did not even take into account economic, social and cultural history, is also misunderstood if it is only presented as a result of the narrow-mindedness of a bourgeois theorist, because SCHÄFER, being the son of a Bremen docker, was very well acquainted with the world of trade and with life in a seaport. In his autobiography he touchingly describes how he grew up in a cellar bar at the harbour and played between the goods shipped from all over the world.⁹ Such socialisation is virtually unique among medievalists of the same generation¹⁰, and such life experience can also very rarely be found among Hanse historians, the only parallel being the biography of Karl KOPPMANN (1839–1905), who was the son of a Hamburg butcher and failed his entire life to obtain a professorship.¹¹ Both historians of the Hanseatic League became interested in the subject through the famous Göttingen historian Georg WAITZ (1813–1886). SCHÄFER had, however, already come to Göttingen in 1871 with the intent of completing a prize essay on “The German Hanse Towns and King Waldemar of Denmark”, a task set the previous year by the *Hansischer Geschichtsverein*. A careful examination of the resulting 1879 publication reveals that although it mainly concentrates on foreign policy aspects of the matter, it also contains economic, social and cultural history passages of striking density.¹² SCHÄFER had a deep knowledge of the Hanse’s economic history, as attested to in his introduction to the edition of the “*Buch des Lübeckischen Vogts auf Schonen*”¹³ or his commitment to the Sound Toll Registers.¹⁴ It was, therefore, not the result of his ignorance to the shaping power of economic conditions when he emphatically pointed Hanse research in another direction. In his memoirs, SCHÄFER retrospectively describes his stance, which

8 Cf. PITZ 1996; ACKERMANN 2004.

9 Cf. SCHÄFER 1926, pp. 13–44.

10 Cf. vom BRUCH 1980.

11 Cf. WENTZ 1940; WITT 1988.

12 Cf. SCHÄFER 1879; PITZ 1996, p. 144.

13 Cf. SCHÄFER 1887; PITZ 1996, p. 145.

14 Cf. SCHÄFER 1926, p. 164 f.; PITZ 1996, p. 151 f.

clearly shows the influence of Heinrich von TREITSCHKE (1834–1896).¹⁵ In an almost regretful tone he notes: “It was my involvement with the history of the Hanseatic League that initially led me to scientifically sophisticated studies. Its very nature has a great deal to do with economic matters; it is concerned with the activities of citizens.”¹⁶ Yet, for some reason, this economic dimension is not the focus of his historical efforts: “But it is particularly the study of Hanse history which defined my conviction that the permanent size and welfare of nations are based on the health and might of its state life.”¹⁷ For him the focus of historical consideration must be the history of state action in which the Hanseatic League acted as a union of towns and a substitute of the German empire in the North. Or in SCHÄFER’s own words: “As if the state were not the highest product of all culture, which has up to now been the centre of historical research and publication, and which must always remain so [...]”.¹⁸ His decision to give priority to the constitutional and political history of the Hanseatic League was not due to limited research time. For SCHÄFER, economic success was merely a direct consequence of state power. In his 1885 essay “The Hanse and its Trade Policy”, he came to the programmatic conclusion which he quoted once again in his 1926 autobiography: “Like all other mercantile states, the history of the Hanse teaches us that economic size can only be achieved and maintained through political power.”¹⁹ The economic success of the Hanseatic League in the North and in the Baltic was thus not

15 Cf. LANGER 1998.

16 SCHÄFER 1926, p. 100: „Beschäftigung mit der Geschichte der Hanse hatte mich zuerst zum wissenschaftlichen ausgereiften Arbeiten geführt. Sie hat sich ihrer Art nach besonders viel mit wirtschaftlichen Dingen zu beschäftigen; es handelt sich um Betätigung von Bürgern.“

17 SCHÄFER 1926, p. 100: „Aber gerade das Studium der hansischen Geschichte hat in mir die Überzeugung festgelegt, daß dauernde Größe und Wohlfahrt der Völker auf Gesundheit und Kraft ihres staatlichen Lebens beruhen [...]“.

18 SCHÄFER 1926, p. 236: „Als wenn nicht das höchste Erzeugnis aller Kultur der Staat wäre, der bisher im Mittelpunkt geschichtlicher Forschung und Darstellung gestanden hat und immer stehen muß [...]“.

19 SCHÄFER 1926, p. 101: „Auch die Geschichte der Hanse lehrt wie die aller anderen merkantilen Staatenbildungen, daß wirtschaftliche Größe nur zu erringen und zu behaupten ist durch politische Macht.“ Cf. also SCHÄFER 1913, vol. 1, pp. 168–193.

caused by more clever economic strategies, more efficient trading practices or cheaper transport opportunities, but was instead a result of its political power.²⁰ However, was it possible to expand this field of research if the source material about the domestic and foreign policy of the Hanseatic League was edited and evaluated? SCHÄFER resolutely rejected this thought, too. In 1908, in a lecture given at Lübeck, he strictly did not recommend the synchronous integration of additional dimensions into Hanse history, but plead, in full accordance with the political and military developments in the years before World War I, for a diachronic expansion of a political history of German maritime and naval power up to present day.²¹

The impact of this pronounced state cult, which not only affected SCHÄFER's historical research around 1900²², was not restricted to the analysis of the Hanseatic League. It followed from the inaugural lecture he gave in Tübingen in 1888²³, and it finally resulted in a conflict with Eberhard GOTHEIN (1853–1923)²⁴, who is now seen as one of the founding fathers of national economics in Germany, even though he always considered himself to be a historian.²⁵ It seems necessary to take a look at this controversy, which is less known than the famous methodological dispute of the 1890s between Karl LAMPRECHT on one side and Max WEBER, Friedrich MEINCKE and Georg von BELOW on the other²⁶, but had a far greater influence on Hanse research. Since then it was not just the contact to cultural history which was blocked for Hanse history, but in particular contact to research into economic history was also almost completely lost. This diversion of Hanse history and economic history occurred at the time when the *Jüngere Historische Schule der Nationalökonomie* (Younger Historical

20 Cf. CYMOREK 1998, p. 145.

21 Cf. SCHÄFER 1909.

22 See for instance HAMMERSTEIN (ed.) 1988; OEXLE 2002.

23 Cf. Dietrich SCHÄFER, Das eigentliche Arbeitsgebiet der Geschichte [1888], in: SCHÄFER 1913, vol. 1, pp. 264–290.

24 Cf. GOTHEIN 1889, and the reaction of Dietrich SCHÄFER, Geschichte und Kulturgeschichte [1891], in SCHÄFER 1913, vol. 1, pp. 291–351. Cf. also SCHÄFER 1926, p. 113 f.

25 Cf. HAMPE 1924, p. 479 f.; ALTER 1982.

26 Cf. SCHORN-SCHÜTTE 1984; RAPHAEL 1990.

School of National Economics) enjoyed its greatest respect in Germany.²⁷ Its methodically controlled work on historical source material resulted in high quality economic historical research, such as GOTHEIN's "*Wirtschaftsgeschichte des Schwarzwalds*" ("Economic History of the Black Forest", 1892).²⁸ However, a Hanse history in the sense propagated by Schäfer was not receptive to the likes of this. So it is not surprising that Gustav SCHMOLLER (1838–1917), the head of the *Jüngere Historische Schule der Nationalökonomie*²⁹, sided with GOTHEIN, while SCHMOLLER's declared adversary Georg von BELOW (1858–1927)³⁰ became one of SCHÄFER's sympathisers.³¹

Yet, how fruitful such cooperation of economic history in the spirit of the *Jüngere Historische Schule der Nationalökonomie* and of Hanse research might have been can be seen in the case of the few historians who attempted this kind of approach. These include Wilhelm STIEDA (1852–1933), historian of the famous *Veckinchusen* family, who was a trained national economist.³² It also has to be mentioned that the first tenured professorship for economic history in Germany was given to Bruno KUSKE (1876–1964) in Cologne, even though his interest was primarily in the history of Cologne and not in the history of the Hanseatic League.³³ Despite the fact that no genuine Hanse topics were dealt with in the KUSKE School, another medievalist with a deep knowledge of national economics provided an extremely vitalising impetus for Hanse research in the direction of economic history. At his grandfather's upper middle-class Berlin home, Heinrich SPROEMBERG (1889–1966)³⁴ had met Gustav SCHMOLLER in person and was truly impressed. Although he completed his doctorate under the supervision of Dietrich SCHÄFER in Berlin, he was actually more interested in the history of Western Europe, which led to his close links with the Belgian historian, Henri PIRENNE (1862–1935). In 1917, Germany's war policy in Belgium

27 Cf. WINKEL 1977, pp. 101–121.

28 Cf. GOTHEIN 1892.

29 Cf. BOCK et al. (eds.) 1989.

30 Cf. CYMOREK 1998, pp. 158–168.

31 Cf. CYMOREK 1998, p. 159; ACKERMANN 2004, pp. 99–121.

32 On his life see STIEDA 1921.

33 Cf. HENNING 1988; DEETERS 1996, p. 136 f.

34 Cf. DIDCZUNEIT / UNGER / MIDDELL 1994.

then caused a split between Heinrich SPROEMBERG and Dietrich SCHÄFER. SCHÄFER openly assured SPROEMBERG that SPROEMBERG would never obtain a professorship in Germany.³⁵ Ironically, it was this role as a ‘maverick’ within the German medieval history scene that motivated SPROEMBERG to join the *Hansischer Geschichtsverein* in 1921 following the advice of SCHÄFER’s master student Walter VOGEL (1880–1938).³⁶ Nevertheless, in the period after World War II SPROEMBERG became very influential in the economic history of the Hanseatic League after he had received a professorship in Rostock in 1946. The works on social and economic history subjects which he initiated over the following years are numerous, but of all of these only Karl-Friedrich OLECHNOWITZ’s study of the shipbuilding industry is mentioned here.³⁷ In 1950, SPROEMBERG moved on to Leipzig University. He became head of the Hanseatic Working Group in the German Democratic Republic in the same year³⁸, and later also a member of the board of the *Hansischer Geschichtsverein*, which he had to re-join after having been forced out in 1938 for being politically unacceptable in the Nazi era.³⁹ It is symptomatic that Heinrich SPROEMBERG was unable to become professionally successful in a scientific milieu in which Dietrich SCHÄFER was so powerful and exerted so much influence.

Nevertheless, in the 1920s there was a determined embracing of the economic history of the Hanseatic League.⁴⁰ This new approach is closely associated with Fritz RÖRIG (1882–1952) and his students.⁴¹ RÖRIG himself wrote reflectively of his course, milestones and goals:⁴² In his view he developed his concept of the history of the Hanseatic League on two fronts. On the one hand, he considered SCHÄFER’s idea of the political history of the Hanseatic League to be inappropriate, and, after 1918, also outdated. On the other hand, however, he agreed just as little with the economic history approach of the national economists Karl BÜCHER (1847–1930) and

35 Cf. SPROEMBERG 1971, p. 437, footnote 212.

36 Cf. RÖRIG 1938.

37 Cf. OLECHNOWITZ 1960.

38 See to the research on Hanseatic history in the GDR MÜLLER-MERTENS 2011.

39 Cf. DIDCZUNEIT / UNGER / MIDDELL 1994 (eds.), pp. 34 and 47.

40 Cf. HAMMEL-KIESOW 2000, p. 15; FRIEDLAND 1963, p. 484 f.

41 On RÖRIG’s intellectual biography see SELZER 2016a.

42 Cf. RÖRIG 1950.

Werner SOMBART (1863–1941)⁴³, in whose thinking medieval foreign trade seems to be unimportant, and the world of the merchant all too narrow. RÖRIG was, however, able to refute these approaches with the help of the archives of the city of Lübeck. There, he discovered the medieval foreign traders in Hanse historiography, and there he found important source material to construct an economically based history of the Hanseatic League. He was less interested in business cycles and statistics, as he found “the people who drove the economy, their contexts and organisational forms, far more important [...] than the goods they sold.”⁴⁴ His student Ahasver von BRANDT (1909–1977)⁴⁵ incorporated all the findings from RÖRIG’s time into his 1963 essay “The Hanse as a Medieval Economic Organisation”.⁴⁶ In a reversal of SCHÄFER’s premises he reiterated that: “The political, also power-political, activity of the League is not an end in itself [...], but a means to secure the economic concerns.”⁴⁷

When Ahasver von BRANDT took stock of the 40 years of RÖRIG’s paradigm shift, not much was known of these issues outside the closer scientific community. This, not untypical, phase shift in the progress of new scientific approaches to a broader professional public was particularly due to the fact that Fritz RÖRIG had failed to write an overall view of Hanse history. The standard work by Karl PAGEL (1898–1974), published in 1942 and reprinted several times since then, was still the aggregate of SCHÄFER’s image of the Hanse. Things started to change when Philippe DOLLINGER’s (1904–1999) “*La Hanse*” was published in Paris in 1964. The German translation that appeared in 1966 soon became standard reading on the subject.⁴⁸ The contradictory structure of these two works, which describe the

43 Cf. LINGER 1995.

44 RÖRIG 1950, p. 393: For him the economic agents, their interactions and forms of organisation are much more important than the goods they exchange („[...] die Wirtschaft treibenden Menschen, ihre Zusammenhänge und Organisationsformen, ungleich wichtiger [...] als die von ihnen umgesetzten Güter“).

45 Cf. FRIEDLAND 1979.

46 Cf. von BRANDT 1963.

47 Von BRANDT 1963, p. 28: „Die politische, auch machtpolitische Betätigung der Gemeinschaft ist nicht Selbstzweck [...], sondern Mittel zur Sicherung jener wirtschaftlicher Belange.“

48 Cf. DOLLINGER 2012.

fault line between SCHÄFER's and RÖRIG's outlines of Hanse history, was substantial and was shrewdly commented on in a review of both works in 1965: "And while in PAGEL's perception, Hanse history is anything but just town history or even just economic history, for DOLLINGER it is primarily an 'economic history' phenomenon".⁴⁹ This notwithstanding, by the time von BRANDT's essay and DOLLINGER's Hanse volume appeared, Ernst PITZ (1928–2009) had already diagnosed a crisis in historical research on the Hanseatic League. He clearly stated that "as well as a general blurring of the boundaries of Hanse research", a key problem was that the "dialogue between historians and national economists broke down as a result of disinterest in economics during the Nazi era and the switch from economic science to economic theory that we experienced after 1945."⁵⁰

Following the dispute (*Methodenstreit*) between the Austrian Economic School (*Wiener Grenznutzenschule*) led by Carl MENGER (1840–1921) and the Historical School led by Gustav SCHMOLLER, it soon became clear that the German avenue of historical economics was something that was not going to be followed at an international level.⁵¹ The reorientation of economic methodology as it emerged after 1945 meant an increased mathematisation of the field, which had to operate on the exclusion of problems and limitation of the scope of research in order to be successful.⁵² One can argue that this is why there is a certain tragedy in the convergence of Hanse research with economic phenomena promoted by RÖRIG, because precisely this opened up the field for a historical approach to economics, which nevertheless failed to succeed internationally. His economic re-alignment of Hanse research came up against a general de-historicising trend in eco-

49 SCHMIDT 1965, p. 115 f.: „Und während für Pagels Empfinden hansische Geschichte ‚alles andere‘ ist ‚als nur eine Städtegeschichte oder gar nur Wirtschaftsgeschichte‘, ist sie für Dollinger eben gerade ein in erster Linie ‚wirtschaftsgeschichtliches Phänomen‘“.

50 PITZ 1961, pp. 259 and 261: „Verwischung der Grenzen historischer Forschung“ sowie „Gespräch zwischen Historikern und Nationalökonomern durch das Desinteresse der Nazizeit an der Wirtschaftslehre und die 1945 auch bei uns hervorgetretene Umstellung der Wirtschaftswissenschaften auf die Wirtschaftstheorie abgerissen ist.“

51 Cf. WINKEL 1977, pp. 138–151.

52 Cf. WINKEL ⁴1994; BORCHARDT 2001.

nomics. And it was this separation of both methods and subjects that also caused the current problems within the dialogue between medievalists, who generally consider the categories used by economists as too rigid and out of touch with the everyday life of the past, and economists, who vice versa consider historians to be naïve amateurish collectors of facts who think that common sense is a method.

In the 1960s, the renewal of economic history mainly in the Anglo Saxon world centred on models and quantification. As the necessity to use theory for scientific explanation was stressed, this ‘New Economic History’ was clearly designed to meet the needs of economics. And it was in particular Cliometrics⁵³ that deepened the gulf between economists and medievalists even more. Thus, in the words of Arnold Esch, one gets the impression that there are two economic histories, depending on whether the respective researcher has a historiographical or an economics background.⁵⁴

New Institutional Economics and the Hanse – a Challenge

One might say that breaking the link to economic theory is fundamental for medieval studies in the German language, with the result being that medieval economic issues are only of minor importance.⁵⁵ In favour of Hanse research, one could say that this field, when compared to others, has always been accessible for suggestions from economic history. Based on this tradition, one could hope that a newer economic theoretical framework and methodology would be met with interest by Hanse researchers.

In the past thirty years, with the New Institutional Economics a new concept has arisen within economics, in that historians should be interested in. Starting from a critique of the so-called neoclassical model of economic exchange, concepts of New Institutional Economics improve this model in a number of ways.⁵⁶ The core assumption of the neoclassical exchange model is, on the one hand, that individuals behave opportunistically and attempt to maximise their personal benefit. This part of the model is also extensively used in the related fields of social science such as sociology, psychology

53 See for instance DUMKE 1986; KOMLOS / SCOTT (eds.) 1997; BATEN 2004.

54 Cf. ESCH 1987, p. 10 f.

55 Cf. GOETZ 1999, pp. 242–249.

56 See e.g. NEUS ³2003; RICHTER / FURUBOTN ³2003; BLUM 2005.

and political science where it is commonly called ‘rational choice’. On the other hand, in this model it is assumed that the exchange of scarce goods and resources at markets is coordinated by means of a price mechanism. This works to perfection as long as the property rights of those interested in exchange are well-defined, and as long as all those involved in exchange are fully informed about market developments and the intentions of potential trade partners, so that exchange in general can be handled without costs. However, these assumptions turned out to be unrealistic in light of empirical research. Markets are usually not perfect, property rights often are only incompletely specified and individuals only possess limited information on what is going on at the market. Applied to the case of medieval trade, these clarifications mean that due information, contract and monitoring costs exchange via markets is not automatically the most efficient way of exchange. New Institutional Economics thus further develops the neoclassical model: firstly, in transaction cost theory exactly this information, contract and monitoring costs, is emphasised as being an important determinant of individual economic behaviour. Secondly, the property rights theory clearly demonstrates that the exact definition, distribution and legal guarantee of property rights for useful, and thus tradeable resources and goods are the chief prerequisites for the willingness of individuals to engage in commercial activities such as production, exchange and distribution. Finally, in principal-agent-theory the common presumption of information being symmetrically distributed between economic agents is abandoned, so that contracts would have to be drawn up in such a way that any inherent information asymmetry between them will be balanced, in order to protect the less-informed principal against attempts of the agent to take advantage of private information at the principal’s cost. To sum up, ‘rational choice’ as the core behavioural model underlying all neoclassical economic reasoning is now specified in terms of a ‘RREEMM’ (resourceful, restricted, expecting, evaluating, maximising man).⁵⁷

All three basic concepts of New Institutional Economics thus emphasise the enormous importance that institutions have for human exchange. Institutions are, according to Douglass C. NORTH, humanly shaped formal

57 Cf. FRINGS 2007, p. 64.

or informal rules, which influence and structure human interactions.⁵⁸ A set of such rules regulating the action of individuals is also referred to as an institutional arrangement. New Institutional Economics has now been applied for over three decades, especially in Anglo-American economic history. However, even though all institutional economics approaches use more or less equivalent definitions of institutions and rely on the same kind of behavioural model, for the analysis of medieval trade two distinctions with respect to the nature of institutional analysis are particularly important. According to NORTH, institutional analysis is primarily about working out the historical dimension of institutions and describing those institutions that have either accelerated or inhibited European economic development since the Middle Ages.⁵⁹ In contrast, the approach taken by Avner GREIF is more prescriptive, in that it attempts to explain the functionality, or dysfunctionality, of institutional arrangements in a very basic manner. To this end he primarily avails himself of game theory⁶⁰, with which the neoclassical postulate of opportunistically acting individuals is methodologically extended insofar as individuals are, by assumption, anxious to maximize their own benefit, yet act strategically and include the expected reactions of their potential interaction partners in their own calculations.

With institutional economics, whether in its descriptive or prescriptive variant, the focus tends to be more on such social, political and legal frameworks of economic practice. However, it is precisely this lack of consideration of such a framework in the sterile neoclassical mathematical models that has been criticised by historians. In Germany in particular, this fundamental critique resulted in an unexpected interest once again due to the German tradition of the historical school of national economy. The first presentation of the new research approach by Knut BORCHARDT in 1977 was also motivated in this manner. Although published in an otherwise friendly environment for theory, his summation had hardly any impact. His careful analysis of the meaning of property rights to economic history was the first attempt of a German economic historian at discussing improve-

58 Cf. NORTH 1991, p. 97.

59 Cf. NORTH 1981; NORTH / WEINGAST 1989, NORTH 1991; 1993; DAVID 1994.

60 Cf. GREIF 1993; 1997; 1998; 2000, pp. 265–272; 2002a; 2002b; 2004.

ments and deficits of New Institutional Economics, and for a long time it also remained the only one.⁶¹ Only in a second attempt from the beginning of the 1990s onwards did the idea of the discipline of New Institutional Economics and its applicability to historical problems truly get through to German economic historians.⁶² In the meantime the same applies for applications of this concept to medieval economic issues.⁶³

However, although quite recently the economic dimension of the Hanse reappeared on the agenda, a real embrace of economic theory and methodology by Hanse historians can only be seen in a few cases.⁶⁴ Theoretically inspired studies on the (economic) history of the Hanse and its merchants were published in most cases by economists, political scientists or political historians.⁶⁵ Likewise, the reverse is also true: in the debate in international economic history on the medieval European merchants' institutional arrangements, Hanse examples are mentioned⁶⁶, but Hanse research itself is not really actively involved in this discussion. Interestingly enough, the Hanse was also used in arguments during the development of New Institutional Economics. Institutions which played a significant role in the development of Europe's economy from an agricultural to an industrial economy are examined in the works of Douglass C. NORTH and Avner GREIF. So it is hardly surprising that medieval long-distance trade in particular is given more attention in these studies. NORTH distinguishes two fundamental problems in medieval long-distance trade for which institutional arrangements had to be found in order to enable merchants to trade

61 Cf. BORCHARDT 1977.

62 See e.g. WISCHERMANN 1993; BUTSCHEK 1998; BERGHOFF 1999; BUTSCHEK 2000; FIEDLER 2001; ELLERBROCK / WISCHERMANN (eds.) 2004; WISCHERMANN / NIEBERDING (eds.) 2004; but especially VOLCKART 2004b, who classifies the concepts of New Institutional Economics and shows how these concepts could be applied to historical examples.

63 See e.g. MUNRO 2001; SCHUI 2003; VOLCKART 1998; 2001; 2002; 2004a.

64 See e.g. SELZER / EWERT 2001; 2005; 2010; EWERT / SELZER 2007; 2010; EWERT / SUNDER 2012; Jenks 2005; LINK / KAPFENBERGER 2005.

65 See e.g. SCHONEVILLE 1998 on the impact of financial markets on the Hanse, or PICHIERRI 2000, SCHELLERS 2003 and SCHIPMANN 2005 on the political organisation of the Hanseatic League.

66 Cf. HARRELD 2015, p. 4; OGILVIE 2011; EDWARDS / OGILVIE 2011, p. 19, there citing SELZER / EWERT 2005; 2010.

profitably. On the one hand, sedentary merchants had to find solutions for the problems of sending goods to trading partners in distant markets, evaluating the performance of their trading partners and protecting themselves against possible fraud and against any other form of loss. On the other hand, travelling merchants had to negotiate privileges in foreign markets and plausibly convince the local authorities that they would not tolerate any infringement of the trade privileges that had been granted to them. An institutional solution for the first problem was, for example, to trade with relatives, while the second problem was often historically overcome through the formation of a union of foreign traders in merchant guilds.⁶⁷ In the institutional economics analysis of medieval trade, an initial differentiation was made between institutions which regulated the relationships between geographically separated trading partners⁶⁸ and those which evolved in the recurrent negotiations of merchants trading at a particular foreign market with the local granters of privileges (princes, towns).⁶⁹ Taking merchant guilds as an example, it becomes clear that a third type of institution exists, namely those which determined the relationship between (sedentary) merchants at one location⁷⁰, even though guilds would also fall in the category of institutions that governed relations between rulers and merchants abroad, of course.

While the Hanse is only marginally touched on in NORTH's research as one of many examples, other institutional economic research focuses explicitly on Hanseatic trade and the Hanseatic League as an economic and political player in medieval Northern Europe. In a study published in 1994, Avner GREIF, Paul MILGROM and Barry WEINGAST addressed the question as to why the *Kontore* of the Hanse were established at particular trading places, which served as outposts of the Hanseatic trade system.⁷¹ From an economics point of view, the *Kontore* were initially nothing more than trading cartels that were able to gain a monopoly on certain goods by means of privileges granted. According to this diction, the *Kontore*

67 Cf. NORTH 1991, p. 99 f.

68 Cf. GREIF 1992, pp. 129–131.

69 Cf. GREIF 1992, p. 128 f.; 2000, pp. 260–265; 1993.

70 Cf. GREIF 1992, p. 131 f.

71 Cf. GREIF / MILGROM / WEINGAST 1994.

were to be viewed negatively because of the notion that Hanseatic merchants, by acting as oligopolists, made efficient trade impossible, adding surcharges and reducing the trade volume. GREIF, MILGROM and WEINGAST show that the *Kontore*, or merchant guilds in general as information hubs, not only had a coordinating function for the trading activities of the merchants with its associated economic advantages, but were, as a consequence, with their group privileges also able to reduce the costs of contracting for the granter of said privileges. Finally, due to the possibility to place sanctions on their own members, they also supported the self-commitment that was all too necessary for the growth of trade. Jochen STREB expanded these conclusions insofar as he was able to clarify that the transition from the merchants' Hanse to the Hanseatic League was a logical step because the Hanse towns had even greater financial resources than the Hanseatic merchants themselves, with which they could protect their merchants more effectively against all efforts made by the granters of privileges to exploit them.⁷²

Which opportunities does New Institutional Economics offer for future research into the history of the Hanse and its trade? The concepts provide Hanse research with categories and a methodology for the analysis of Hanse institutions. By using this conceptual framework, these institutions can be compared with and evaluated against the background of other institutional arrangements in long-distance trade that evolved elsewhere in medieval Europe. In particular, we will be taking a closer look at the following aspects of Hanseatic trade:

In the subsequent Chapter 2 *Reputation, Trust and Culture – the Network Structure of Hanseatic Trade and its Benefits* we provide the reader with an institutional economics analysis of both the structure and coordination of the internal Hanseatic trade. This trade system is described in terms of the model of network organisation. We look at commonly used forms of commercial exchange and business cooperation between merchants and we show why the resulting trade network for Hansards was an efficient way to handle their commercial exchange, and why this trade system also prompted merchants to act fairly.

72 Cf. STREB 2004.

In part, this efficiency of the internal Hanseatic network trade stemmed from an overlap of business and family, which in general seems to be a rather typical characteristic of the economic activities of pre-modern merchants and entrepreneurs. Therefore Chapter 3 A *'Small World' – Reconstruction and Meaning of the Hansards' Social Networks* is primarily dedicated to the concept of social network analysis and its analytical potential with respect to the manifold social relationships that are found within the late medieval Hanse. In particular, we review different types of surviving sources – e.g. letters, wills, membership in guilds –, which all help to reconstruct different layers of social networks by providing valuable data on the kinship and social relationships of Hansards and their social proximity. Kinship and social bonds complemented the commercial relationships of traders and created a so-called 'small world' for Hansards, a highly segregated network which nevertheless allowed for an easy indirect reach of other members on rather short paths through the network.

Chapter 4 *Bridging Distances and Filling Gaps – Strategies to Handle Heterogeneous Commercial Environments* deals with the seemingly huge differences in economic development by which the various regions of Hanseatic trade were characterised. Being continuously faced with heterogeneous commercial environments, the merchants of the Hanse, as a consequence, developed certain strategies – e.g. hedging against the risk of transportation, networking, standardisation of commercial institutions – to handle this kind of heterogeneity, and in doing so were able, to a certain extent at least, to bridge these significant gaps in economic development that existed within the Hanse's realm.

In Chapter 5 *State of Cities, Commercial Trust, or Virtual Organisation? – Structure and Coordination of the Hanse* the focus is expanded insofar as we now take a closer look at the outside appearance and the overall structure of the Hanse. In particular, we are concerned with the interplay of the internal network trade system with the *Kontore* and the emerging political structure of the Hanseatic League. We also deal with the measures that were applied to coordinate the commercial activities of merchants and to balance the economic interests of towns.

Why were Hanseatic merchants so successful? And why did their seemingly unassailable economic position begin to decline at the end of the fifteenth century? In Chapter 6 *Competitive Advantage or Limit to Busi-*

ness? – *Contingency and Path Dependence* we discuss exactly this question, arguing that apart from a number of exogenous political and economic developments around the year 1500, which could not be influenced by Hanseatic merchants at all, their growing economic power in the preceding centuries, and their loss of competitiveness at the end of the fifteenth and in early sixteenth century were to a large extent endogenously driven. Both economic success and later failure seem to have been highly determined by the structure of the Hanse's network trade system and were thus path-dependent.

Finally, in the concluding Chapter 7 *Perspectives of Research into Hanseatic Trade – the Impact of the Model of Network Organisation* we will review our own results concerning the Hanseatic network trade system in the light of current trends in Hanse history and recently published studies on the Hanse, as well as in light of the ongoing and lively debate in economic history on the mechanisms of medieval long-distance trade and the determinants of its rise, which still is dominated by those economic historians who draw their conclusions from Mediterranean or West European cases. And even though some scholars already have used Hanse examples of course, so far a full-scope institutional economics analysis of Hanseatic trade was still lacking. With this book we seek to fill this gap.

Chapter 2

Reputation, Trust and Culture – the Network Structure of Hanseatic Trade and its Benefits

Hanseatic Trade and its Historiographical Evaluation

In the literature on the late medieval German Hanse, the business practices of Hanseatic merchants are supposed to have been backward.⁷³ This vigorous claim of backwardness is based upon two features that characterise the specific way the merchants of the Hanse operated their trade:

Firstly, and most visibly, the trade between Hanseatic merchants was organised differently in comparison to commercial exchange elsewhere in those days. The type of hierarchical-bureaucratic corporate organisation, which seems to have been the common pattern employed by Italian merchant bankers and trading businesses from Upper Germany⁷⁴, can rarely be found along the Baltic shores. For Werner SOMBART, the trading practice of the Hanseatic merchants had only a ‘craft-like’ character.⁷⁵ The organisational mode of the Hanseatic businesses instead typically consisted of mutual transactions between two partners operating at distant locations, with each partner selling the other partner’s goods. Very often these partners were related to each other by kinship or they were linked through friendship relations. In many cases, their commercial relationships usually were not defined by any written contract.⁷⁶

Secondly, a cursory glance suggests that by that time the merchants of the Hanse had fallen considerably far behind the state-of-the-art business practices and techniques such as the double-entry bookkeeping, the use of bills of exchange and buying on credit. These techniques had been invented in Italy and were employed by Italian firms and merchant bankers, which also were trading in northwest Europe, and later on these innovative commercial

73 Cf. von STROMER 1976, pp. 334–336.

74 Cf. BAUER 1923; von STROMER 1968; 1973; RIEBARTSCH 1987; HILDEBRANDT 1996; 1997.

75 Cf. SOMBART ²1916–1927, pp. 300–306.

76 Cf. SPRANDEL 1984, p. 27; STARK 1993; 2000.

means were successfully implemented by firms from Nuremberg and Augsburg. Although Hanseatic merchants occasionally bought on credit⁷⁷, these newer business practices did not really become their standard techniques.

However, the main objection to the claim of a Hanseatic backwardness in the fourteenth and fifteenth centuries can be raised on the grounds of the Hanse's economic performance and the commercial success of its merchants. Despite sticking to business practices that were already outdated, the merchants of the Hanse were very successful indeed.⁷⁸ Not only were they able to practically monopolise all trade in the Baltic and North Sea areas during the late Middle Ages, but they could also secure their domination of the trade with a fairly wide range of products until way beyond the turn of the fifteenth century. Moreover, only a few of the seemingly more modern firms from Upper Germany could really establish long-term businesses in the Hanse's commercial realm in the Baltic and North Sea areas.

Nevertheless, in recent decades this very special and unique structure of Hanseatic trade and the paradigm of 'backwardness' somewhat obscured most researchers' views of the Hanseatic merchants' success in the Baltic. A pessimistic as well as an optimistic position can be distinguished in the literature: the research of those who argued in favour of backwardness was mainly focussed on the comparison of the Hanseatic business style with the Upper German firms' type of bureaucratic organisational structure. In the tradition of the writings of Max WEBER⁷⁹ these authors misleadingly assumed that the hierarchical-bureaucratic organisation was the 'normal' and indeed progressive form of organisation. Their according conclusion that Hanseatic merchants operated in an old-school manner was a quite logical step under consideration. In contrast to this, many attempts were made by those who denied a Hanseatic backwardness in trading practice, to show that commercial exchange between Hanseatic merchants was very special indeed, and that the claim of backwardness was wrong and a corresponding

77 Cf. SPRANDEL 1975; JENKS 1982.

78 Cf. AFFLERBACH 1993, SPRANDEL 1984; IRSIGLER 1989; STARK 1993.

79 Cf. WEBER 1889; ⁵1980.

xenophobia of Hanseatic merchants never really existed.⁸⁰ As a result, the literature has thus far failed to classify the typical elements of Hanseatic business transactions in terms of and with concepts of present-day theory of organisation. By arguing along the lines of ‘backward vs. non-backward’ and ‘non-modern vs. modern’ modes of organisation, the analysis of the functional mechanisms that drove the very specific organisational structure employed by the merchants of the Hanse was often neglected and faded out of sight, as did possible interrelations between this particular structure and its economic performance.

In using concepts of organisation theory, transaction cost theory, principal-agent-theory and game theoretical methods we attempt to analyse this particular organisational structure. We also aim to explain how coordination within such a system of trade was achieved, and especially, why merchants at distant locations consented to repeated cooperation, very often without relying on written contracts.

The Network Structure of Hanseatic Trade

Forms of Commercial Exchange and Cooperation

In general, business transactions between the merchants of the Hanse were handled on a partnership basis. Several juridical forms of cooperation were in use: within the so-called *wedderleginge* (labelled also *kumpanie* or *vera societas*) two merchants cooperated, one of them traded goods whereas the other only contributed part of the financial capital the first merchant used for his trading operations. Profits were shared in such partnerships.⁸¹ In contrast, the so-called *sendeve* was a sort of commission business. A particular merchant – the commission agent – sold the goods he had received from another merchant by order and on behalf of the partner who had instructed the sale and who had sent the goods to the commission agent, with profits and risks remaining with the sender.⁸² Yet, by far the most frequent and

80 Cf. JENKS 1982; 1996; NORTH 1999; SPRANDEL 1984; IRSIGLER 1989; STARK 1993; 2000. For late medieval bookkeeping techniques see PELUS-KAPLAN 1994; JENKS 1992.

81 Cf. EBEL 1957; CORDES 1998; 1999, pp. 67–71; 2000.

82 Cf. CORDES 1998; 1999; 2000.

thus most important form of commercial transaction between Hanseatic merchants was a cooperation of two traders, which was somewhat different from a commission business and can be labelled as a ‘reciprocal’ business. In such reciprocal partnerships each partner sold the other’s goods, but in every case the profits were pocketed by the sender while the risks remained with the partner who operated the sale.⁸³ Of course, simultaneity of reciprocal sale operations was not necessary. The striking feature of this sort of mutual transaction is the fact that it was usually handled without any written contract. Neither written long-term agreements between two merchants, nor occasional transaction-specific written instructions existed. Even during the sixteenth century this form of reciprocal cooperation was prevalent among Hanseatic merchants, a fact which can be proved with the example of *Bertram Bene* from Oslo and his trading partners of the *Kron* family from Rostock.⁸⁴

Another feature of Hanseatic commercial exchange worth mentioning is something that in organisation science is known as ‘cooptition’.⁸⁵ This term is a coinage of ‘cooperation’ and ‘competition’, and recently came in use in the theory of network organisations. Since the reciprocal commercial exchange of Hanseatic merchants allowed each of them to cooperate with more than one trading partner and thus to operate potentially conflicting sales, in a group of Hanseatic merchants, competition can very well be found alongside cooperation. At least in the late Middle Ages the Hanse never really forbade this sort of competition.⁸⁶ An example of an explicit prohibition of competition between trading partners is that of the company formed by *Hermann Carsten*, *Gert vom Brocke* and *Heinrich von Kampen* in Lübeck in the middle of the sixteenth century, which nonetheless is atypical in the sense that it was one of the later Hanseatic companies for which the bureaucratic-hierarchical style had already been adopted.⁸⁷

83 Cf. Mickwitz, 1937, pp. 24–39; 1938; STARK 1984; 1993; CORDES 1998; 2000.

84 Cf. THIERFELDER 1958, pp. 194–197.

85 Cf. BECK 1998, pp. 271–276.

86 Cf. SPRANDEL 1984, p. 28.

87 Cf. JEANNIN 1963, pp. 46 and 57.

Firm size and Network Organisation

A vast majority of Hanseatic businesses were self-employed merchants, family businesses and small-scale firms. Because of their small size, complex hierarchical structures are seldom, if ever found among them. The company of *Falbrecht-Morser-Rosenfeld*⁸⁸, which operated in the early fifteenth century in England and Hungary, the sixteenth-century business-house *Loitz* from Stettin / Szczecin⁸⁹, and the aforementioned company of *Carsten-Vom Brocke-Von Kampen* from Lübeck are three of these rare cases. However, the simple organisational structure of small-scale firms is only part of the trading pattern that can be observed in the Baltic and the North Sea in the late Middle Ages.

A more complex structure of commercial exchange emerged from the interactions between such rather simply structured firms. Hanseatic merchants formed trade networks of different sizes, varying density and endurance. These commercial networks were medium-term or long-term cooperations between legally independent merchants who traded goods with each other. A spatial specialisation – as it is called in organisation science – was achieved insofar as traders from different places in the Baltic could feed many different products and goods into such networks. It is crucial to distinguish Hanseatic commercial networks from the ‘networking’ activities of other merchants and firms in the late Middle Ages, for instance families from Upper Germany⁹⁰ or Italian firms.⁹¹ It is obvious that the *Fugger* and *Welser* from Augsburg also possessed large kinship and friendship networks, but they used them primarily to control production processes and to influence political issues from the headquarters of their respective firms in Augsburg. From very early on, a hierarchical-bureaucratic organisation stood at the centre of their business operations, with numerous employed agents who represented the firm at every market of importance. In contrast, Hanseatic merchants as (in principle) legally independent economic units employed each other as commercial agents in distant places, and their trade networks then evolved as a result of the

88 Cf. von STROMER 1976; IRSIGLER 1979, pp. 22–24.

89 Cf. PAPRITZ 1932; 1957; BÖCKER 1998.

90 Cf. SIEH-BURENS 1986.

91 Cf. DAHL 1998.

commercial exchange relationships that were handled in this particular manner and consisted of firms of quasi equal rank. Nevertheless, these networks did not possess a formal or legal definition, they were lacking in formal hierarchies and as a whole showed only a small degree of formalism. Naturally, some sort of headquarters was also missing, meaning that all trading activities had to be coordinated by means other than hierarchy. Thus, from an economic perspective, the Hanseatic trade networks were not primarily networks of persons, but rather they have to be considered as networks of firms.

Figure 2.1: Bureaucratic-hierarchical Organisation vs. Network Organisation

	BUREAUCRATIC-HIERARCHICAL ORGANISATION	NETWORK-ORGANISATION
STRUCTURE	<i>clearly defined structure, hierarchical levels, subdivision into areas of competence</i>	<i>loose and flexible connecting up, vague formal boundaries, lack of hierarchical levels</i>
FORMALISM	<i>high degree of formalism</i>	<i>low degree of formalism</i>
FLOW OF INFORMATION	<i>flow of information is directed towards the centre</i>	<i>lateral flow of information</i>
COORDINATION	<i>hierarchical, coordination through instruction and control</i>	<i>non-hierarchical, coordination through reputation, trust, culture and responsibility</i>
	<i>"zero-trust organisation"</i>	<i>"total-trust organisation"</i>

Characteristics of the ideal types of bureaucratic-hierarchical organisation and network organisation.

Source: Authors' own drawing.

Hence, it follows that the organisational form of Hanseatic trade networks cannot be judged by the standards of Max WEBER's nineteenth-century-style model of bureaucratic organisation.⁹² As a medieval example of the modern paradigm of network organisation⁹³, this form indeed fits into the

92 On the effect of Max WEBER's theories on organisation science see HAUSCHILD 1987, pp. 3–21.

93 On the concept of network organisation see e.g. POWELL 1990; GALASKIEWICZ 1996; ILLINITCH / D'AVENI / LEVIN 1996; OSBORN / HAGEDOORN 1997; RITTER / GEMÜNDEN 1998; THOMPSON 2003; BERGHOFF / SYDOW (eds.) 2007.

conceptual framework of present-day organisation theory.⁹⁴ A ‘network organisation’ is defined as a loose cooperation of legally and economically independent entities. This kind of inter-organisational network possesses neither hierarchical levels nor is it controlled by a central authority, so that cooperation between network members is thought to happen only by voluntary and flexible couplings. Such inter-organisational networks are characterised by a minimal degree of formal definition (see Figure 2.1).

This pronounced network pattern of commercial exchange between Hansards emerged in the period of demographic expansion before 1300, when many towns in the Baltic were founded. Through a simulation approach – a methodology which can partly compensate for the significant lack of written sources on Hanseatic merchants in this early period of the Hanse – it can be shown that a slow transmission of information and high transportation costs in the Baltic as well as the exclusive trade privileges held by Hansards at the markets of London, Novgorod, Bruges and later on at Bergen, were all important determinants in the formation of trade networks.⁹⁵

Overlapping Circles of Family and Business

The Hanseatic commercial networks were embedded into a larger social network, and cohesion between merchants appears to have been fostered by all sorts of other personal ties, a feature that will be discussed in more detail in Chapter 3 of this volume. Since much of the Hanseatic trade was operated by self-employed merchants and small-scale family businesses, the trade network consisted of several dyadic relationships between merchants residing all over the Baltic and the *Kontore* of London, Bruges, Novgorod and Bergen. The structure and composition of such commercial networks can be determined by researching account books, letters, or, as will be shown in Chapter 3, wills. With the exception of wills, there are not many written records about Hanseatic merchants’ commercial practices available. For *Johann Pyre* from Danzig / Gdańsk, *Vicko von Geldersen* from Hamburg and *Hermann* and *Johann Wittenborg* from Lübeck, account

94 Cf. SELZER / EWERT 2001; EWERT / SELZER 2010, pp. 43–50.

95 Cf. EWERT / SUNDER 2012, pp. 145–149.

books have been preserved.⁹⁶ The account book belonging to *Johann Pyre*, for instance, covers a period of approximately 32 years. Moreover, account books and letters from the *Veckinchusen* family give an idea of what a Hanseatic merchant's business life must have been like in the early fifteenth century.⁹⁷ Following these sources, the number of a merchant's trading partners could reach a maximum of 40 during a period of approximately 30 years, and cooperation with certain partners could last up to 22 years.⁹⁸ If a single merchant cooperated with approximately 40 other merchants, one could imagine that the total size of commercial networks must have been much larger, assuming that the density of the whole network was not complete. To a certain extent, it is indeed an analytical drawback that sources do not provide enough information to calculate a complete trade network's density or the degree of centrality of each merchant's position within such a network.⁹⁹ However, it is possible, as it has been shown in the case of the *Veckinchusen* family, to take an ego-centred network approach and try to reconstruct only the part of an exchange network that belongs to a particular merchant.

The rare source material allows for some general conclusions, at least. The total number of a merchant's trading partners can be divided into (at least) three groups: family members, friends and occasional partners. For each merchant, the relative position of all trading partners can be plotted on circles surrounding his own position in an ego-centred network (see Figure 2.2a). Core partnerships have a high frequency of mutual exchange and they existed for longer periods of time.

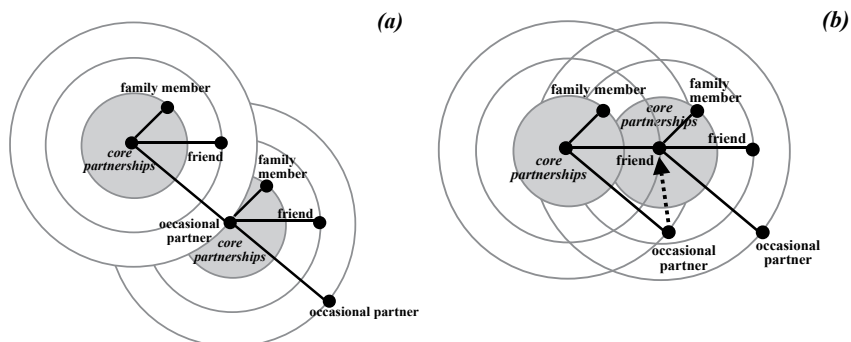
96 Cf. NIRRNHEIM (ed.) 1895; MOLLWO (ed.) 1901; von SLASKI 1905; SCHMIDT-RIMPLER 1915; SPRANDEL 1984; STARK 1984; 1985; 1993.

97 Cf. STIEDA (ed.) 1921; IRSIGLER 1985.

98 Cf. SPRANDEL 1984, p. 28.

99 Cf. BRASS / BURKHARDT 1992, pp. 191–215.

Figure 2.2: The Changing Structure of Commercial Networks



(a) Zones of network members with respect to their classification into family members, friends and occasional partners and overlapping personal networks; (b) an example of intensification of transactions over time after occasional partners have become friends.

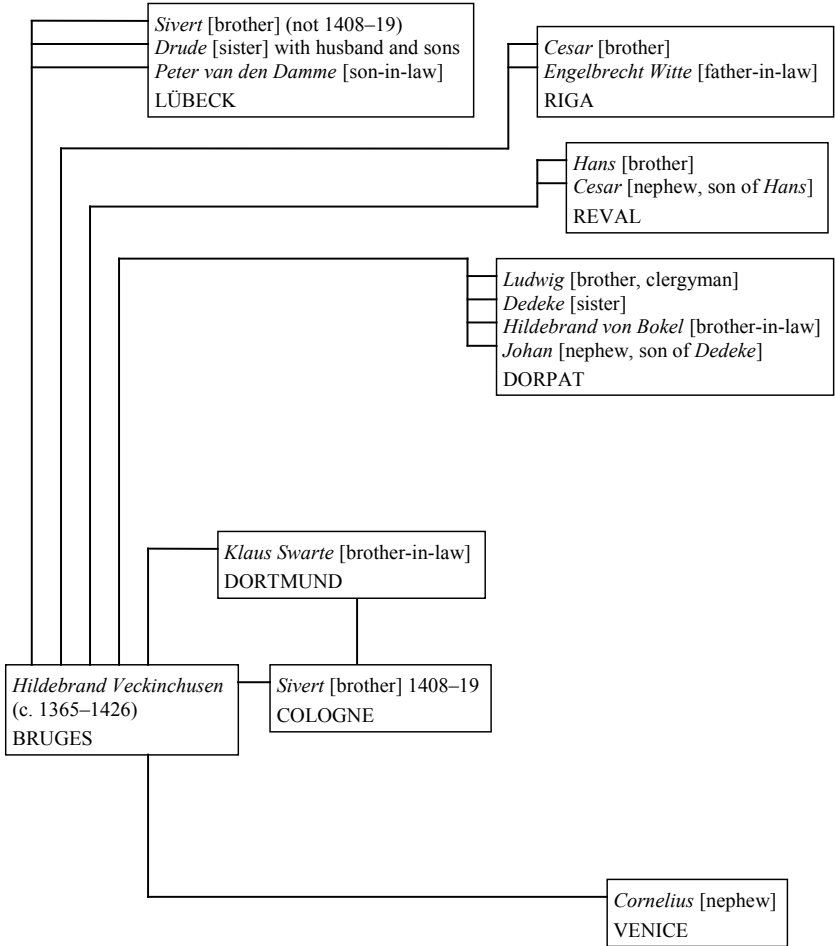
Source: Authors' own drawing.

In theory, family bonds and core partnerships coincide significantly.¹⁰⁰ In practice, there seems to be strong evidence from the surviving sources that core partnerships were often relationships of trade with family members and friends. At the beginning of the fifteenth century, for instance, *Hildebrand Veckinchusen* traded from Bruges with some of his friends as well as with some of his relatives, including his father-in-law *Engelbrecht Witte* in Riga, his brother *Sivert* in Lübeck – who stayed in Cologne during the period of 1408 to 1419 –, his other brothers *Cesar* and *Hans* in Riga and Reval / Tallinn, his brothers-in-law *Klaus Swarte* in Dortmund and *Hildebrand von Bokel* in Dorpat / Tartu, his son-in-law *Peter van den Damme* in Lübeck, and finally his nephews in Lübeck, Reval / Tallinn, Dorpat / Tartu, and even in Venice (see Figure 2.3).¹⁰¹

100 Cf. PING LI 1998.

101 Cf. IRSIGLER 1985; STARK 1993; CORDES 1998; KLUGE 2013.

Figure 2.3: The Family Network of Hildebrand Veckinchusen



Graph of the family network of *Hildebrand Veckinchusen* showing trading relationships and the geographical spread of the *Veckinchusen* family.

Source: Authors' own drawing following IRSIGLER 1985, pp. 75–99 and STARK 1993, pp. 191–201.

Once established, a commercial network became increasingly dense (see Figure 2.2b) as it was a common strategy of merchants to make friends out of occasional partners and relatives out of friends. *Engelbrecht Witte*

from Riga, the later father-in-law of *Hildebrand Veckinchusen*, married his daughter into the *Veckinchusen* family with a clear aim of becoming friends with them.¹⁰²

Coordination of the Network Trade System

The Problem of Coordination

To describe the structure of the late medieval Hanseatic trade system, we use the model of network organisation. By choosing a network organisation for their commercial exchange, the merchants of the Hanse were able, as shown above, to solve the so-called problem of organisation. An additional organisational feature of the network trade system to be investigated in more detail is the aspect of coordination. Hanseatic merchants obviously also had to overcome a coordination problem pertaining to the Hanse's internal trade. In network organisations like the one formed out of the multiple business partnerships of Hansards, often problems such as free-riding and cheating arise¹⁰³, especially if a considerably large number of members are involved.¹⁰⁴ With a lack of written contracts, it seems as though it must have been quite easy to participate in a commercial network of merchants and to take personal benefits for free. In principle this was possible if a merchant refused to contribute substantially to the diffusion of goods within the network. A merchant, for example, would sell another merchant's commodities and pocket the profit, without sending the goods back for recompensation, as was usually done in reciprocal trade. It is thus necessary to analyse the mechanisms by which the cooperation of Hanseatic merchants was achieved and by which traders were motivated to generally play fair, even though there are, of course, also examples of fraud and betrayal.¹⁰⁵ However, such a fair exchange between merchants within the network organisation could be guaranteed by various mechanisms, these being reputation, trust and culture, all of which facilitated and stabilised cooperation and thus had a coordinating effect within the Hanse's net-

102 Cf. IRSIGLER 1985, p. 81; 1989, p. 530.

103 Cf. TEFATSION 1997, pp. 495–498.

104 Cf. DIEKMANN 1992.

105 See e.g. von RANKE 1925, p. 250; SELZER / EWERT 2001, p. 154.

work trade system. How these mechanisms worked and why exactly these means were of significant importance can be delineated with the help of principal-agent-theory. This theory is commonly used to identify difficulties that typically arise in agency relationships. The relationship between a principal and a commissioned agent can generally be analysed in terms of an agency problem.¹⁰⁶

The Agency Problem

The spatial segregation that usually existed between sedentary traders in the late Middle Ages always gave rise to an agency problem. Such a problem evolved because merchant *A*, who wanted to sell his goods at a distant market, for example, not only had to deal with shipping the goods to this market, he also needed somebody on site – a merchant *B*, for instance – as a sales agent. Merchant *B* would thus become a sort of factor for merchant *A*, representing merchant *A* in commercial affairs at his home market, which for merchant *A* was a foreign market. Thus, merchants *A* and *B* entered into an agency relationship, where merchant *A* took the position of a principal, while merchant *B* serving as his factor took the position of an agent. This could become problematic, especially if merchant *A* was not able to effectively judge the commercial abilities of merchant *B*, or if he was inadequately informed about the personal objectives of merchant *B*. In addition, merchant *A* would also not be able to monitor merchant *B*'s concrete actions, at least not without a great deal of effort and extremely high costs. In terms of the principal-agents-theory, for the principal (merchant *A*), the agent (merchant *B*) possessed 'hidden characteristics', 'hidden information' and 'hidden intentions', and his commercial behaviour which can be monitored only insufficiently by merchant *A* was a kind of 'hidden action'. As a consequence, information was asymmetrically distributed among the two merchants – the principal and the agent –, and it would have been rational for merchant *B* to use this information asymmetry to his own advantage and to the disadvantage of merchant *A*, either by lying or by cheating.

106 Cf. SCHENK 1992, pp. 337–378; RICHTER / BINDSEIL 1995, pp. 132–140; CEZANNE / MAYER 1998, pp. 1345–1352; RICHTER / FURUBOTN ³2003; BLUM 2005; VOIGT ²2009.

This sort of an agency problem was rather typical of pre-modern trade in general, and it was largely fostered by the huge distances that usually had to be bridged by medieval and early-modern trade, as well as by a slow transmission of information and by a lack of legal institutions capable of protecting merchants' property rights from any offence. In this respect, the commercial exchange of Hansards can be considered as a rather typical example. Hence, medieval merchants, in order to cope with the agency problem, had to develop and deploy institutions through which they could protect themselves against all risks that could possibly stem from such an asymmetric distribution of information among commercial partners operating in distant locations. Both the appearance of risks and potential strategies to minimise these risks can be analysed within a game-theoretical framework.

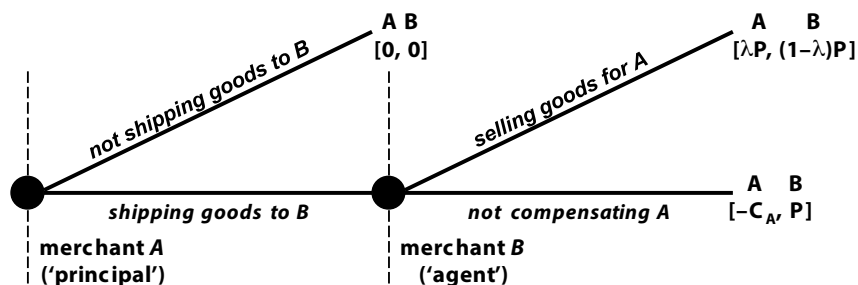
A Game-theoretical Analysis of Medieval Commercial Exchange

The basic structure of the agency problem which often appeared in long-distance trade is usually modelled as a game. To this end, Avner GREIF uses what is known as the sequential prisoners' dilemma game (see Figure 2.4).¹⁰⁷ In this representation of the agency problem, the choices available for the two players (merchants) are assumed as simplified binary strategies, and utility values attached to each possible outcome of the game represent the consequences of the players' respective decisions. The structure of such a one-shot game of exchange is very simple. The player who draws first (merchant *A* as principal) can decide whether or not he wants to employ merchant *B* as an agent. If no commission is awarded to merchant *B*, neither of the players wins or loses anything. In the case of a commission, merchant *B* decides whether he will play fair or whether he wants to betray merchant *A*. If merchant *B* is playing fair profits are divided between them, with λP and $(1-\lambda)P$ denoting the shares of the profit for merchant *A* and merchant *B* respectively. By defecting, merchant *B* can keep all profits for himself, whereas merchant *A* would then not only have to bear the costs of the transaction, such as the costs associated with the shipping of the commodities, but he would also have to book a loss. It should be noted

107 Cf. GREIF 2000, pp. 254–256.

that any negotiation between principal and agent about the distributional scheme of profits is not part of this game.

Figure 2.4: Game-theoretical Model of Medieval Commercial Exchange



One-shot one-sided sequential prisoners' dilemma game to model bilateral commercial exchange: P = profits of sale; C_A = costs of shipping goods to merchant B; $0 \leq \lambda \leq 1 = A$'s percentage share of profits.

Source: Authors' own drawing adopted from GREIF 2000, p. 255.

Common assumptions made in such a one-shot game of exchange are that both players are anxious to maximise their personal benefit, that the two act strategically, that the game is played for a single round only, and finally that there is no authority able to help merchant A to react effectively to any fraudulent behaviour against himself committed by merchant B. Given these assumptions concerning the players' behaviour, and given these rules of the game, the outcome is easily predictable. If merchant B wants to maximise his personal benefit, and if he acts strategically, thus having certain expectations about merchant A's choice of strategy, he will always choose the fraud option because by this he will achieve a greater benefit $-P$ instead of only $(1-\lambda)P$ – than he would if he acted honestly. Merchant A, who is also assumed to act strategically in order to maximise his own benefit by trying to minimise the risk of being betrayed by merchant B, will always anticipate merchant B's rational behaviour correctly, and therefore he will never commission merchant B. As a consequence, under such restrictive behavioural assumptions, there would be neither a transfer nor exchange of commodities, and thus no long-distance trade would ever happen. Not awarding the commission by merchant A and a fraud by merchant B would thus be the respective best responses of each of the players to the rational

behaviour they expect of their counterpart. According to Avner GREIF such an outcome of this game, which is a Nash-equilibrium¹⁰⁸, has to be considered as the ‘The Fundamental Problem of Exchange’.¹⁰⁹

Even if these assumptions about the behaviour of the two merchants appear too restrictive, or even unrealistic, they still help to clearly accentuate the necessary constraints of long-distance trade and the agency problem associated with it. With such an abstract formulation of the game, based on the individual rationale of traders, it is possible to explain the shape of the historically observed contractual arrangements in long-distance trade which were found to cope with exchange problems. Yet, the existence of long-distance trade all across medieval Europe proves, in a way, that it was possible to overcome the fundamental problem of exchange. However, what conditions for long-distance trade between merchants needed to be established? And which institutions were needed to enhance fairness among merchants once trade had been established?

Firstly, in order to make the principal (merchant *A*) even consider awarding a commission to a potential agent (merchant *B*) as an option, the agent must signal a sufficiently high degree of trustworthiness to the principal. Trust (on the part of the principal) and reputation (on the agent’s part) can be regarded as two sides of the same coin, and consequently, trust and reputation are fundamental prerequisites for establishing trade relationships.

Secondly, in the event of a commission being awarded to merchant *B* by merchant *A*, a well-defined institutional framework would be necessary to offer merchant *B* incentives to act honestly. With the help of such an institutional framework, sanctions against merchant *B* can be enforced in the event of dishonest or fraudulent behaviour. Enforcement can, for example, be achieved by formal contracting, but this would in turn require additional institutional regulations, provided by a legal system, for instance, or by certain authorities capable of effectively executing any sanctions against individual merchants. If the scope of analysis is shifted from bilateral to multilateral trade relationships, a setting that existed within the Hanse’s

108 By definition a Nash-equilibrium is characterised by mutual best answers of all players in a game to the strategic choices of all other players. Cf. KREPS 1990, pp. 28–36.

109 Cf. GREIF 2000.

internal trade networks, it becomes necessary to also consider the problem of ‘free-riding’. This would be a much more realistic approach to the history of systems of trade. Free-riding occurred because individual merchants tried to use club goods or even public goods that were provided within a network for free. An example of Hanseatic club goods are the Hanse’s trade privileges at the *Kontore* by which only Hanseatic merchants gained access to the market, while the standardisation of weights and measures is an example of a public good available within the Hanse. To prevent traders from free-riding, or to make it more difficult at least, it would be necessary to create appropriate institutions through which fair behaviour could be rewarded.

Finally, as shown above, the principal potentially evokes the risk of the agent’s dishonest and defrauding behaviour.¹¹⁰ For a classification of contractual risks a principal can be faced with, it is crucial to consider when exactly contract modalities such as schemes of risk-taking, cost-bearing and profit-sharing between the principal and agent are negotiated. The design of the incentive structure and the efficiency of the processing of a commercial transaction are directly affected by these modalities, and it makes a great difference whether modalities are negotiated *ex-ante* or *ex-post*, because either way shapes the information asymmetry between principal and agent differently. If, on the one hand, the potential agent is to obtain a fixed price for a commission business, during negotiations he (in this case merchant *B*) can pretend that his costs are higher than they really are, and book the difference as profit while the principal (in this case merchant *A*) would actually have to pay too high a price. Consequently, merchant *A* being the principal would make an ‘adverse selection’ of agents, thereby allowing the agent (merchant *B*) to make use of his better knowledge about his personal abilities to extract an information rent. On the other hand, if the distribution of profits among commercial partners is only defined after the execution of the commission business, as is characteristic for a cost-plus-contract, the principal merchant *A*, with hindsight brought by the result of a commissioned sale, cannot be sure that the agent merchant *B* has acted exclusively in his (the principal’s) best interests. If the agent is

110 For an overview of the different considered types of contractual risk see e.g. RIPPERGER 1998, pp. 63–67; WOLFF / GRASSMANN ⁴2004, cc. 1587–1590.

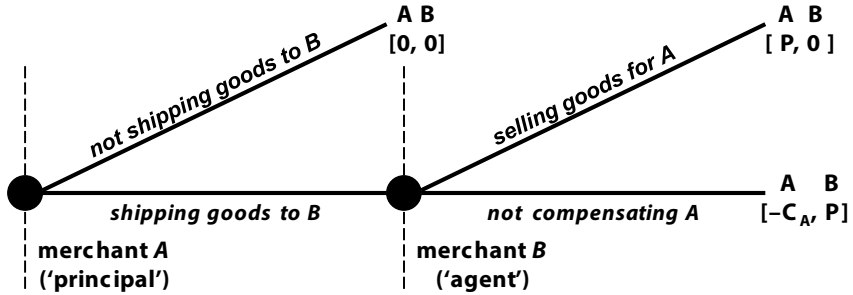
fully reimbursed for the costs of executing a commission business, he has no reason to keep these costs down. In this case there is also the risk that the commissioned sale will be too expensive and, in addition, might not be executed in merchant *A*'s best interest. This contractual risk is referred to as 'moral hazard'. If the principal finally binds himself to a particular agent by making specific investments when awarding a commission, the agent can also exploit the principal's commitment to his own advantage, for instance, by making higher financial demands to the principal, which would bring the agent into a so-called 'hold-up position'. Again, in the two latter cases, the agent would be able to exploit an existing asymmetry of information for his personal benefit.

The Viability of Hanseatic Reciprocal Trade

These insights into the agency problem and its repercussions on exchange in general as well as the results of the analysis of a simple GREIF-type one-shot trading game allow us to evaluate the contractual scheme of reciprocal trade that was commonly agreed upon by the Hanseatic merchants, and that stood at the core of the Hanse's network organisation of trade. It now becomes possible to derive the extent to which this very special contractual scheme was prone to the aforementioned contractual risks, and why Hansards in most cases were able to minimise or even avoid such risks. Thus, the fact that reciprocal trade was a viable solution for Hansards to solve the agency problem arising in long-distance trade can also be considered as proof of the efficiency of the Hanse's network organisation of trade. Furthermore, such an analytical framework generally paves the way for a comparison of different contractual schemes used in medieval and early-modern long-distance trade.¹¹¹ With respect to the internal Hanseatic trade, this particularly appears to be a promising approach, although, given the aforementioned results concerning the institutional conditions necessary for establishing long-distance trade in general, it may initially be rather surprising that Hanseatic merchants ever traded with one another in the way described above, often without formal contracting.

111 Cf. SELZER / EWERT 2005, p. 27 f.

Figure 2.5: One-shot Game of Reciprocal Trade



One-shot one-sided sequential prisoners' dilemma game to model Hanseatic reciprocal trade: P = profits of sale; C_A = costs of shipping goods to merchant B.
 Source: Authors' own drawing adopted from GREIF 2000, p. 255.

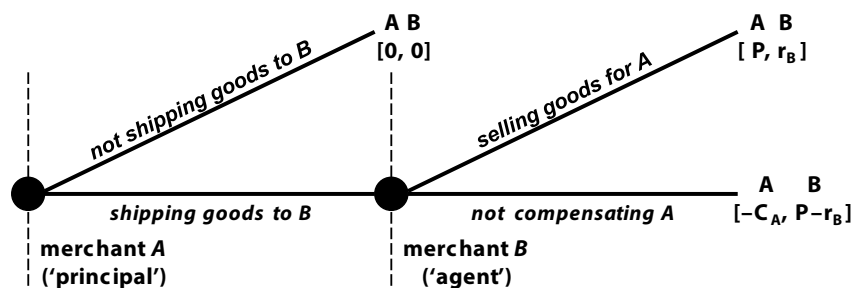
The one-sided one-shot sequential prisoners' dilemma game discussed above, from which Avner GREIF derives the immense importance of fairness-enhancing institutions for medieval long-distance trade, can be easily adopted for the kind of reciprocal trade that was so typical for exchange among Hansards (see Figure 2.5). This adoption is a special case of GREIF's game of exchange with a parameter value $\lambda = 1$. In fact, the reciprocal trade of two Hansards always encompassed two agency relationships in parallel, because in most cases each of the two merchants was principal as well as agent, but not necessarily at the same time. Without any loss of generality, for a further clarification of the incentive structure underlying the particular contractual scheme of reciprocal trade, it is sufficient to model only one part of this bilateral agency relationship. And even though Hansards commonly entered into reciprocal exchange without formal contracting, principal-agent-theory can also be applied to this kind of implicit and informal contracting.

The analysis of this simple model of reciprocal trade is straightforward, and the message derived from it seems to be more than clear: because profits of a sales operation were unevenly distributed between the principal and the agent – profits always remained with the principal –, and because the agent knew this up-front, the implicit contractual scheme of reciprocal trade at first glance seemingly did not produce any incentive for agents to act fairly,

which in theory should have made commercial exchange among Hansards very difficult, if not impossible.

However, the opposite was true. For their commercial exchange Hanseatic merchants predominantly employed reciprocal trade, they stuck with it for quite a long time, and cheating does not seem to have been a too common strategy among Hansards. In the end, Hanseatic reciprocal trade was a viable institution and this viability can be derived from the analysis of a reputation-based infinite game¹¹², for which the structure of the two players' decision-making is depicted in Figure 2.6.

Figure 2.6: Reputation-based Infinite Game of Reciprocal Trade



Repeated and reputation-based one-sided prisoners' dilemma game to model Hanseatic reciprocal trade: P = profits of sale; C_A = costs of shipping goods to merchant B; r_B = reputation value pertaining to B's behaviour.

Source: Authors' own drawing.

In this more realistic scenario, where trading activities can be repeated, some of the former assumptions are modified. First of all, a reputation value $r_B > 0$ is introduced by which a fair behaviour of the agent (merchant B) is awarded, whereas an eventual defecting behaviour is penalised by $r_B < 0$. Agents are now able to either gain or lose their reputation. However, reputation can only be effective as an incentive to fair play within an agency relationship if there is a past as well as a future. This is why it is so important to model commercial exchange not only as a repeated game, but also as an infinite

112 A rather similar infinite game is used, for instance, to analyse political conflict between social groups in late medieval towns or gift-exchange at late medieval courts (cf. LEHMANN 2004 and HIRSCHBIEGEL / EWERT 2013).

one. Both principal and agent can only establish a good reputation as businessmen in the preceding rounds of the game. Likewise, a potential loss of reputation can only be a real threat to those defecting or cheating if there are future rounds of interaction. Secondly, assuming the infinity of repetitions is plausible insofar as in reality both partners did not know when exactly their exchange relationship would come to an end. In general, whether a game can be repeated infinitely or only for a fixed number of rounds makes a great difference to its outcome. It can be proved by backward induction, that in finite games rational players always choose a non-cooperative strategy in the last round of the game, because they know that the game will not be continued afterwards. Choosing a cooperative, but for the moment only suboptimal strategy, will by definition not pay off in the future.¹¹³

In an infinite game, finding the players' equilibrium strategies is straightforward, too, but derivation demands infinite number summation. For the agent (merchant *B*) betrayal of the principal (merchant *A*) will not pay off in the long run. Any sort of defection in the first round when being commissioned for a sales operation will result in merchant *B* no longer being considered as a trading partner in all subsequent rounds, even though this uncooperative strategy of the agent would earn him a higher level of utility in round one than would fair behaviour. Nevertheless, if a long-term rationale is assumed, and such an assumption seems to be plausible with regard to medieval merchants, the agent should act fairly. However, since this is a general rule only, there is enough room for eventual betrayal. The fact that in some historical cases defection or even betrayal of Hansards is observed does not generally contradict the rule of fairness and it does not automatically imply that this rule has to be rejected. It might be the case that some merchants underestimated the long-term consequences of defection, or they simply thought their own betrayal would not be discovered.

Given that under these circumstances a rational agent in general is supposed to always act fairly, the principal (merchant *A*) should employ merchant *B* as an agent. Up-front, however, the principal cannot be sure of both the ability and honesty of merchant *B*. At this point of the game reputation comes into play. If merchant *B* is not a newcomer and thus already has

113 Cf. HOLLER / ILLING ³1996.

some sort of commercial reputation, this information will certainly facilitate merchant *A*'s decision-making. On the contrary, if there is no reputation available, a rational strategy choice of merchant *A* would be to commence a commissioned trade operation by only shipping a small volume of commodities at the beginning to test the ability as well as the honesty of merchant *B*. All in all, by extending the game of trade to an infinite number of rounds and by introducing a reputation value the incentive structure of the game is altered so that fair exchange in general becomes self-enforcing, which in turn is proof of the viability of Hanseatic reciprocal trade as a means of commercial exchange.

Non-hierarchical Means of Coordination

To coordinate commercial exchange between Hansards based on reciprocal trade non-hierarchical means were necessary. With reputation, trust and a common culture, mechanisms can be identified that helped to overcome existing disincentives. Through these non-hierarchical means of coordination it was possible for the Hansards to exchange their commodities within the Hanseatic network organisation of trade, and in most cases exchange was also handled in a fair manner.

First of all, the most effective means of coordination within the Hanseatic network organisation surely was the reputation mechanism.¹¹⁴ To have an excellent reputation, or at least to not lose this reputation, was important for medieval and early-modern merchants in general, not only for Hanseatic merchants. However, in the Hanseatic world, a commercial setting dominated by individual merchants and small-size firms, a setting with relatively small volumes of trade, little financial capital available and weak juridical institutions, reputation was obviously of outstanding importance to make fair commercial exchange possible. Hanseatic merchants made use of their reputation as businessmen as a kind of social capital, to use Pierre BOURDIEU's term. Since somebody who cheated not only had to fear the loss of a particular business contact, but of all his business contacts, this can be called a multilateral reputation mechanism, which is a well-established

114 See e.g. STABER 2000, pp. 69–71; MACLEOD 2007.

fact in the economic research into medieval trade.¹¹⁵ Having a high reputation was therefore essential to all merchants participating in the Hanse's commercial networks, and the desire to maintain it was a primary incentive to act fairly, because cheating not only damaged the relationship with the betrayed partner, it also resulted in a loss of access to the whole network, and thus undermined all possible partnerships for the future. Moreover, the loss of reputation of individual merchants was in fact made public in the Hanseatic world, so such a threat was very real. Hanseatic societies and other institutions that presented opportunities for Hansards to socialise such as the *Zirkelgesellschaft* ('society of the circle')¹¹⁶ of Lübeck or the *Artushöfe* ('King Arthur courts')¹¹⁷ in the Baltic area contributed greatly to the multilateral self-enforcement of fairness through reputation, because starting from there information on the reputation of other network members was distributed across the whole network. There is plenty of evidence, for example, that the names of those who were no longer allowed to share the Hanse's privileges in Bruges were published in the *Artushof* of Danzig / Gdańsk.¹¹⁸ In contrast to exchange-related information that would have to be transmitted quickly in order to monitor particular trade operations, any information regarding the merchants' reputation only needed to be somehow announced to prevent fraud among merchants in the future. The various forms of Hanseatic conviviality should therefore not just be considered as a social phenomenon of the late Middle Ages from a cultural-historical point of view, because as information exchanges these institutions proved to be extremely instrumental in giving the Hanse's network organisation of trade a strong cohesion.¹¹⁹ As a result, the multilateral reputation mechanism helped the Hansards to solve the problems of free-riding and controlling agents and it made reciprocal trade a viable and self-enforcing mode of commercial exchange inside the Hanse.

However, the multilateral reputation mechanism was not the sole non-hierarchical means that helped to coordinate commercial exchange within

115 Cf. GREIF 1989; 1992, p. 130; 1993, pp. 531–535; STREB 2004.

116 Cf. DÜNNEBEIL 1996.

117 Cf. SELZER 1996.

118 Cf. SELZER 1996, p. 105.

119 Cf. SELZER 2003b, pp. 84 and 96 f.

the Hanse's network organisation of trade. There is a long scholarly debate on alternatives to the classical coordination mechanisms such as the price on markets or the hierarchy within organisations, and one result of this debate is that under certain conditions trust can be regarded as an equally effective and efficient coordination instrument.¹²⁰ In particular, trust is important for the coordination within a network organisation because trust can compensate for the lack of control by hierarchical means. This is why network organisations are often called 'total trust' organisations, as opposed to 'zero trust' hierarchical-bureaucratic organisations.¹²¹ In a network organisation all actors have to trust each other. This can be applied to the principle of Hanseatic reciprocal trade and the agency problem resulting from the implicit contractual scheme of this form of exchange. The principal has to trust in the honesty and the ability of the agent to carry out the commission in the principal's interest. Likewise, the agent has to trust in the goodwill of the principal, and he has to trust that the principal will act in the same way when being an agent himself. In both cases, the reputation an actor gains can facilitate the earning of trust. Yet, a remnant of insecurity remains, the overcoming of which is considered as trust. Of course, it took time for trust between two merchants to develop, but once trust had been established, a reciprocal partnership was of great economic value for both sides. This also explains why some of the reciprocal partnerships between Hansards existed for such a long time.¹²² Following the reputation-based infinite game of reciprocal trade discussed above, a clever and utility-maximising strategy for both principal and agent within a partnership would be to mutually build up trust by only exchanging small volumes of commodities at the very beginning, and then to increase these volumes as long as each participant behaves fairly. This kind of step by step approach, which in game theory is called 'Tit-for-Tat'¹²³, can be identified, for instance, in the growing volumes of transactions between *Hildebrand Veckinchusen* and *Gerwin Maschede*.

120 See on this debate and the effects of trust in more detail RIPPERGER 1998; FIEDLER 2001. See also BACHMANN 2000, pp. 110–114; CHILD 2001; TOMKINS 2001; REED 2001; GREY / GARSTEN 2001.

121 Cf. REED 2001, p. 203. See also Figure 2.1 above.

122 Cf. SELZER / EWERT 2001, pp. 150–154.

123 Cf. AXELROD 1984; HÅKANSSON / SHARMA 1996, p. 116 f.

This is an instructive example of how a bond of trust between Hanseatic merchants was formed over time.¹²⁴ Very often, partners also tried to tighten such trade relationships by mutual gift-giving.¹²⁵

Finally, common culture and commonly shared values are discussed in the literature as effective mechanisms of coordination.¹²⁶ The spread of common values across the Baltic and the creation of a Hanseatic cultural identity were more or less a by-product of migration. The common Lower German language fostered a tight bond between Hanseatic merchants.¹²⁷ Common culture, commonly shared values and common standards were effective at several levels within the Hanseatic network organisation of trade. This becomes evident at the family level, in other words the area of the core trade relationships of Hanseatic merchants. Cheating or betraying a family member or a friend not only meant losing a particular mutual transaction relationship, it was also a likely reason to be excluded from the entire network. The impact of a common culture can also be identified in cases of contact with foreign merchants. It has been demonstrated more than once that cultural identity and economic interests within the Hanseatic network organisation of trade were so strongly interwoven that foreign merchants simply had no other choice than to adopt Hanseatic culture if they wanted to be integrated on a lasting basis into the more or less closed circle of Hansards.¹²⁸ The common cultural orientation among Hansards was also reflected in legal customs. This in turn was extremely supportive of any trade on a reciprocal basis in that it demanded that both sides involved in a commercial transaction treated the partner's goods with exactly the same care and attention that they would have exercised with regard to their own affairs. The formula *to synem besten to verkopen* ("to sell something for his best interest") can be found again and again in various sources.¹²⁹ Whoever neglected to sell the goods and commodities with which he was

124 Cf. STARK 1985.

125 See for examples from Riga, Königsberg /Kaliningrad, Oslo and Rostock STEIN 1898, pp. 89–91, Nr. 10, and pp. 93–97, Nr. 13, and p. 114, Nr. 21; STARK 1984, p. 141; THIERFELDER 1958, p. 209.

126 Cf. JONES 1983; WILKENS / OUCHI 1983; GREIF 1994; EWERT 1998, p. 65 f.

127 Cf. de BOER / Gleba / Holbach (eds.) 2001.

128 Cf. SELZER / EWERT 2001, p. 156 f.

129 Cf. EBEL 1957, p. 84.

entrusted with the same amount of care as if they had been his own and, thus, to the best advantage of his partner, not only had to fear legal action, but also had to be aware of losing his reputation.

An Economic Assessment of the Hanse's Network Organisation of Trade

Individual Economic Benefits

It was shown in the previously discussed game-theoretical analysis that reciprocal trade can in fact be considered as a viable commercial institution for the Hansards. Therefore, since the Hanse's network organisation of trade was primarily built upon reciprocal trade, this institutional arrangement itself also proved to be viable, even more so because the Hansards were relying on non-hierarchical means such as reputation, trust and shared common values to coordinate individual commercial interests and to enforce fairness among them. Moreover, using these networks for commercial purposes was certainly beneficial for Hanseatic merchants, even though in the long run this institutional arrangement also had some ambiguous consequences for the competitiveness of the Hanse as a whole, a point that will be elaborated in more detail below in Chapter 6 of this book. At first, 'networking' naturally also produced many costs instead of reducing them. Since merchants were engaged in medium-term or even long-term partnerships, they had to account for the opportunity costs that were due to these individual commitments. Common costs could be produced because single members of a commercial network could attempt to take the network services for free and to externalise private costs to the network community. So, why did Hanseatic merchants nevertheless prefer this pattern of trade and vigorously stuck to it until way into the sixteenth century? Participation in a commercial network for each of them must have generated personal profits, at least in the long run, otherwise there would not have been any incentive for participation at all. Such personal benefits were gained because with the network organisation of trade costs related to transaction as well as organisation costs were saved and because contractual risks could be minimised.

Cost Savings

There are good theoretical reasons to believe that choosing a network structure for trade significantly reduced the costs of commercial exchange, and transaction costs considerations help to clarify where exactly costs could be saved or be even avoided. Individual level benefits of networking can be derived from the transaction costs approach, which was developed by Ronald H. COASE and Oliver E. WILLIAMSON.¹³⁰ The role that particular institutions of trade played for the reduction of transaction costs, and thus the enhancement of trade and economic growth in medieval Europe, has been analysed in numerous studies, for example by Douglass C. NORTH and Avner GREIF.¹³¹ These savings can be split into reductions of transaction, information and organisation costs.

Probably the best-known benefit of a network structure is its ability to significantly decrease transaction costs. This cost reduction mainly stemmed from network members acting in accordance with the same set of norms, even more so because many of them were members of the same family or considered each other as friends. Mutual commercial transactions were facilitated within such a setting being based on kinship and friendship. Stable sets of partnerships also reduced transaction costs because merchants already knew what could be expected from a particular trading partner. Due to the commercial networks' core principle of construction, legally independent merchants had to cooperate voluntarily. In general, each partner had the same interests and because of this congruence they could trust each other's determination to keep to the partnership.

A second block of costs to be considered contains all costs arising from collecting and processing information. Being a member of a network helped Hanseatic merchants to find partners in whom they could trust. The network provided them with all the necessary information on the reputation of a potential trading partner, either by its kinship character or its social institutions. Not only the risk of 'adverse selection', that is, choosing the wrong trading partner, was minimised. With networks based on reciprocal

130 Cf. COASE 1937; 1984; WILLIAMSON 1979.

131 Cf. NORTH 1981; 1985; 1990; 1993; GREIF 2000; 2002; 2006. See on this also MUNRO 2001.

trade, the costs of market information could also be reduced. In long-term partnerships, the information about market conditions in distant places where a partner sold a trader's goods did not necessarily have to be gathered by the sending merchant himself. As shown above, because of the multilateral reputation mechanism, the partner who handled the sale had strong incentives to do so in the best interest of the sender. Therefore, it was sufficient if only the seller had the relevant information at his disposal.

A decrease in the costs of organisation was probably the biggest profit that could be made from operating in commercial networks. The networks' structural element of employing each other mutually as commercial agents implied that many of the core functions of trade systems could simply be delegated to a trading partner. As a consequence, Hanseatic businesses remained relatively small and simply organised. This enabled merchants to save most of the costs which otherwise would have been spent on hierarchical and extensive control of commercial transactions. Moreover, since the transmission of information was slow due to the immense geographical extent that had to be bridged by trade in the Baltic and the North Sea, instructing and controlling employed commercial agents in distant market places on a regular basis was almost impossible. By deploying trading partners as agents instead, transactions could be handled much more easily and much more safely. Due to a potential threat to their reputation if they acted otherwise, both partners acted primarily in the other partner's interest. Such a desirable, fairly responsible conduct of merchants was also enforced by the common judicial practice within the Hanse. In lawsuits concerning trading activities, arbitration usually pointed to the principle that each party had to act in such a manner that also its own interest would have been guaranteed. Therefore, a backup of commercial transactions by written contracts was unnecessary in most cases.

The Minimisation of Contractual Risks

Efficient coordination and cooperation within the (in principle) loose and very flexible structure of the Hanse's network organisation of trade could be guaranteed by a multilateral reputation mechanism, by mutual trust and a common cultural orientation. With reciprocal trade embedded in their network trade structure, the Hanseatic merchants were even able to mini-

mise any existing contractual risks.¹³² Since the agent was always allowed to subtract all the expenses he made in the operation of a sale, reciprocal trade has to be considered as a specific form of an implicit cost-plus-contract. It can be shown that for the Hanseatic merchants who committed to such an implicit and informal contractual scheme, networking was an efficient solution to cope successfully with the contractual risks known as ‘moral hazard’, ‘adverse selection’ and ‘hold-up’.¹³³

The main feature commonly attributed to a cost-plus-contract is moral hazard. It was possible to minimise this contractual risk with the help of the multilateral reputation mechanism and a general policy of personal responsibility. Irresponsible action or cheating by the agent would then cause him to lose his reputation. However, because it was clear from the outset that only the principal benefited from the sales profit of a specific commercial transaction, and that the distribution of profits between principal and agent was effectively decided prior to awarding the commission, reciprocal trade also incorporated elements of a fixed-price-contract to a certain extent. This is why it was also necessary to keep the risk of adverse selection as small as possible. As the reputation and trustworthiness of individual Hanseatic merchants was commonly made public across the trade network, selecting a ‘wrong’ agent was very unlikely, at least in the long term. Signalling played also an important role. This is very well documented in surviving letters of Hanseatic merchants encompassing lists of prices by which a trading partner attempted to prove his commercial skills to the principal along with his profound knowledge about what was going on in his home market.¹³⁴

Finally, by shipping his own goods to the trading partner a merchant always made a so-called specific investment. He bound himself, at least for this one commercial transaction, to the recipient of the goods, who was, as a matter of fact, then in a hold-up position.¹³⁵ To a great extent, the multilateral reputation mechanism within the Hanse’s network organisation

132 Cf. SELZER / EWERT 2005, pp. 27–29.

133 Cf. SELZER / EWERT 2001, p. 151 f.; 2005, p. 28; EWERT / SELZER 2010, p. 55 and p. 58 f.

134 Cf. STARK 1993, p. 143; AFFLERBACH 1993, p. 193; LINDEMANN 1978, p. 21 f.

135 Cf. SELZER / EWERT 2005, p. 28.

of trade prevented this position from being exploited by the agent to the disadvantage of the principal, so that it rarely resulted in an actual hold-up. A merchant who attempted to cheat his trading partner not only had to fear being permanently excluded from the trade network; by cheating he first and foremost risked losing his own goods which were, following the principle of reciprocal exchange, in the hands of his trading partner and thus provided this trading partner with a form of security. An example of such an hold-up is the behaviour of *Hildebrand Veckinchusen*, who demanded a monetary compensation from *Engelbrecht Witte* for the agent services he had provided to his father-in-law for so many years at the Bruges market, after he had found out that he was not remembered in *Engelbrecht Witte*'s will.¹³⁶

Concluding Remarks

It would therefore be utterly misleading to conclude that the merchants of the Hanse operated in a very modern style simply because the principle of network organisation in organisation science literature is often assumed to be the most progressive organisational mode to date. It nevertheless should have become obvious due to this analysis that categories such as 'modern' or 'backward' in general fail to capture the relevant characteristics of historical institutional arrangements. The business practice of the late medieval Hanseatic merchants was neither 'backward' nor was it already 'modern'. It was simply an effective as well as an efficient and therefore viable institutional arrangement for long-distance trade that on top of all that enabled all merchants to make individual profits, because with it transaction and organisation costs could be kept at a low level and contractual risk could be effectively minimised.

136 Cf. AFFLERBACH 1993, p. 93 f.; SELZER / EWERT 2001, p. 154.

Chapter 3

A ‘Small World’ – Reconstruction and Meaning of the Hansards’ Social Networks

The objective of this chapter is to further elaborate on various sorts of personal relationships between the merchants of the Hanse. Kinship, friendship and social proximity were the typical ingredients of Hanseatic social networks, which in turn supported trade in quite a substantial manner by connecting merchants with potential trading partners and providing them with business opportunities and all kinds of information. Therefore, in this chapter we will present an overview of the appearance of social networks in the Hanseatic world during the late Middle Ages and discuss the methods that can be used to reconstruct them. After a brief introduction to the sociological approach of network analysis, several examples are given of social networks that emerged in Hanseatic regions. These cases prove how such late medieval social networks can still be grasped by modern historiography, and they also focus on the availability and validity of the sources that are used to reconstruct social networks.

Network Analysis as a Method to Describe Social Structure

The Theoretical Concept of Social Networks

An understanding of the basic concepts underlying the network analysis approach is fundamental to comprehend the formation and meaning of social networks within the Hanse.¹³⁷ Similarly to ‘system’ and ‘social capital’, the term ‘network’ is very popular and is widely used as ‘social network’ in the social sciences and in history. Because of this popularity it appears to be a well-defined and clear concept, even though a broad range of meanings

137 For an introduction to social network analysis see e.g. BERKOWITZ 1982; BURT 1982; PAPPI (ed.) 1987; WELLMAN / BERKOWITZ (eds.) 1988; WASSERMANN / FAUST 1994; WASSERMANN / GALASKIEWICZ (eds.) 1994; CARRINGTON / SCOTT / WASSERMANN (eds.) 2005; TRAPPMANN / HUMMELL / SODEUR 2005; JANSEN 2006; SCOTT ³2013.

are attributed to it. But what exactly is a social network? How can it be described? Which methods can be used to analyse it?

The social network approach claims to be both a theoretical and methodological concept. Social network theory deals with the definition and meaning of networks as specific social configurations. Network methodology develops techniques and provides tools for the analysis of such units. First of all, a network in the exact sense of the word is a complex system of crossing lines.¹³⁸ Within a social network these crossing 'lines' are relationships because they consist of "a finite set or sets of actors and the relation or relations defined on them."¹³⁹ Social networks are nonetheless distinct from groups and organisations, although these two forms could be described in much the same way. However, the way in which both membership and relationship are defined makes the difference. An organisation has formal criteria of membership, whereas social networks do not. In organisations, relationships between members are formally defined, but in social networks, relationships are informal. However, it is not this informality alone that distinguishes social networks from other social units. In groups all members interact with everyone else, whereas in social networks, interaction can be indirect and mediated by other members.

The beginning of social network analysis as a defined approach of social sciences only dates back to the 1970s, and it is marked by an increasing number of studies on modern networks and on the methodology of network analysis.¹⁴⁰ However, social network analysis follows the traditions of sociometric research and social anthropology, and the understanding of such networks is based on sociological concepts such as social relationships, closeness and interdependence. These sociological concepts were formulated much earlier in the writings of Max WEBER, Georg SIMMEL and George C. HOMANS. For the historical sciences, Wolfgang REINHARD's¹⁴¹ study on the entanglement of Roman city elites in the sixteenth and seventeenth centuries was a sort of milestone, as it was the first time that the

138 Cf. PAPPI 1987, p. 12.

139 WASSERMANN / FAUST 1994, p. 20.

140 Cf. HOLLAND / LEINHARDT 1970; 1979; LAUMANN / PAPPI 1973; 1976; HUMMELL / ZIEGLER 1977.

141 Cf. REINHARD 1979.

methodology and potential of social network analysis were presented in the context of a historiographical study. In recent years, along with a growing interest of historians in applying both the concept of social networks and the methodology of social network analysis to historical cases, a vivid discussion evolved on the significance of social networks in historical contexts on the one hand and on the practicability of a structural analysis of historical network data using formal methods and graphical tools on the other.¹⁴²

A Brief Sketch of the Methodology of Social Network Analysis

With the formation of social network theory, formal methods to describe the structure of networks were introduced into sociological research.¹⁴³ These techniques were derived from graph theory, group theory and matrix algebra. A set of relationships of a certain number of persons is depicted in a graph. The graph's nodes represent individuals and its edges represent the relations found between them.¹⁴⁴ Two structural measures are typically calculated from such a mathematical (and graphical) representation of a network. The network's overall density is the actual relationships' (edges) share of the number of all relations possible.¹⁴⁵ The more potential connections there are between individuals, the more dense the network is. Centrality measures how easy it is for a network member to get in contact with other participants in the network. Path distances within the network are commonly used for this.¹⁴⁶ For example, a person who has personal relationships with every other member would obtain the highest possible degree of centrality because she/he can reach everyone else directly. Since networks are often constructed using sampling and survey techniques in sociological research, problems of measurement error, validity and reliability

142 Cf. ERICKSON 1997; WETHERELL 1998; GOULD 2003; BARKHOFF / BÖHME / RIOU (eds.) 2004; GORISSEN 2006; BOYER 2008; NEURATH 2008; NEURATH / KREMPEL 2008; REITMEYER / MARX 2010; SELZER / EWERT 2010; STARK 2010; DÜRING / STARK 2011; LEMERCIER 2012; DÜRING 2013; DÜRING / von KEYSERLINGK 2015.

143 A very good overview of the techniques used in social network analysis can be found in TREZZINI 1998.

144 Cf. KAPPELHOFF 1987.

145 Cf. PAPPI 1987, p. 28.

146 Cf. FREEMAN 1978/79, pp. 215–239; PAPPI 1987, pp. 25–36.

of the data do arise. The analysis of historical social networks is naturally restricted to those pieces of social structure documented in the surviving sources. Therefore, shortcomings of the data may also cause difficulties. As re-sampling of new data is impossible in historical research, the problems that arise because of limited or biased data can only be overcome with careful interpretation. In applying the network concept to historical networks, it is important to know the following basic differentiations concerning the scope of and the methodology made within social network analysis.

A structural analysis can be performed for either a global or an ego-centred network.¹⁴⁷ For complete or global networks, an excellent source material would be needed – a source or sources that reveal all extant informal relationships. Criteria for differentiating between the members of a network and non-members would have to be defined as well. Even in the application to modern networks, neither the source problem nor the problem of membership definition can be solved satisfactorily. Instead, ego-centred networks are often analysed. Such an ego-centred or personal network comprises only the set of relationships that a certain person has. Given the rather scattered information on the personal relationships of merchants, focussing on ego-centred networks seems to be a reasonable approach to Hanseatic commercial exchange networks.

Networks can also be reconstructed on the empirical basis of either a single type of relationship or multiple sorts of personal connections.¹⁴⁸ A network that is based on just one type of relationship is called a one-mode network. However, when a person possesses relationships of different types to other individuals, it is called a two-mode or a multi-mode network. Both approaches can also describe historical, informal social structures. One example of a one-mode network is the common membership of Hansards in the towns' official societies or fraternities, which will be discussed in greater detail below. Kinship and commercial exchange relationships, for instance, would constitute a two-mode network. Two-mode networks are in a sense 'real' networks because, following the definition of social networks, several distinct layers of social structure are interwoven in them.

147 Cf. TREZZINI 1998, p. 380.

148 Cf. TREZZINI 1998, p. 379 f.

Finally, closeness within a social network can vary depending on whether the measurement of closeness is relation-based or position-based.¹⁴⁹ In a relation-based approach, closeness of network members is thought of as cohesiveness. Individuals are close to each other because they are located near to each other within the network and because they have intensive personal contact. This method can be used for identifying and describing the social networks of Hansards as far as opportunities to get in contact, either personally or by letter, are analysed. In contrast, with a position-based approach, people are connected through structurally equivalent positions within a social network, not by personal contact. Hence, closeness by this definition is not a result of personal relationship, it would stem exclusively from structural equivalence. By this approach social roles are identified. However, this approach goes beyond the original idea of a social network being based on social contact. The position-based approach nevertheless can be used to analyse councillors and mayors of different Hanse towns, for instance, but even these people were connected by personal relationships, too, as will be seen below.

Social Networks within the Hanse – Examples and Corresponding Sources

Conditions of the Emerging Networks – Population Growth and Migration

The non-scientific but popular view of medieval society usually depicts it as very rigid and nearly immobile. This interpretation, however, is an over-simplification because even in the high and late Middle Ages, social structure was a flexible and ever-changing matter. Such a prejudice ignores the huge demographic and social dynamics that unfolded all across Europe, especially from the eleventh century onwards. A constant increase in population, a huge expansion of arable land, the foundation of hundreds of towns and a sustained economic growth resulting from this formed the socio-economic background of what was a significant societal take-off in the high Middle Ages. A further consequence of this process was the re-establishment of long-distance trade, an issue that, following the seminal

149 Cf. TREZZINI 1998, p. 382 f.; KAPPELHOFF 1987, pp. 39–41.

analysis of Robert S. LOPEZ, is referred to as the ‘Commercial Revolution of the Middle Ages’.¹⁵⁰ This general economic take-off initially occurred in West Europe and the Mediterranean, but it eventually spread over most of the continent and reached the Baltic within the first half of the twelfth century. Both the political integration of the Baltic regions and the conversion to Christianity of the Slavic people were important prerequisites to the further economic development of the sparsely populated coastal areas and their hinterland. Numerous villages and towns were then founded along the Baltic coast between Lübeck and Reval / Tallinn until the late thirteenth century.

For people from the more densely populated areas in West Europe, the new settlements in the Baltic revealed much better economic opportunities and offered migrants the chance to begin a new life. Count Adolf II of Holsatia¹⁵¹ founded Lübeck in 1143 by using the name and a castle of a long existing Slavic settlement. This was, in many respects, the very model of Christian expansion into the coastal areas of the Baltic. More importantly, along with the foundation of Lübeck, the West European concept of making the classic medieval town a law-protected permanent market was transferred to the Baltic region. Based on this model, within only a century almost every important Hanse town along or near the southern Baltic shore had been founded or had received municipal law – Riga (1201), Rostock (1218), Danzig / Gdańsk (1224), Wismar (1229), Stralsund (1234), Elbing / Elbląg (1237), Stettin / Szczecin 1243, Greifswald (1250) and Königsberg / Kaliningrad (1255).¹⁵² The first western people who settled in Lübeck were of Rhinelandian, Westphalian and Saxon origins. Most of the other towns along the Baltic coast were founded according to the same or a fairly similar pattern. The new arrivals joined an already settled Slavic population. The western geographic origin of settlers can be traced by their surnames. In these times surnames were not yet of a character specific to the family bearing it. In their new places of residence, western immigrants were

150 Cf. LOPEZ 1971.

151 Cf. HAMMEL-KIESOW 2000, pp. 27–30.

152 And of course also the re-establishment of the newly founded town of Lübeck in 1158/9 by the Saxon Duke Henry the Lion, after it had been destroyed by a fire. Cf. HAMMEL-KIESOW 2000, p. 34.

typically marked by their respective place of origin. A well-known family of municipal councillors in Lübeck, for instance, was named *Warendorp*, which was the contemporary name of a Westphalian town nowadays named 'Warendorf'. Similarly, in Thorn / Toruń there was a councillors' family with the surname *von Soest* ("of Soest", also a town in Westphalia).

Kinship Networks among Hansards

Population growth, eastern-bound migration and settlement were vital for the emergence of social networks among the Hansards. Another aspect of western immigration to the Baltic – a region that would become the realm of the Hanse – was its endurance for several generations. This migration process was even prolonged as members of following generations also headed northeast, which likely promoted the foundation of many subsidiary towns. Therefore places like Wismar, Rostock or Stralsund were not only connected to their hometown Lübeck by sharing a common municipal law, but also because of the multiple inter-town kinship bonds that had emerged as a by-product of continued eastern-bound out-migration. The continuance of migration also meant that after some time migrants' relatives would follow them to their new places of residence in the Baltic. Additionally, some of the migrants or their children would also return to their western places of origin, if, for instance, the expectations of increasing personal wealth and improving social status there exceeded the opportunities in Baltic towns. In fact, the populations of those towns that would later become members of the Hanse were already interrelated through a wide range of family bonds long before the Hanseatic League emerged as an association of cities and towns. Thus, some citizens from Danzig / Gdańsk and Hamburg very correctly claimed to have relations in many other Hanse towns. Genealogical research, which is often not taken seriously enough, provides important and lucid insights into this kinship-based interweaving of Hanseatic town populations, which is very pertinent to the issue of Hanseatic social networks.

Kinship networks inside the Hanse can also be analysed by way of considering the kinship relations of citizens from the older western towns instead of focusing solely on the relationships of citizens in the new Baltic settlements. Hereditary matters are a good source for pinpointing this. Quite often, the emigrants' relatives still living in the western towns of

origin were named as their heirs. A particularly good example of this was the council of the Westphalian town of Soest, which repeatedly received letters called *Toversichtsbrieife* ('letters of confidence') from Baltic towns, announcing wills of former emigrants in favour of Soest citizens. These letters were collected and can be used as a graphic representation of the kinship bonds by which many citizens of Soest were connected to citizens of other Hanse towns. The resultant graph – which is printed in the publication of Emil DÖSSELER – has a radial appearance with edges that represent kinship relations leading from Soest to almost all the Hanse towns in the Baltic.¹⁵³

An illustrative and well-documented example of a wide-reaching Hanseatic kinship network is the family named *Plescow*.¹⁵⁴ Although the last name refers to the town of Pleskau / Pskov in North Russia and thus suggests a family of Russian origin, it seems much more likely that the family originally came from Visby on the Swedish island of Gotland, where it can be proved that the earliest family members had lived. In this particular case, *Plescow* as a surname does not indicate the family's origin but the place where family members traded. A branch of the family then emigrated from Visby to Lübeck by the end of the thirteenth century. In Lübeck as well as in Visby, the *Plescow* family was part of the local ruling class. As a result, in both towns, male members of the family repeatedly held the official duty of a councillor or a mayor. Among them was the mayor of Lübeck, *Jordan Plescow*, one of the most prominent Hanse politicians, who died in 1425. Many additional kinship bonds with families in other Baltic towns were established, mainly through marriage, with councillor's families in Stockholm for example.

The network effect on the political organisation of the Hanse should be considered first, before turning to specific kinship-based relations between Hansards and their meaning to both structure and organisation of trade. Kinship was a natural vehicle to unite councillors and mayors from various Hanse towns and cities, at least in particular regions of the Hanse's realm.¹⁵⁵ A good example of such a personal kinship-based political network is that

153 Cf. DÖSSELER (ed.) 1969; DÖSSELER 1988.

154 Cf. WIEGANDT 1988.

155 Cf. FAHLBUSCH 2005.

of *Arnd Sudermann*, who was mayor of Dortmund and died in 1473.¹⁵⁶ His family ties were a basis for his political bonds. Like many other families in Westphalia, the *Sudermann* family had established a family branch in Thorn / Toruń in which close connections existed. Although this had already happened a generation earlier, *Arnd Sudermann* and other family members in Dortmund as well as in Thorn / Toruń still felt as though they were part of the same clan. Apart from that, the local political network of *Arnd Sudermann* also covered his co-mayor *Christoph Hengstenberg*, who was his brother-in-law. *Hengstenberg* also had some relatives in Prussia, so beside his own relationships *Sudermann* had through *Hengstenberg* a second tie between Dortmund and the eastern Hanse towns which could easily be activated via his brother-in-law *Hengstenberg* if it was needed. A third dimension of network structure is the regional aspect of kinship-based relationships, since people from other towns in Westphalia and the Rhineland were also bound to the *Sudermann* family. Both *Arnd Sudermann's* sister and his daughter were each married to mayors of the town of Soest. Moreover, by that time his cousin *Heinrich* was a councillor several times as well as a mayor in the city of Cologne.

It is likely that since these local politicians were commissioned to represent their respective hometowns at the diets of the Hanse in Lübeck, a group of persons who met for political talks, they could rely on somehow firm kinship bonds. This must have had a lasting impact on Hanseatic politics and diplomacy. The kinship-based political networks worked as a sort of mediating instance. This can explain Hanseatic decision-making and enforcement better than before. For a long time, the Hanse was predominantly considered a hierarchical-bureaucratic organisation, economically as well as politically. Political decisions were commonly assumed to have been made at the annual Hanse diet in a quasi-parliamentary procedure. In contrast, recent studies like that of Dietrich W. POECK demonstrate the importance of family bonds and other informal connections between the members of the leading groups of Hanse towns for the political structure of the Hanse to persist. More precisely, these politicians were the ones who, because of their mutual kinship-based connections, negotiated internal set-

156 Cf. FAHLBUSCH 2002, p. 47 f.; 1994.

tlements between towns and were able to get even unpopular compromises accepted in their hometowns. Those who formed the Hanseatic leading group by sticking together because of family ties became the core of the Hanseatic political system. Interestingly enough, this group was referred to by contemporaries of the sixteenth century as *de herre der Hense* (“the masters of the Hanse”).¹⁵⁷

Wills as a Source of Network Reconstruction – the Case of Lübeck

Wills have been used only during the last two decades as important sources of social and economic history. Prior to that time, it fell to legal historians to analyse this sort of documents. From a socio-historical perspective, wills offer insights into peoples’ belief and piety, but they can also answer many other questions regarding the history of everyday life. Compared to other types of sources of the history of the Hanse, wills have survived in large numbers. By far the biggest German late medieval corpus consists of approximately 6,400 wills from Lübeck, all originating from before the year 1500.¹⁵⁸ Their serial character makes these documents attractive to historians. Men and women living in Lübeck – rich merchants, craftsmen, but also servants – decreed in their wills how their property was to be handled after their death. Consequently, wills reveal the testators’ social connections, especially when they include relatives living in distant places, former trading partners or illegitimate children. Because of such documents, it was possible, for instance, to reconstruct the commercial relationships of a group of merchants from Lübeck and Stockholm in 1350, the year of the Black Death.¹⁵⁹

Additionally, another group of people appears in almost every known will from Lübeck. These are the executors of wills who were called *vormund* (“guardian”) or, in Latin, *provisor*. Being chosen to execute a will

157 Cf. POECK 2002; 2010.

158 A good overview of the surviving archival material can be found in von BRANDT 1979. Of the more recent studies see for Hamburg, Cologne, Lüneburg, Lübeck and Stralsund RIETHMÜLLER 1994; KLOSTERBERG 1995; MOSLER-CHRISTOPH 1998; WEIDEMANN 2012; NOODT 2000; MEYER 2010; LUSIARDI 2000.

159 Cf. KOPPE 1933; CORDES 1998.

was a demanding and often rather tricky task. The will of *Hinrich van dem Braken*, who died in 1413, is a good example of this. The men he had named to execute his will had to spend part of his money for devout and charitable purposes, not only in Lübeck, but also in Osnabrück and in the more distant town of Bergen. They were also requested to arrange a marriage for *Hinrich's* daughter and to care for her until she was married. Finally, they had to administer the parts of *Hinrich's* assets that he wanted his two sons to have after they had come of age.¹⁶⁰ From this example it is clear that a testator had to be confident in his or her choice of guardian. A plausible *ad hoc* hypothesis would be to assume that testators generally commissioned their relatives with this kind of trustful duty. In reality, the opposite was true. Relationships between testators and executors were very rarely kinship-based. By taking a closer look at the problem, it is clear that honesty and willingness were not the only requirements for a potential executor or guardian to meet. A testator also had to be sure that the person he or she wanted to execute his or her will would be able to get the provisions accepted by the testator's creditors and debtors as well as by his or her possibly reluctant relatives.

Because of these requirements, analysing the choice of guardians is very promising. Firstly, one would naturally expect to find in such an analysis individuals who were men of high standing within their peer group. Not surprisingly, in some cases councillors and mayors were commissioned with guardianship because of their affiliation with the leading social class of Lübeck. Yet more interestingly, some of the executors and guardians were not chosen because of their official town duties. Instead, they were chosen because they were highly respected due to the more informal position they had within the society of Lübeck. The works masters of the parish churches were examples of this kind of executor, especially those at St. Mary's and St. James'.

In general, a works master managed technical problems and economic issues that arose in everyday church operation. However, he was neither the master builder of the church nor the holder of the city's church administration office. The latter was officially responsible for the financial assets of the

160 Cf. MEYER 2002; 2005; 2010.

church. Usually, this office was shared by two city councillors who held it alternately. Although the churches' works masters were of a lower social rank within the society, compared to city councillors or master builders, they were highly esteemed within their home parish. A really outstanding example of the linking position these works masters held is that of the executor choices made in Lübeck between 1400 and 1450, as noted in Gunnar MEYER's in-depth analysis. For this particular period, the choices of citizens mostly favoured *Hermann Robecke*, who was the works master of St. Mary's, and his colleague *Godeken Steenbeke*, who held the same office at St. James'. If all the choices drawn from the surviving wills are represented in a sociogram¹⁶¹, the following becomes clear: only a few of the testators made mutual choices for an executor or guardian. Thus, an overall look at wills does not offer much insight into the sketch of the networks of citizens from Lübeck during the first half of the fifteenth century. However, this information indicates possible ways social networks could have been used by citizens for all kinds of purposes. Although the works masters were not in the centre of a specific social group, they functioned as a sort of bridging person to connect separate networks with each other because of their high standing.

Restricting the sample to those testators already connected by professional, social or political matters would be a much better approach to the reconstruction of citizens' networks on the basis of wills. Gunnar MEYER also performed such an analysis for the group of merchants from Lübeck who specialised in trade with Bergen. Although not all the wills belonging to the people in this group survived, the final sample consists of 109 wills, 82 of which show a testator's choice of a fellow member of this group of traders for the execution of one's will. The corresponding graph¹⁶² only depicts these choices, but some of the wills contain additional information that would be relevant to social network issues, such as business connections to other group members. Thus, testators' choices of executors can add much to the reconstruction of merchants' multi-mode social networks.

161 This sociogramm is depicted in MEYER 2002, p. 289.

162 Cf. MEYER 2005.

Social Proximity vs. Spatial Vicinity – Societies and Neighbourhoods

One approach to reconstructing the social networks of Hansards is to examine membership in societies and fraternities, which gives an indication of the social proximity between the members of these institutions. Membership could improve the quality of social networks in Hanse towns because it was extremely important for the informal communication within the political and economic leading groups. A majority of the councillors of Lübeck, for example, were also members of the distinguished *Zirkelgesellschaft* ('society of the circle').¹⁶³ In the Prussian towns of the Hanse, town councillors, lay assessors and merchants met in the so-called *Artushöfe* ('King Arthur's courts')¹⁶⁴ and were always members of the fraternities belonging to these courts. As was customary, they would bring guests to the meetings, and travellers and strangers were generally allowed to join such functions as well. The institution of the *Artushöfe* thus also enabled interurban social contacts.

A good example of how effective and sustained such contacts were can be seen in the *Schwarzhauptergesellschaft* ('black head society') of Riga. This society was a popular meeting place for experienced long-distance traders and their young apprentices. The latter were usually sent to the Baltic region to learn more about the goods and practices of Hanseatic trade with Russia. Two of these young men, *Hans Swaneke* from Danzig / Gdańsk and *Johann van dem Springe* from Lübeck, potentially met each other for the first time in 1419 in Riga at the meeting place of the *Schwarzhauptergesellschaft*. There, the two of them might have also met a third person, *Gerd von Borcken*, a citizen of Riga. The acquaintance of these three Hansards and especially the way in which they became acquainted is important to better understand their business relationship, which can only be verified over a decade later. In 1430, *Gerd von Borcken* sent wax to *Johann van dem Springe* in Lübeck, and part of this delivery was done by order of *Hans Swaneke*.¹⁶⁵

163 Cf. DÜNNEBEIL 1996.

164 Cf. SELZER 1996; 2003b.

165 Cf. BRÜCK 1999, p. 118.

Instead of relying only on social proximity, social networks could also be based on spatial vicinity. Towns possessed quarters with either expensive or cheap lodging and could therefore be divided into commendable and disreputable neighbourhoods, a fact not only relevant in modern cities¹⁶⁶, but also, in Hanse towns, where specific quarters were rated differently by citizens. In the same way that a person's clothing indicated social status, the location and appearance of a dwelling were commonly seen as a status symbol. A house built of stone, for instance, elevated the owner or tenant within the town's social hierarchy over those who still lived in wooden buildings. The prestige derived from a dwelling's location inside the town was highest in the centre around the market place, at the town hall or the parish church and along the main streets of the town. The prestige of a dwelling place also decreased as the distance to the city centre increased, so the least reputable areas were usually found near the town walls. The differing esteem for particular locations within the town affected the social character of a specific neighbourhood. In 1582, a travelling Swabian noticed that the members of Rostock's upper class spoke in a much more distinguished manner than the people living in Fisher's street, and that the latter again talked differently compared with the inhabitants of the harbour quarter of Warnemünde in the seaside port of Rostock.

Since both the purchase and sale of houses required a special juridical protection, real estate transactions were already being recorded by the end of the thirteenth century. For Lübeck, these property transactions can be found in the *Oberstadtbuch*, a book in which notaries of the city council wrote down all kinds of legal transactions relating to houses. Ownership can be established for each house in Lübeck from 1284 onwards based on the series of the annual records which survived without gaps. The records of the *Oberstadtbuch* provide historians with valuable information, for instance about the ups and downs of the real estate market. Also, in assessing the remains of medieval buildings, information on ownership can be useful to find former owners of fire walls or mural paintings¹⁶⁷, things typically discovered in archaeological diggings. Finally, these data also offer information for a socio-historical analysis. With respect to dwelling loca-

166 Cf. KENT / KENT 1982; Igel 2007.

167 Cf. HAMMEL 1987; HAMMEL-KIESOW 1988.

tion it becomes possible to reconstruct the inner-urban spatial distance that existed between citizens, for example between merchants from a particular group of traders, craftsmen or members of a certain guild or fraternity. The results can be depicted on a street map, and such a social topography of the town helps to discover the spatial dimension of social networks.¹⁶⁸

An interesting case for this pattern can be studied with data from the Pomeranian town of Greifswald around the year 1400. With the surviving administrative records it is possible to establish the dwelling places of the members of the town's leading class and to map these locations, something which has recently been done by Karsten IGEL.¹⁶⁹ On the resulting map it can easily be seen that town councillors and mayors lived exclusively in the eastern parts of the town. They mostly resided at the market place and in *Knopfsstraße*, which was a street connecting the market place with the neighbouring area. In contrast, the western areas of the town had a completely different social character because there craftsmen dominated the neighbourhood. Additionally, it can be shown that a rise within the town's social hierarchy due to a person's economic success usually meant that said person moved from the west side to the more reputable east side of Greifswald. Therefore, it is plausible to assume that spatial vicinity or even a direct neighbourhood of the councillors and mayors of the town would have increased the frequency of social contact as well as improving the density of their social network. In terms of sheer numbers, this situation cannot be compared to modern cities because even the medieval city of Lübeck, one of the larger examples, is estimated to have only had about 25,000 inhabitants, while the population of a town like Greifswald was likely to have only been about a quarter of Lübeck's, in the range of 5,000 to 6,000 inhabitants. Given these relatively small population figures, communication between the inhabitants of the town should have been possible, which makes the pronounced spatial and social segregation in such a small town all the more astonishing. And, compared to Italian towns of those days, which were very often divided into separate neighbourhoods each dominated by a powerful family of the town's ruling class, the social

168 See pp. 123–282 in MEINHARDT / RANFT (eds.) 2005.

169 Cf. IGEL 2002; 2005; 2006; 2007; 2008; 2010.

networks of Hanseatic leading families were not only based on social nearness but also on spatial vicinity within the town.

The fact that both elements – social proximity and spatial vicinity – were often combined in the social networks of Hansards, can be explained by the case of those merchants from Lübeck who travelled to or traded with Bergen. The ‘oldest men’ (*Ältermänner*) in this merchants’ company, who stood in the centre of a sustained social network, usually also occupied a leading political role in the city of Lübeck, and they and their descendants lived for a very long time – well into the nineteenth century – near to each other in only a few streets in the inner city of Lübeck.¹⁷⁰ A more in-depth investigation of this social network made up of merchants who traded in the same area was undertaken by Mike BURKHARDT, and uses graphical and mathematical techniques of social network analysis. This analysis reveals a strong coherence of social proximity, kinship bonds and commercial cooperation around a core of a few families for the fourteenth and fifteenth centuries, and also reveals a visible change towards a less kinship-based trade pattern during the late fifteenth century.¹⁷¹

Social Networks of Hansards as a ‘Small World’

As already seen in Chapter 2 with the case of the *Veckinchusen* family and its commercial relationships within the extended family, and again in the present chapter with the example of the merchants’ triad consisting of *Gerd von Borcken*, *Johann van dem Springe* and *Hans Swaneke*, it’s obvious that Hanseatic merchants intensively used their personal networks for commercial purposes. Of course, it goes without saying that the Hanse itself, being the aggregate of all these personal networks, was a large social network. However, this observation is of little validity, theoretically as well as empirically. In theoretical terms, every human society can be described as a social network, because there are always various informal social ties between members, but this is a rather weak argument. Empirically, social network characteristics would have to be specified more precisely, in order to turn the weak argument into a valid statement. So, one of the main features of

170 Cf. ASMUSSEN 2002.

171 Cf. BURKHARDT 2009; 2012.

the Hanse's social networks was their high degree of segregation into many subgroups, which nonetheless still could have been linked to each other quite easily. Thus, Hanseatic trade networks as a whole appear to have been a so-called 'small world'¹⁷², as they allowed each merchant to contact any other network member through only a few mediating persons, despite having a weak overall density and despite having been fragmented into many separate subgroups. In theory at least, this 'small world' of the Hanse consisted of multiple interrelated layers, those primarily based on economic exchange, for instance, and those based on either kinship bonds, common membership, social proximity or simply on spatial vicinity. Kinship networks evolved through eastbound migration, whereas friendship networks developed from a common economic interest. However, making use of kinship bonds, social ties and political connections for business was not a practice unique only to Hanseatic merchants; other groups of medieval and early-modern traders also relied on social networks.¹⁷³ Networking alone certainly was not the very principle of conducting business among Hansards. Nevertheless, this 'small world' fulfilled a very practical and sustaining function for their network trade system. The 'small world' was not only determined by the all too common overlap of family and business but was also shaped to a large extent by the manifold social institutions that were created such as societies, associations or fraternities, and by political institutions such as the town councils, all of which recurrently provided opportunities for merchants to get in contact with each other, to exchange business information or information on other merchants' reputations, or to intensify existing social ties and to cultivate friendships. This was necessary for the functionality of the business network organisation, proving both the social embeddedness of the network trade system and the strength of weak ties, as Mark GRANOVETTER has put it.¹⁷⁴

This is, however, a qualitative statement, mainly because a firm quantitative analysis of the multiple layers of Hanseatic social networks seems

172 Cf. WATTS 1999, pp. 495–498; SELZER / EWERT 2001, p. 147.

173 See e.g. ROLLEY 1995; DAHL 1998; MARKOVITS 2000; SCHULTE BEERBÜHL / VÖGELE (eds.) 2004; BAGHDIA NTZ MCCABE / HARLAFTIS / PEPELISIS MINO-GLOU (eds.) 2005.

174 Cf. GRANOVETTER 1973; 1985.

almost impossible to carry out, given the scattered and all too often incomplete network data that is provided by the surviving sources. Interurban connections of family members, wills, membership in societies and the social topography of Hanse towns are promising points of departure for reconstructing social networks, but certainly these sources do not show the full picture of the complex economic, social and political interrelatedness of Hansards. Even though some vigorous attempts have been made to apply the sophisticated quantitative and graphical techniques of social network analysis to various networks of Hansards – the above-cited study of Mike BURKHARDT is one such example –, it becomes obvious that the number and quality of sources in general do not allow for a proper assessment of all the existing layers or the full spectrum of a social network. However, the sociological concept of network analysis helps to identify clusters of persons and different types of relationships, and this makes the concept extremely valuable in supporting the qualitative conclusions on the structure and function of the Hanse's 'small world' that are drawn from a historical case analysis.

Chapter 4

Bridging Distances and Filling Gaps – Strategies to Handle Heterogeneous Commercial Environments

The merchants of the Hanse traded in heterogeneous mercantile environments. So far in this book, we have advocated a New Institutional Economics' perspective on the medieval Hanse and we looked in particular at the specific institutions that helped Hanseatic merchants to organise their commercial exchange without really taking into account the respective context in which they traded their goods.¹⁷⁵ Our aim with the present chapter is to slightly shift the common scope of analysis away from an in-depth look at the context of commercial activities in a particular mercantile city, to a focus on the late medieval Hanseatic merchants as a group, who in fact had to cope with several of such contexts, which even differed vastly from one another.

Extension of European Trade to the Baltic Sea – Merchants and Cities

Trade in North Europe from the thirteenth to the fifteenth century, and even partly in the sixteenth century, was dominated by the merchants of the Hanse.¹⁷⁶ With their trade they geographically covered the wide area spanning between London and Bruges in the West, Bergen in the North and Novgorod in the far Northeast, a total area with an approximate diameter of 3,500 km between its western and eastern poles.¹⁷⁷ Hanseatic merchants functioned as commercial mediators by transporting furs, wax, timber and grains from the East to the West, cloth and luxury goods from the West to the North and to the East, and dried cod and herring from the

175 See on that especially the Chapters 2 and 3 above. Cf. also SELZER / EWERT 2001; 2005; 2010; EWERT / SELZER 2007; 2010.

176 Cf. DOLLINGER ⁴1989; HAMMEL-KIESOW 2000.

177 Cf. SEIBT / BORSODORF / GRÜTTER (eds.) 1997.

North to the West and to the South.¹⁷⁸ The rise of Hanseatic long-distance trade was stimulated by various factors:¹⁷⁹ in the twelfth and thirteenth centuries migrants from Lower Germany settled in the coastal areas of the South and East Baltic, transferring their urban culture north- and eastwards, which had already been developed to a fairly high degree.¹⁸⁰ This in turn stimulated a rapid population growth along the coastlines of the Baltic Sea.¹⁸¹ Furthermore, the sustained population growth in Northwest Europe generated a huge demand for products originating from the North and the Northeast of Europe in western markets. Moreover, merchants from Lower Germany obtained trade privileges in London, Bruges, Bergen and Novgorod, which enabled them to link the distinct centres of production and consumption in the Northwest and the Northeast via the Baltic Sea. From these times onwards, the Baltic became a part of the (then) much more expanded trade system in Northwest Europe.¹⁸²

Cities and towns played an important role within this trade system because they were of course the very centres of commerce. It was in Bruges, London, Bergen and Novgorod where the German Hanse possessed commercial outlets, the so-called *Kontore*.¹⁸³ Hanseatic trade centres were located there because of the liberties of the Hanse, and because these places also offered opportunities to make contact with other trade systems and with merchants of other geographic origins. Besides this, the big Hanse cities of Cologne, Lübeck, Hamburg and Danzig / Gdańsk and many other smaller towns served as a base for merchant families from which they could operate their businesses.¹⁸⁴ In the Hanseatic period some of these cities, like Lübeck for instance, saw an unprecedented economic take-off that was only seen again during the nineteenth century era of industrialisation.¹⁸⁵ Moreover, Hanseatic cities and towns were not only needed as points of exchange to maintain the chain-like trade of goods along the west-eastern line stretch-

178 Cf. PARAVICINI 1992, p. 99; JAHNKE 2000.

179 Cf. HAMMEL-KIESOW 2000, pp. 21–26.

180 Cf. FRITZE 1986.

181 Cf. BORGOLTE 2002, p. 236.

182 Cf. MAĆZAK / SAMSONOWICZ 1965.

183 Cf. BRACKER 1989, pp. 143–176.

184 Cf. BRACKER 1989, pp. 177–300.

185 Cf. RANFT 1995.

ing from Bruges and London via Lübeck and Hamburg to Novgorod¹⁸⁶, they were also pivotal elements in coupling this long-distance trade with the regional and local systems of distribution.

Although Hanseatic merchants and their enterprises were present everywhere in the Baltic Sea and the North Sea, and although they were able to dominate the trade there to a certain extent, the regions they covered commercially with this trade were far from homogeneous.¹⁸⁷ In the following sections we will analyse two aspects of the heterogeneity that this trade was exposed to. Firstly, we shall distinguish several dimensions of the diversity and the variability the merchants in general were confronted with. From which sources did heterogeneity stem inside the Hanseatic system of trade? And in which respects did particular commercial settings differ? Secondly, we will attempt to explain how the merchants were able to cope with the immense degree of heterogeneity they usually had to handle. Which strategies did they choose to balance the differing commercial environments in which they were active? What sorts of institutions emerged in order to consolidate the merchants' commercial activities?

Unequal Hanseatic Commercial Settings – Sources of Heterogeneity

When talking about variability and diversity as important contextual factors which affected the trading operations of Hanseatic merchants, several sources of this heterogeneity have to be distinguished that in general caused the environmental conditions for traders to differ, and even changed these conditions over time. Geographic diversity in consumer preferences as well as in the availability of resources and in production is commonly considered as the driving force of inter-regional trade. By arbitrage between markets, opportunities are created for merchants to pocket profits from trade. Paradoxically enough, dissimilarities of several mercantile environments can nevertheless turn into a hindrance to trade because of the transaction costs arising from diversity. One such example within the trade system of the Hanse was the huge dissimilarity of the mercantile environments the

186 Cf. HAMMEL-KIESOW 2000, p. 90.

187 Cf. MORAW 1987.

merchants were faced with at the Hanseatic outposts. Namely with Bruges on the one hand and Novgorod on the other, differences in mercantile settings were most pronounced. The massive gap that existed between the Northeast and the West in commercial as well as in cultural matters, a gap that was visible in the marked differences between the westernmost and the easternmost trading posts, was probably the most important reason for diversity inside the Hanse. However, the merchants' way of handling a variety of goods on the individual level as well as the embeddedness of their commercial exchange in the multiple organisational levels of the Hanse also contributed to the ever-present heterogeneity.

The Dissimilarity of Mercantile Environments

Given the vast spatial extent of the Hanse's catchment area in the late Middle Ages, it presumably comes as no surprise that within this particular area various commercial environments existed. As a result, Hanseatic merchants made contact with very different mercantile habits on a regular basis. Cultural and economic differences between the western and north-eastern regions were tremendous indeed, although it was this divergence which for Hanseatic merchants had initially opened up opportunities to link these distinct environments through trade.¹⁸⁸ The gradual diversity of trade institutions in many Hanse towns and in the *Kontore* of London and Bergen notwithstanding, this enormous contrast could possibly be best illustrated by comparing the commercial settings which obviously differed the most – the market organisation at the western pole of the Hanseatic realm in Bruges and that in Novgorod at its north-eastern pole. These two cities where Hanseatic merchants shared trade privileges which they had obtained in the twelfth and thirteenth centuries and where they had established, like in London (and later on in Bergen), the guild-like organisation of a *Kontor*, seem at first glance to be fairly equal in terms of their size, location and commercial function. Both cities could only be reached by the maritime long-distance trade via rivers, an element that was in general quite typical of Hanseatic trading places, and obviously both cities were very important commercial centres within their respective regions. Although Bruges was

188 Cf. HAMMEL-KIESOW 2000, p. 22 f.

a lot bigger than Novgorod – the former had an estimated population of between 40,000 and 45,000 inhabitants by the middle of the fourteenth century and the latter had approximately 30,000 inhabitants around the year 1400 –, this difference in size was certainly not the decisive reason for the cities' overall differences.¹⁸⁹ These differences can be better illustrated by the unequal degree of urbanisation. Whereas Bruges was located in the densely populated and highly urbanised region of Flanders and was therefore embedded in a very close network of cities and towns¹⁹⁰, Novgorod was virtually the only city in a fully rural region, and its sparsely populated hinterland stretched up to the Ural. To further highlight the extreme differences that existed between Bruges and Novgorod, the two cities can be compared with respect to the specific characteristics of how trade was handled there – the organisational design chosen for the *Kontor*, the trading practice on the local market and the financial and institutional framework for commercial exchanges on that particular market.

From the late thirteenth century onwards, Hanseatic merchants usually no longer accompanied their goods to overseas market places. Instead they had established an office (*scrivecammere*) in their home town and in general operated their business from there. Commodities were shipped to distant market places by shipping agencies and could be sold there with the help of relatives or friends.¹⁹¹ This sustained change in business style to promote an overall growth in trade developed very much in parallel to developments elsewhere in Europe, Italy or Flanders for instance.¹⁹² Nevertheless, the more old-fashioned type of caravan or convoy trade still remained in action within parts of the catchment area of the Hanse. For their trade in Novgorod, Hansards still had to travel there via the Baltic Sea, carrying their goods along with them. Although the Hanse established a *Kontor* in Novgorod with the *St. Petershof*, a location which was used for trade and as a traders' residence, the permanent settlement of merchants there was strictly forbidden. In addition, the merchants were only allowed to go to Novgorod once a year, which meant that they had to choose to travel there

189 Cf. FRIEDLAND (ed.) 1990; ANGERMANN / FRIEDLAND (eds.) 2002.

190 Cf. STABEL 1997.

191 Cf. RÖRIG 1929; HAMMEL-KIESOW 2000, p. 53.

192 Cf. LOPEZ 1971.

for either the summer or the winter. All these regulations were established in the so-called *Schra*, the written ordinances of the *St. Petershof*, and they remained effective until this *Kontor* was temporarily closed in 1494.¹⁹³

As a consequence, the *St. Petershof* was predominantly frequented during the two trading seasons of either summer or winter, and opportunities for merchants to assimilate or eventually to integrate into the Russian host society were severely undermined and virtually non-existent.¹⁹⁴ In principle, the *Kontore* in Bergen (*Brygge*) and in London (*Stablfhof*) were organised similarly to the *St. Petershof*, but regulations there were nowhere near as strict as they were in Novgorod.¹⁹⁵ In Bergen and London the Hanseatic merchants possessed a well-defined location where they were requested to live and to operate while staying in the town, but in both cities merchants were not required to handle their trade personally, and the trade in London at least was not really a seasonal business. To some extent, seasonalities in trade always arose from the fact that shipping was closed during the winter months, which of course meant that travelling to and from London or Bergen was not possible within this particular period of the year. Nevertheless, merchants could send goods to their partners in London and Bergen or visit these cities as many times as they wanted during the rest of the year when the sea ways were open.¹⁹⁶

In contrast to Novgorod, mercantile organisation was completely different in Bruges.¹⁹⁷ In the Flemish city, the Hanse ran a *Kontor* as well, but while the term *Kontor* described a well-defined trading outlet for London, for Bergen and especially for Novgorod, in Bruges it was more or less only a label for the group of Hanseatic merchants who operated on the Bruges market. Hanseatic merchants organised themselves as a group, with their own regulations and their own jurisdiction, and of course each merchant belonging to this group had to respect these rules. However, the presence of merchants was permitted throughout the whole year and for as long as desired, and neither residence nor trade of Hanseatic merchants were bound

193 Cf. SCHLÜTER 1911; HAMMEL-KIESOW 2000, p. 103 f.

194 Cf. ANGERMANN / FRIEDLAND (eds.) 2002.

195 Cf. BRACKER 1989, pp. 149–159; pp. 165–171.

196 Cf. HAMMEL-KIESOW 2000.

197 Cf. MURRAY 2000; 2005; STABEL 2001; GREVE 2011.

to a fixed location in the city.¹⁹⁸ Instead, as did traders of other origins, Hanseatic merchants lived all around the city in hostellers' houses. These hostellers helped to mediate the commercial exchange between Hanseatic merchants and foreign traders, and they were to some extent also responsible for the behaviour of their Hanseatic guests, including a possible standing surety for their guests' debts.¹⁹⁹ Thus, Hanseatic merchants very often stayed in Bruges for many years before returning home.²⁰⁰ There is a great deal of evidence to suggest that some of them even owned houses in the city. Countless donations from Hanseatic merchants to hospitals, parish churches and monasteries in Bruges show how deeply they had integrated into the host society.²⁰¹ A very good example of this behaviour is that of a group of Prussian merchants originating from the cities of Danzig / Gdańsk, Elbing / Elbląg, Königsberg / Kaliningrad and Thorn / Toruń – *Radeke Vrowendorp, Johann vom Howe, Albrecht Keyser, Heinrich Schonhals, Jacob von der Kemenate, Johann von der Winde, Heinrich Hoet, Tidemann Rebber, Heinrich Simon*. During the second half of the fourteenth century each of them had stayed in Bruges for many years on a permanent basis, and their presence there and their integration into the economic life of the city can be proved by entries in the Bruges tax list and by entries in the account books of exchange agents from Bruges. The members of this group of merchants obviously took over key functions as representatives of the *Kontor* in Bruges, and they acted as financial agents for other Hanseatic merchants from Prussia as well.²⁰²

For a comparison of the trading practices and commercial habits that can be traced on the markets in Bruges and Novgorod, one also has to consider the differences in market structure between these two extremes. Commodities to trade, productivity and the degree of market integration were obviously extremely different to their counterparts at the western and north-eastern borders of the Hanse's realm. The goods mainly bought by Hanseatic merchants in Novgorod were furs and wax. A fur was a non-

198 Cf. FRIEDLAND (ed.) 1990; JÖRN / PARAVICINI / WERNICKE (eds.) 2000.

199 Cf. STARK 2000; GREVE 2001; 2002; 2011.

200 Cf. SELZER 2003a.

201 Cf. RÖSSNER 2001.

202 Cf. DIERCK / RÖSSNER (eds.) 1999.

standardised product of course, so that merchants had to spend time and money for both product assessment and quality control.²⁰³ The market supply came from many small producers, because Hanseatic merchants were not allowed to operate outside the *St. Petershof*, and therefore they were not able to organise a market supply that could be handled by them more efficiently. Business was conducted in person with the Russian sellers of goods, usually with the assistance of an interpreter and that of a second Hanseatic merchant, with the latter having to witness the trade. Moreover, the purchasing volume of a single merchant was regulated to a certain maximum. In contrast, Hanseatic merchants in Bruges purchased goods such as cloth that in general were highly standardised products with a producer-guaranteed quality. Due to their market power they were also able to more or less take over the cloth production in some smaller Flemish towns, which then exclusively produced for the Hanse.²⁰⁴ Purchase on the Bruges market was often executed via local brokers, which guaranteed a high degree of legal certainty. Regulations of the Hanse's *Kontor* regarding the volume of goods purchased or sold by Hanseatic merchants cannot be found. Similar to merchants of other geographic origins, Hanseatic merchants could very much profit from the commercial infrastructure that was provided on the late medieval 'world market' of Bruges and from the high degree of integration this market already had reached.²⁰⁵

The markets in Bruges and Novgorod are also very good examples of how differently the financial institutions that framed commercial exchange were developed in the late Middle Ages. More or less as a corollary of the Hanseatic convoy trade to the *St. Petershof*, financial institutions at the Novgorod market remained severely underdeveloped way into the fifteenth century. Commercial exchange with the Russians usually was done in a barter trade or by paying for the Russian furs and wax in silver which had to be brought overseas to Novgorod by the Hanseatic merchants themselves. This silver, reaching the Novgorod market on a regular basis, also affected the local economic structure as it was used as a raw material for the silver craft that had been established in the city of Novgorod.

203 See on the fur-trade DELORT 1978.

204 Cf. HOLBACH 1994.

205 Cf. VERMEERSCH (ed.) 1992; STABEL 2001; MURRAY 2005.

As there was no possibility to buy on credit and given that banks were virtually unknown in this part of the Hanse's commercial world, the almost complete lack of financial institutions fully developed by the standards of the time is crystal clear. These standards were set at the western border in Flanders, namely in Bruges. There, the Hanseatic merchants commonly traded on credit for either their purchases or sales. Usually, they stuck to cash purchases and cash payments in case a cash discount was granted to them. Moreover, the Hanseatic merchants kept an account with brokers, exchange agents or merchant bankers, and payments of commercial exchanges in general could be executed via these financial mediators. Thus, via the Bruges market, Hanseatic trade was not only financially integrated, to a certain extent at least, into the late medieval European financial system, but the financial techniques that were in use in Bruges could also be adopted by Hanseatic merchants for their internal businesses in the western parts of their trade system. Cashless monetary transactions became the standard for their commercial exchanges between Bruges and Cologne, and these techniques could be easily used for transactions between Lübeck and Bruges as well.²⁰⁶

Putting together these pieces of evidence, one can conclude that the area covered by Hanseatic trade in economic terms was extremely heterogeneous indeed. Regulations exercised by the *Kontore* to constrain the merchants' personal freedom were much more relaxed in the West. The reverse is also true; the extent to which the markets' economic and financial institutions were developed decreased significantly the further northeast the markets were located.

Handling a Variety of Goods

In most cases, Hanseatic commercial businesses were self-employed merchants or small-scale firms with a small number of employees.²⁰⁷ An important feature of these enterprises was that they usually did not specialise in trading particular products or goods. In contrast, Hanseatic merchants typically traded with a variety of commodities. The persistence of this lack

206 Cf. SPRANDEL 1975; JENKS 1982; NORTH 1999.

207 Cf. CORDES 1998.

of specialisation can be seen as late as the middle of the sixteenth century: the merchants *Bertram Bene* from Oslo and *Bernt Kron* from Rostock, who were involved in a long-term reciprocal commercial relationship, mutually exchanged almost 30 different types of goods.²⁰⁸ Of course, since a specific knowledge of product quality and market conditions was necessary for trading goods, one can easily imagine that handling such a big number of products must have been far from an easy and straightforward task for the merchants. Knowledge of the trade of different goods such as furs, hats, belts, horses, apples, salmon or beer, as it was the case with *Bertram Bene* and *Bernt Kron* for example, had to be acquired by the merchants. They also had to keep their know-how up-to-date in order to remain competitive in the various markets at which they operated. Thus, at the individual level of the Hanseatic trade system, variability due to non-specialisation surely added to the degree of overall heterogeneity that already resulted from the existence of multiple and differing mercantile environments.

Bridging and Filling the Gap – Strategies to Balance the Effects of Heterogeneity

Heterogeneity in general has both positive and negative economic impacts on trade. On the one hand it creates opportunities for profit, which attract those merchants who are able to link distinct mercantile environments, and in turn further stimulates economic development. On the other hand, heterogeneity definitely increases the cost of transaction in terms of information and agency costs, since it would obviously be much easier for all parties involved to trade in a homogeneous environment. Hanseatic merchants had to deal with vastly different mercantile environments and multiple organisational levels, and therefore had to find ways to balance the possible impacts of this heterogeneity on their economic enterprises. However, it was not only a question of deploying sophisticated strategies in order to cope with such differences and to overcome the huge dissimilarities in economic development that existed inside the Hanse between the West and the Northeast. First of all, Hanseatic merchants had to bridge the vast geographic distances in the Baltic. Hanseatic trade was mainly seaborne,

208 Cf. THIERFELDER 1958, pp. 194–207; SELZER / EWERT 2001.

and after the merchants in the western areas had substituted a settled and office-based system of trade for the older form of active convoy trade, in the Northeast, especially in Novgorod, this older practice remained the dominant form of trade which meant that merchants still had to accompany their goods to market.²⁰⁹ For other destinations difficulties were not automatically eliminated with the transition to a settled and office-based system. Although the merchants in general no longer accompanied their goods to market, it was still necessary for them to transmit information between home town offices and overseas market places where commodities were purchased or sold. Given that in the fifteenth century a letter between Lübeck and Bruges took around 20 days to be transferred²¹⁰, one can imagine that apart from being confronted with heterogeneous mercantile environments, doing business with only little information at hand, was a rather demanding task, especially when one considers that the information was probably already outdated at the time of receipt.

Hence, this section discusses four strategies that presumably helped Hanseatic merchants to overcome the problems arising from trade in a vast and heterogeneously structured environment with only little information available. In the discussion a particular emphasis is placed on whether these solutions were self-enforcing or whether their enforcement necessitated formal institutions that would then need to be created. Following the institutional economics' approach to the history of trade and economic growth, the design of enforcement mechanisms plays a key role in whether economic development is either promoted or undermined. Institutions which unfold their effects in a self-enforcing manner usually reduce transaction costs more so than a third-party enforcement would. Self-enforcing institutions are also often viable solutions to problems of commitment, because incentives are structured in such a way that all parties concerned have a keen interest in keeping such an institutional arrangement.²¹¹

209 Cf. BRACKER 1989, pp. 564–566.

210 Cf. SAMSONOWICZ 1999; see also LINDEMANN 1978 and von SEGGERN 2001.

211 Cf. NORTH 1981; 1991; 1993; GREIF 1992; 1993; 2000.

Hedging Against the Risks of Transportation

Although in the Middle Ages maritime trade was not that much faster than overland transportation, it was usually fairly unpredictable due to weather conditions and the threat of piracy, and therefore involved a lot of risk. For their trade in the Mediterranean, Venetian and Genoese merchants developed contractual forms like the *commenda* or the *collegantia* which not only clearly regulated the responsibilities for such an enterprise and the costs of risk, but also made it more likely for merchants to find risk capital for potential commercial enterprises.²¹² A similar problem was solved by Hanseatic merchants in a more informal and non-contractual manner. In the old-style caravan or convoy trade, goods were protected against risky events to some extent by the organisational pattern of the caravan or convoy itself. Seeking this sort of protection was presumably the main reason why in the past merchants in early trade all over the world and across all civilizations chose such a caravan trade organisation. Once caravan and convoy trade in many Hanseatic regions had been replaced by an office-based form of trade, Hanseatic merchants, in contrast to their Italian contemporaries, seemingly neither developed a formal sea insurance nor adopted the widespread use of formal contracts regulating the distribution of risk between trading partners.²¹³ As seen above, Hansards also used a contractual type known as the *wedderleginge* or *kumpanie* and very much resembled the Mediterranean *commenda*, by which capital could be accumulated for a specific endeavour. Both parties in such a contract added their financial resources, but only one of them operated the trade whereas profits were shared between both parties. Nevertheless, this contractual scheme was only of minor importance for Hanseatic trade. Instead, merchants attempted to counteract the risk of transportation by using a more basic form of risk diversification. Usually, Hanseatic merchants tried to ship the commodities in a trade sample on several ships, and in the event they were also ship owners, they usually did not concentrate their investment on only one ship.²¹⁴ As with such solutions it was not possible for merchants to get successfully accepted their

212 Cf. LOPEZ 1971.

213 Cf. EBEL 1957; CORDES 1998; HAMMEL-KIESOW 2000.

214 Cf. WOLF 1986.

property rights by own measures in the event these rights had been violated by others, individual strategies of hedging against risk had to be sustained by general Hanseatic formal regulations regarding liability for the loss and the damage of commodities while being shipped.²¹⁵

Creating Formal Institutions

Undoubtedly, Hanseatic merchants were entrepreneurs, who in seeking profits from their trade definitely followed an economic rationale. As citizens of their respective home towns, they had also to respect their home town's economic interests, trade regulations and juridical practices while carrying out their trade, at least to a certain extent.²¹⁶ More importantly, contemporary foreign merchants recognised their Hanseatic competitors as belonging to a group sharing trade privileges at certain markets they themselves would have liked to share. These economic privileges, together with the backing of Hanse towns, were the basis on which Hanseatic merchants built their system of long-distance trade within the Baltics.²¹⁷ They nevertheless needed a set of formal institutions to do this.

First of all, the *Kontore* of the German Hanse have to be considered in this context. These *Kontore* were founded in the cities of Bruges, London, Bergen and Novgorod where Hanseatic merchants shared economic privileges and certain liberties to their own economic benefit. As the outposts of the Hanse, the fairly formally defined institution of the *Kontore* regulated the merchants' local trading comportment in order to enforce the privileges against local rulers and in order to coordinate merchants' activities.²¹⁸ Given that these markets were vital to the Hanse's system of trade as a whole, inasmuch as they formed the commercial interface between this trade system and other systems of trade, Hanseatic merchant families had a keen interest in maintaining personal contact to their compatriots operating there.²¹⁹ By the middle of the fourteenth century, a second Hanseatic formal institution had emerged with the constitution of the Hanseatic League as an

215 Cf. JAHNKE / GRASSMANN (eds.) 2003.

216 Cf. AFFLERBACH 1993.

217 Cf. von BRANDT 1963.

218 Cf. GREIF / MILGROM / WEINGAST 1994; Streb 2004.

219 Cf. SPRANDEL 1984, p. 29.

alliance of many Hanse towns.²²⁰ The Hanseatic League never really served a headquarters' function for Hanseatic trade, but it can be seen as a sort of a political superstructure of the Hanse and it was a necessary device, in theory at least, to coordinate the economic and political interests of the Hanse's towns and cities.

For Hanseatic merchants, both the *Kontore* and the Hanseatic League did not work as self-enforcing institutions just because they were based on formal regulations and because participation within these institutions was regulated by exactly these formal rules; quite the reverse, in fact. These two institutions based to a large degree on formal definitions and were needed to enforce other regulations inside the Hanseatic system of trade such as those on the liability for losses and damages in sea transportation or those on the quality control of products. Interestingly enough, it was this rather formal part of the Hanse that had the largest and most lasting impact on historiography, making generations of historians believe that the Hanse was kind of a huge trading trust or a mercantile empire, an image of the Hanse which is categorically false.²²¹

Networking and Reciprocal Trade

To cope with their heterogeneously structured commercial environment, Hanseatic merchants found a rather different way to confront the considerable degree of variability and unpredictability of circumstances, as has been shown above in Chapter 2 in much more detail. They formed trade networks of different sizes, varying densities and endurance²²², creating an exchange structure in which the parties involved often were related to each other through kinship or were attached to each other through friendship relations.²²³ And, as was explained in greater detail in a previous section on the overlap of business and family among Hansards, the medium- or long-term cooperation on the basis of informal and implicitly defined contracts

220 Cf. WERNICKE 1983; HENN 1984; PITZ 2001.

221 Also SCHELLERS (2003) emphasises the character of the Hanseatic League as having been an alliance of cities with primarily political purposes. This point will be discussed in more detail in the subsequent chapter of this book.

222 Cf. SELZER / EWERT 2001; 2005, 2010; EWERT / SELZER 2007; 2010.

223 Cf. SPRANDEL 1984; STARK 1993.

that were inherent to this system enabled merchants to not only assure themselves against the classic problems that typically evolved in agency relationships, but to also keep their transaction, information and organisation costs low. Shared common values facilitated mutual cooperation. By reciprocal exchange of goods, mutual trust between partners could be built over the course of time allowing the merchants to entrust the collection and processing of information relevant to sales' operations on foreign markets to their respective partner. Trust, reputation and shared common values, communicated through the various sociability institutions of the Hanse²²⁴ and then distributed across the whole network²²⁵, could compensate for a lack of hierarchy in terms of coordination.²²⁶ The multilateral reputation mechanism enforced fairness amongst Hansards²²⁷, in the long run at least. This system of reciprocal trade was able to solve the problems of free-riding and of controlling agents without the need for speedy communication lines and powerful enforcement institutions. It was a viable and self-enforcing mode of commercial exchange inside the Hanse that kept transaction, information and coordination costs at a fairly low level and, compared to other possible solutions, made them more or less negligible.

The networking strategy probably was of the most valuable economic benefit to Hanseatic merchants in terms of the high degree of flexibility it offered them while at the same causing only moderate costs. Due to the reciprocal pattern of cooperation, employing mutual partners as commercial agents, with their implication of each partner's expertise on the type of goods traded on their home market, Hanseatic merchants could afford to not specialise in particular commodities. It was the fairly lean governance structure of these reciprocal exchange relationships that enabled Hanseatic merchants to operate on the poorly developed market in Novgorod as well as on the highly integrated market in Bruges. And it was because of the relatively small size of their enterprises and their embeddedness in trade

224 See e.g. DÜNNEBEIL 1996; SELZER 1996.

225 Cf. SELZER 2003b, pp. 84 and 96–97.

226 See in general on this POWELL 1990; GALASKIEWICZ 1996; STABER 2000.

227 Cf. SELZER 2003b, and for the more general function of the multilateral reputation mechanism within the interaction of Hanseatic merchants with foreign rulers GREIF / MILGROM / WEINGAST 1994 and STREB 2004.

networks that they could, in principal, engage in the Novgorod barter trade, but could also be involved in the commercial exchange at the Bruges market with its practice of complicated cashless financial transactions. The network always offered opportunities to establish commercial contacts in the distinct mercantile environments inside the Hanse. A fairly instructive example of the coexistence of different business styles is the activities of *Hildebrand Veckinchusen* who, at the beginning of the fifteenth century, was located in Bruges and traded from there intensively on the basis of reciprocal relationships with his brothers, cousins, father-in-law, nephews and some of his friends in Lübeck, Danzig / Gdańsk, Riga, Reval / Tallinn and Dorpat / Tartu.²²⁸ Besides this, he was also part of a fairly formal society through which he operated his trade with Cologne.²²⁹ Finally, the network pattern of trade caused all Hanseatic merchants to profit from the supply of goods at the markets of Bruges, London, Bergen and Novgorod, since the commodities traded on these markets could be easily accessed by almost every one via relatives or friends living and trading there. In turn, it were precisely these relatively stable kinship- and friendship-based relationships with commercial partners at distant locations in the Hanseatic trade area as well as at the *Kontore* in Bruges, London and Bergen that allowed Hanseatic merchants to handle their commercial exchange in an environment which was well-defined, even in times when the trade policies or regulations of the Hanseatic League might have interfered in that trade.²³⁰

Standardisation and Homogenisation of Commercial Institutions and Culture

The Hanse and their merchants were essentially aware that differences in the markets' infrastructure, economic and financial institutions were quite inefficient and costly features of their trade system. As seen above, networking kept the transaction costs of commercial exchange at a level low enough to make trade quite attractive to the merchants, even though they had to operate in distinct commercial environments. However, a significant reduc-

228 Cf. IRSIGLER 1985; STARK 1993; CORDES 1998; GREVE 2002.

229 Cf. SCHWEICHEL 2001.

230 Cf. SPRANDEL 1984, p. 31 f.

tion of the heterogeneity stemming from these heterogeneous settings would certainly have helped to lower transaction costs even more. Apart from closing this system for non-Hanseatic competitors to maintain monopoly rents, it was a fairly rational strategy to standardise and harmonise the various mercantile environments in order to reduce the degree of heterogeneity inside the Hanse and the amount of transaction costs for traders.

Several developments can be identified that contributed to a reduction of heterogeneity in commercial environments. First of all, the town laws of Magdeburg and of Lübeck had become the dominant town law in the Baltics. Over time, this initially unintended harmonisation of law proved to be extremely beneficial for commercial exchange. Although originating from many different Hanse towns or cities, most of the merchants of the Hanse therefore acted on the grounds of a commonly known and practised law.²³¹ However, also deliberate attempts of harmonisation were made by the Hanse to create a more homogeneous commercial setting for merchants.²³² For example, the Hanse standardised weights and measures for many of the commodities its merchants were dealing with.²³³ Concerning the privileges of the Hanse in both Flanders and Novgorod measures to implement a quality control of commodities were also taken. For instance, the wax bought from the Russian producers in Novgorod had to be sealed, either in Novgorod before it was bought by a Hanseatic merchant, or in the particular Hanse town or city where it was sold to another merchant. Any breach of this rule was regulated with a fine.²³⁴ Interestingly enough, a similar regulation for Novgorod furs was not set. Nevertheless, the Hanse already possessed quite systematic and widely applied regulations of weights and measures and a system of quality control by which transaction costs were reduced in a way that facilitated the search for specific products and made passing them forward within the chain-like trade between Hanseatic merchants much easier.²³⁵

231 Cf. EBEL 1957.

232 Cf. JENKS 2005.

233 Cf. WITHÖFT 1976.

234 Cf. JENKS 2005, p. 38

235 Cf. JENKS 2005, p. 39; LINK / KAPFENBERGER 2005.

A further step along the path towards commercial settings that were more equal to each other was to also regulate the juridical practices concerning overseas transportation and other matters of commerce. This was primarily done to reduce transportation risks, to guarantee fair exchange and to enforce commercial contracts. Regulations in great detail can be found for those Hanseatic merchants that were operating in Flanders. These statutes encompassed various rules regarding the liability of merchants and that of their customers as well as regulations concerning the competence in the event of a lawsuit and also procedural questions. Strikingly similar rules can be found in the Hanseatic privileges for Novgorod.²³⁶ A sophisticated sea right was developed by which responsibilities and liabilities for damages and losses due to averages were regulated.²³⁷ To provide Hanseatic merchants with rather standardised juridical procedures regarding the risks related to shipping and to the commercial exchange with foreign producers, brokers and traders, was an approach of the Hanse that certainly helped to lower transaction costs, mainly through a reduction of the costs for contracting and for contract enforcement. In contrast to the networking strategy, the part of the Hanse's institutional arrangement of trade that resulted from such standardisation and homogenisation was not self-enforcing at all. Town councils, the *Kontore* and later on also the regular diets of the Hanseatic League were needed as kind of 'third-party-institutions' to enforce these rules.

Finally, it should be noted that a kind of latent harmonisation also emerged, which was more or less a by-product of the Hanseatic merchants' commercial activities all over the Baltic. This nevertheless turned out to be of great value for their economic transactions. With shared values and common norms it was possible to create a more homogeneous mercantile setting. However, the homogenisation of cultural beliefs was certainly not a clear strategy that had been deliberately implemented, but as Hanseatic merchants were present all across the Baltic, it was rather an unintended but nonetheless natural – and in a way also helpful – development that over time cultural beliefs and practices became more and more equal to each other. Shared common values were probably very obvious inside the merchants'

236 Cf. JENKS 2005, p. 39 f.

237 Cf. JAHNKE / GRASSMANN (eds.) 2003.

families and were therefore spread out across the areas of Hanseatic trade with family members settling at market places that were distant to their family's home town. These values naturally materialised in festivities and marriage patterns and in having a good command of the Lower German language²³⁸, and they were certainly enforced by the various institutions that enabled and facilitated sociability. For the networking strategy, the homogenisation of cultural beliefs proved to be of fundamental importance, because it was, as shown in an earlier chapter of this book, also a key element for the enforcement of fairness within trade cooperation via the above-described multilateral reputation mechanism.

Success and Failure of Hanseatic Strategies to Cope with Heterogeneity

To sum up: late medieval Hanseatic merchants were confronted with a great deal of diversity concerning their trade. Their commercial activities covered a whole range of markets from highly integrated and very efficient markets with already quite sophisticated juridical and financial institutions in the West, to very inefficient and poorly developed markets lacking in developed institutions in the Northeast. Heterogeneity seems to have been an important determinant of this trade. Interestingly enough, it was this economic and cultural divergence within North Europe which had been one of the key factors that had previously allowed Hanseatic merchants to gain significant commercial advantages over former competitors. Because they were able to link these separate regions commercially, Hanseatic merchants could practically monopolise trade within this area. Within this economic framework that consisted of various mercantile environments showing tremendous differences, merchants handled a variety of goods and products, meaning that in daily work they had to acquire a vast array of product-specific knowledge or instead had to rely on someone else's expertise on these commodities.

The Hansards' response to this challenge of heterogeneity was also heterogeneous. A clear pattern of reactions can nonetheless be seen: firstly, as maritime trade was virtually the only viable way to bridge the huge

238 Cf. de BOER / GLEBA / HOLBACH (eds.) 2001.

distances in the Baltic and in the North Sea, merchants had to find a way to deal with the specific risk related to this kind of trade. There were attempts to minimise the transportation risks involved in maritime trade by both non-formal individual solutions and corporate formal ones. Secondly, the Hansards created formal institutions like the *Kontore* and later on the Hanseatic League, which were necessary to enforce certain regulations and to coordinate the economic activities of both individual merchants and of town and cities. Thirdly, the merchants participating in the internal Hanseatic trade also maintained a rather simple form of reciprocal and informal cooperation between partners at distant locations, which allowed them to operate in a rather cost-efficient manner. At the same time, this business style was flexible enough to be suited to either a very sophisticated level of market development, as in the case of Bruges, or to a rather poorly developed market, as in the case of Novgorod. Finally, over the course of time, the Hansards made more and more attempts at standardising and harmonising the different mercantile environments they were operating in. Both the standardisation of weights and measures and the harmonisation of juridical regulations and cultural beliefs helped to reduce transaction costs in Hanseatic trade. However, given the fact that the strategy of forming trade networks by which merchants remained flexible, created enormous benefits for merchants, this rather simple and seemingly old-fashioned business style can be considered a key element in balancing the effects of heterogeneity. Thus, it was by harmonising the context while still remaining flexible with regard to individual trade opportunities that enabled Hanseatic merchants to successfully bridge, and to a certain degree even fill the existing gaps between the various mercantile environments inside their realm.

Towards the end of the fifteenth century however, the commercial advantages the Hansards possessed in the Baltics were rapidly ceasing. This failure of the system as a whole seems to have been path-dependent²³⁹ insofar as it was precisely the networking strategy which had been employed success-

239 See on the theoretical concept of path dependence, a paradigm which has been discussed in economic theory for some time ARTHUR 1989; DAVID 1994; SYDOW / SCHREYÖGG / KOCH 2009. Its relevance for the history of the Hanse will be further elaborated in Chapter 6 of this volume.

fully at earlier stages in the history of the Hanse that had now turned into a severe hindrance to the sustained growth of their trade system.²⁴⁰

Focusing solely on either the context or the individual level of the Hanseatic trade system is certainly not the only explanation that can be given for the manifest degree of heterogeneity inside the Hanse. Besides the fact that the typical Hanseatic business was quite small in size and thus had to adapt itself to a given heterogeneous context, the Hanse's commercial exchange was embedded in several overlapping organisational layers. The likelihood of potential conflicts between the individual interests of single merchants and the collective interests of town communities and of the *Kontore* presumably increased even more following the formation of the Hanseatic League. Although only a rather loose association of towns and cities, the Hanseatic League (or at least the town delegates who were involved in the Hanseatic League's decision making) thoroughly developed their own economic and political scopes and very strictly attempted to get these interests accepted not only by foreign traders but also by the Hanseatic merchants themselves. Once designed to coordinate merchants' interests, to oversee trade and to provide the enforcement of privileges and trade regulations, it was this multiplicity of structure itself that put a further constraint on the activities of Hanseatic merchants.²⁴¹ As the economic and political scopes of the *Kontore* in Bruges, London, Bergen and Novgorod, and those of particular Hanse towns and the Hanseatic League were sometimes conflicting merchants became more often affected by the negative effects of this multiplicity of structure. This of course could create situations in which individual merchants came into conflict with higher order economic interests, for instance when becoming subject of the Hanse's typical ban on the formation of business partnerships with non-Hanseatic traders.²⁴² This seems to have been the case especially during trade embargoes. For instance, during the Hanseatic blockade of Flanders from 1358 to 1360, the traders of the town of Kampen tried to profit from circumstances by circumventing

240 Cf. SELZER / EWERT 2005; EWERT / SELZER 2007; 2010.

241 Cf. von BRANDT 1963.

242 Cf. SPRANDEL 1984, p. 32 f.

the ban on trade with Flanders.²⁴³ In a sense, with this superstructure of the Hanse a second-order problem of heterogeneity emerged.

Moreover, the merchants' potential to remain flexible at the cost of a still lacking development of the capital market structure within the inner reach of the Hanseatic trade system, meant that Hanseatic merchants, unlike their non-Hanseatic competitors, had almost no access to risk capital which would have been utterly needed for much bigger commercial endeavours than those typically undertaken in the internal Hanseatic trade.²⁴⁴ The Hanse's traditional policy of blocking opponents on the grounds of the privileges and liberties its merchants enjoyed in Bruges in the long term turned out to be a severe hindrance to keeping this beneficial economic position. This was because ultimately the Hanse failed to realise early enough that the economic importance of the Bruges market had been rapidly declining with the rise of the Antwerp market in the second half of the fifteenth century. And finally, harmonisation of course reduced transaction costs inside the Baltics for Hanseatic merchants and helped them to carry out their trade. Yet, the external effect of this harmonisation produced lower transaction costs for non-Hanseatic merchants, too. As a consequence, the commercial competitors of the Hanse were able to overrun the Hanseatic system of trade and intrude into the Hanse's commercial realm by the end of the fifteenth century, from then on posing a serious threat to the privileged commercial position held by the Hansards in the Baltic.

243 Cf. FRICCIUS 1932/33.

244 Cf. SCHONEWILLE 1998.

Chapter 5

State of Cities, Commercial Trust, or Virtual Organisation? – Structure and Coordination of the Hanse

The Paradoxical Outward Appearance of the Hanse

The Hanse is probably one of the most dazzling phenomena in the economic as well as in the political history of the Middle Ages. The mere economic facts are quite impressive. From the thirteenth to the early sixteenth centuries the Hansards, who were mostly, as we have seen in the chapters so far, self-employed merchants, could deliver all sorts of goods to the consumers in the ever growing cities all over the Baltic. Merchants also acted as a coordinated group and together defended – with great success – the Hanseatic trade privileges they had once obtained in London, Bruges, Bergen and Novgorod, the places where they founded trading outposts, known as the *Kontore* of the Hanse.²⁴⁵ Despite the fact that they neither formed large firms nor really adopted state-of-the-art trading techniques, both features that we have discussed at great length in the previous chapters of this book, the merchants were able to maintain their quasi-monopoly of trade on Baltic markets until the turn of the sixteenth century.

The Hanse's outward appearance has nevertheless been shaped until today by the Hanseatic League, a rather loose alliance of towns that became visible around the mid-fourteenth century as a more or less formal entity although there are good reasons to assume that it had emerged earlier. The Hanseatic League appears as a kind of omnipotent political superstructure of the Hanse, which in fact it never was. And the focus which historians placed on the Hanseatic League is one of the reasons why the Hanse was for a long time discussed in historiography and neighbouring disciplines as a predominantly political rather than an economic phenomenon. The publications of Nicolas ESCHACH and Jefferey M. SCHELLERS are newer

245 Cf. SELZER 2010, pp. 52–58.

examples of an analysis of the Hanseatic League with respect to its status as an alliance of cities with primarily political purposes.²⁴⁶ Yet, given this somewhat biased interpretation²⁴⁷, the Hanse seems to have been a state of cities and a huge mercantile empire at the same time, a sort of late medieval North European super trust.

Unfortunately, not much of this quite fascinating tale is true. It is particularly the organisational part of the story that raises questions instead of providing answers. This can be seen in some very well-known episodes from the late fifteenth and the early sixteenth century. While attempting to prolong the trade privileges of the Hanse in 1469, the representatives of the Hanseatic *Kontor* in Bruges prepared a list of the towns belonging to the Hanse, comprising 72 town names, but also noted that towns not actually included in the list could of course be members of the Hanse as well. In 1507, even the French king Louis XII wrote to the 72 cities of the Hanse, but this number of cities possessed more of a symbolic significance than a practical value.²⁴⁸

These episodes point to several aspects concerning the structure, function and meaning of the Hanse: first of all, as names of towns were recorded, the Hanse is certainly a very good example of late medieval trade being strongly connected with towns. This pattern is observed across Europe during the so-called ‘Commercial Revolution of the Middle Ages’.²⁴⁹ In Northwestern Europe, the model of the medieval European town as a permanent and legally protected market emerged during the eleventh and twelfth centuries and spread rather quickly in the Baltic region thereafter. In fact, the two foundations of Lübeck – one in 1143 by Count Adolf II of Holsatia, and again in 1158/9 by Duke Henry the Lion – can be considered a milestone in this process. Secondly, the merchants of the Hanse who dominated the commerce in Northern Europe during the thirteenth to fifteenth centuries acted primarily as members of their respective home

246 Cf. SCHELLERS 2003; ESCHACH 2010.

247 Cf. for an overview of the changing interpretations of the Hanse in the historiography of the nineteenth and twentieth centuries SELZER / EWERT 2005, pp. 8–18 and Chapter 1 in this volume. See on the Hanse in general HAMMEL-KIESOW 2000; DOLLINGER 2012; JAHNKE 2014.

248 Cf. DOLLINGER 2012, p. 109 f.

249 Cf. LOPEZ 1971.

towns and were clearly recognised as such. This notwithstanding, they also cooperated beyond the legal boundaries of their home towns. This cooperative and coordinated behaviour of Hanseatic merchants was presumably an important determinant of their economic success. After all, a town became part of the Hanse in a broader sense, because some of its merchants were among those who shared the Hanse's trade privileges in Bruges, London or Novgorod, and not the other way round, because of the town's eventual cooperation with other Hanse towns.²⁵⁰ In economic terms, the Hansards formed a cartel, which in turn allowed them to enjoy a quasi-monopoly of trade in the Baltic. To some extent, this behaviour was quite different from the Mediterranean situation, e.g. in Venice or Genoa, where merchants traded in fierce competition on the legal grounds of their home towns. Thirdly, even against the background of the above-mentioned list of alleged member towns of the Hanse observers in the fifteenth century still had rather imprecise and vague ideas of what the German Hanse exactly was. Nevertheless, both the economic and the political importance of the Hanse, whatever it may have been, was a well-known and acknowledged fact in the political scene of Northwestern Europe in the late Middle Ages.

Thus, historical research on the Hanse is in a sense governed by a threefold paradox: on the one hand, most of the newer publications deal with the social history of the Hanse, although the Hanse is first of all an economic historical issue. On the other hand, even if the economic character of the Hanse is acknowledged and becomes the primary subject of analysis, very often a cultural history approach is taken, and as consequence the Hanse is seldom analysed from an economist's perspective and by using economic theory.²⁵¹ Lastly, the different elements of the Hanse such as the *Kontore*, the diets of the Hanseatic League, which often took place in Lübeck, or the quite unique reciprocal trade pattern of Hanseatic merchants are very often studied as isolated cases. Hardly any attempt is made to combine all of these different pieces. Avner GREIF, Paul MILGROM

250 Cf. SELZER 2010, p. 58.

251 There are of course exceptions to this rule, namely SCHONEWILLE 1998; STREB 2004; JENKS 2005; LINK / KAPFENBERGER 2005.

and Barry R. WEINGAST²⁵², for example, gave of course a pathbreaking and theoretically sound explanation of the Hanseatic guild formation at the *Kontore*, using the example of the Hansards trading at the Bruges market, but the Hanse cannot be reduced to its commercial outlets alone, especially not in the case of the Bruges *Kontor*, simply because this commercial outlet was in many respects different to the other outposts. Thus, we will attempt an institutional analysis of the Hanseatic trade system and its political spin-offs, an analysis that is based on the fairly safe grounds of economic theory. In particular, this analysis shall reveal the interplay of different Hanseatic institutions. Within the sections of this chapter we intend to focus on two points: first of all, it shall be asked, which theoretical concept would be suitable for a description of the organisation of the Hanse? And secondly, the question arises of how this rather complex system was coordinated, enabling Hansards to get their economic interests accepted and to retain their quasi-monopoly in the Baltic, at least until the late fifteenth century. Given its seemingly vague structure, it is quite astonishing that the Hanse was not only capable of defining rules regarding the trade of its merchants, but could also enforce these rules, although not always successfully. Why was this possible? How did the Hanse solve this problem? We attempt to explain the relative stability of the Hanseatic cartel over the period of roughly 200 years as a result of the Hansards solving several emerging problems of cooperation. Our aim with this chapter is therefore to discuss these questions and hopefully to ascertain some general considerations concerning the issue. The focus lies more on the enhancement of cooperation rather than on the definition of rules. We also claim that in this process, conflict with existing rights had a catalytic function for a clearer definition of both the internal structure of the Hanse and its developing strategic interests.

252 Cf. GREIF / MILGROM / WEINGAST 1994.

Structure of the Hanse

A Theoretical Concept – the Network Approach and Virtual Organisations

First of all, we will present a theoretical concept able to describe the Hanse as a system of trade and also as a political organisation. With this concept it will be possible to explain the Hanse's structure in economic terms. In Chapter 3 we already pointed to fact that, similarly to the terms 'system' and 'social capital', the term 'network' is very popular indeed and its exact meaning seems to be well-known. As in the case of the two other terms, 'network' is also widely used in social sciences and in history, and a broad range of meanings is attributed to the theoretical concept underlying the term. For the purpose of being as precise as possible, 'network' is here used with respect to its meaning in management science, that is, describing a specific form of organisation.²⁵³

A network organisation is thus defined as a loose cooperation of legally and economically independent entities. Through 'networking' a 'new' structure evolves which constitutes the framework for potential cooperation between the members of such an inter-organisational network. In theory, this 'new' structure – the inter-organisational network – neither possesses hierarchical levels nor is it controlled from a headquarters, because cooperation between network members is thought of as a voluntary and flexible coupling.²⁵⁴ Network organisations are therefore characterised by a low degree of formalism and a lateral flow of information. Since coordination within such an organisational pattern in principle cannot be achieved by either hierarchical means of coordination or third-party enforcements, cooperation has to be guaranteed by mutual trust and reputation.²⁵⁵ A spin-off of having only loose couplings is that network members can be simultaneously involved in both cooperation and competition. This feature of 'cooptition', underlining the flexibility of existing couplings, is

253 Cf. POWELL 1990; NOHRIA / ECCLES (eds.) 1992; GALASKIEWICZ 1996; THOMPSON 2003.

254 Cf. POWELL 1990; ILLINITCH / D'AVENI / LEVIN 1996; OSBORN / HAGEDOORN 1997; WINDELER 2001.

255 Cf. POWELL 1990, GALASKIEWICZ 1996 and OSBORN / HAGEDOORN 1997.

believed to increase the network's overall performance through internal competition.²⁵⁶

If a network organisation has the additional characteristic of being only virtually existent, it is called a virtual organisation. With this specific pattern the lack of a formally and well-defined hierarchical-bureaucratic structure can be hidden to the environment. From an outside perspective such a virtual organisation appears to be structured like a huge and complex trust, and features like formalism and complexity are only imitated with this structure. Nevertheless, the performance of a virtual organisation and the services it is able to deliver are equivalent to those provided by a highly formalised hierarchical-bureaucratic organisation. Information processing and the structure of the flow of information play key roles in the ability of virtual organisations to perform in this manner. The lateral flow of information requires devices that are capable of processing vast amounts of information very quickly in order to substitute the hierarchy that is missing. Thus, the model of virtual organisation is a special case of the network organisation.²⁵⁷

The Hanse's Network Trade and its Virtual Character

The theoretical concepts of network organisation and virtual organisation can easily be applied to the commercial relationships that existed between Hanseatic merchants in the late Middle Ages and that formed the Hanse as a whole. In Chapter 2 of this volume, we showed in great detail that this kind of structure fits very well to the pattern of internal Hanseatic trade, with its predominant lack of formal contracts and its obvious coordination by reputation, trust and culture.

Just to remember: a hierarchical-bureaucratic corporate organisation, which was already a common pattern used by Italian merchant bankers and trading businesses from Upper Germany²⁵⁸, can rarely be found along the coasts of the Baltic Sea. In contrast, in order to handle their trading operations by employing agents who had to be instructed on a

256 Cf. BECK 1998. See also Chapter 2 above.

257 See for an introduction to this concept SCHOLZ 1996 and KRAUT et al. 1999.

258 Cf. BAUER 1923; VON STROMER 1968; RIEBARTSCH 1987; HILDEBRANDT 1996; 1997

regular basis, the organisational mode of the Hanseatic businesses typically consisted of mutual transactions between two partners residing at distant locations, with each partner selling the other's goods. This type of cooperation was not exclusive and did not need formal contracting, and the selling merchant was usually not paid for taking the commercial risk of a sale.

The organisational pattern that had evolved through the trading activities of Hanseatic merchants is rather typical for a network organisation.²⁵⁹ Small-scale businesses of self-employed merchants, who were legally independent and had little financial power alone, formed trading networks by mutually cooperating via reciprocal trade. The bilateral exchange between members of these networks was not only based on an informal consensus separate from the organisational units of the *Kontore*, where the joint use of the Hanseatic trade privileges was overseen, but the headquarters capable of coordinating and controlling the activities of the numerous network participants were virtually not existent. Moreover, as network members could trade with as many partners as they wished all over the Baltic, the network structure in principle was characterised by both cooperation of its members and occasional competition between them. The evolving networks of trade appear to have been a so-called 'small world', since, despite their weak overall density, these networks allowed each member to get in contact with any other participant via only a few mediating persons.²⁶⁰ The Hanse therefore was clearly a network organisation in a commercial sense, but it was also based on social networks, because merchants relied on family networks to operate their trade across the vast geographical extent of Northern Europe, and because even the political institutions of the Hanse, town councils or the diets of the Hanseatic League, were to a great extent shaped by kinship bonds.

Moreover, the particular structure of trade inside the Hanse that originated from the multiple trading relationships of single merchants displays to a considerable degree the characteristics of a virtual organisation. This 'virtualisation' of structure is obvious in at least two respects: firstly, the Hanse possessed well-defined boundaries insofar as it was always possible

259 Cf. SELZER / EWERT 2001; 2005; 2010; EWERT / SELZER 2007; 2010.

260 Cf. WATTS 1999.

to distinguish between the Hansards on the one hand, who all shared the Hanseatic trade privileges, and non-Hanseatic traders on the other, who were excluded from sharing these privileges. Likewise, inside the Hanse a clear distinction between Hanseatic and non-Hanseatic merchants existed by the definition of the towns' trading rights for guests. However, what was really going on behind this shiny façade was not clear to outsiders, of course, and it was presumably unclear to many insiders as well. Although all sorts of goods were carried to every market in the catchment area of the Hanse by chains of commercial transactions involving many merchants²⁶¹, and although a high and homogeneous product quality was guaranteed by a standardisation of weights and measures²⁶², for single merchants as well as for customers these efforts certainly did not appear as if they could have been achieved without implementing complex formal structures. Secondly, the Hanseatic League²⁶³ as a rather loose alliance of cities and towns that had emerged by the middle of the fourteenth century still shapes the Hanse's present-day outward appearance. Although the Hanseatic League never really had a headquarters' function for Hanseatic trade, contemporary foreign merchants recognised their Hanseatic competitors as belonging to a group sharing privileges they themselves would have liked to share.

So, the Hanse can definitely be termed virtual, because its organisation constantly changed its outward appearance, in a sense that it always was recognised by outsiders as a juridical and economic entity, making outsiders sometimes even believe that it possessed well-defined structures and a hierarchy. The Hanse, however, was neither a 'state of cities' nor was it a huge commercial trust. The above-cited episode of Hansards producing a list of towns being members of the Hanse but saying at the same time, that this list might be incomplete, shows vividly that even contemporaries often struggled to understand what exactly the Hanse was. Likewise, for many generations of historians, the Hanse had the image of a huge commercial trust or a mercantile empire, a false interpretation to which even nowadays observers still are sticking to. The book by Angelo PICHIERRI, which ap-

261 Cf. HAMMEL-KIESOW 2000.

262 Cf. JENKS 2005.

263 Cf. WERNICKE 1983; HENN 1984; PITZ 2001.

peared in the year 2000, maintains this notion of the Hanse being a state of cities.²⁶⁴ Nevertheless, believing this, even if it is not adequate, points very much to the feature of virtuality, and a quite evident conclusion would be that the Hanse very successfully misled other merchants and continues to mislead historians by pretending to be a formally well-defined trust rather than really being one.

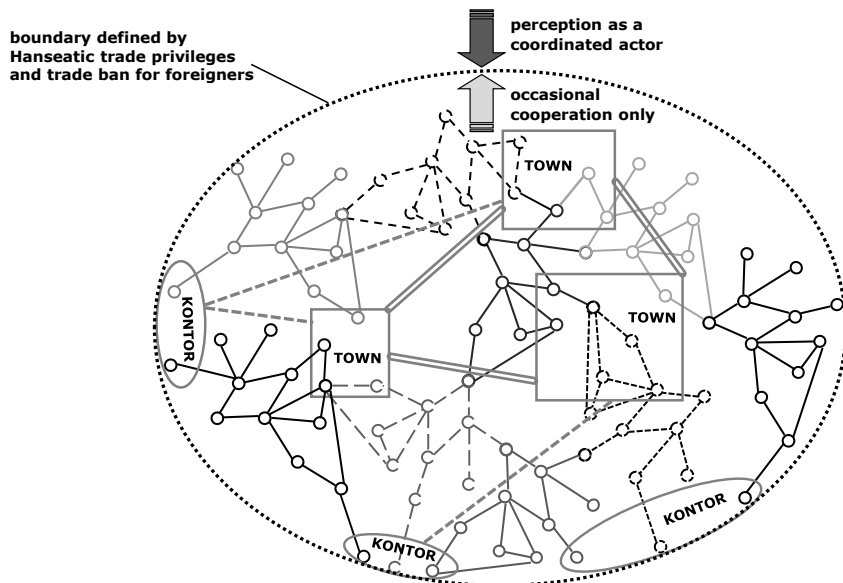
The Organisational Multiplexity of the Hanse

Much of the problem the Hanse had in developing strategic interests, defining rules and enhancing the cooperation of its members becomes clear when taking into account its rather complex structure. Simply by glancing at a map one can see the geographic dispersion of Hanse members and the huge spatial dimensions that were covered by the trade of Hanseatic merchants. The sheer number of potential members alone and the long distance that had to be bridged for the transmission of information should have been severe obstacles to any kind of cooperation. Apart from geographic dispersion, a second potential barrier to cooperation arose from the fact that different actors within the Hanse have to be distinguished with respect to economic claims and political decision-making. These actors are the peripheral commercial outlets (*Kontore*), the towns and finally of course the Hanseatic League as a seemingly formally well-defined kind of superstructure of the Hanse. A schematic of the structure of the Hanse formed out of these distinct organisational layers is depicted in Figure 5.1.

Organisation theory is a quite helpful tool, inasmuch as the actors of the Hanse and their attempts to structure and stabilise the Hanseatic cartel can be put into a more general framework of cooperation and coordination. In terms of organisation theory, the late medieval Hanse can not only be described as a virtual network organisation, it was also a multipolar organisation. Its multipolarity arose from the fact that decisions concerning economic and political action were made by several actors – the *Kontore*, the towns and the Hanseatic League. Multipolarity was also a result of how the Hanse had historically emerged.

264 Cf. PICHIERRI 2000.

Figure 5.1: Organisational Layers of the Hanse



Schematic of the structure of the Hanse formed out of the different organisational layers of Hanseatic merchants, networks of merchants, towns and cities of the Hanse and the *Kontore*.

Source: Authors' own drawing.

In the beginning, groups of merchants obtained trade privileges in the North Sea and in the Baltic Sea. In sharing these privileges, the merchants then founded trading posts, but they also began to influence the politics of their respective home towns, even more so after many of them had become sedentary and could afford to spend more time on political affairs. Finally, the towns, in which the councils were often dominated by sedentary merchants and which were then represented by councillors with strong commercial interests, decided to cooperate on a case-by-case basis in order to enhance these primarily economic interests. Thus, over a longer period of time several organisational layers emerged, which in the end coexisted and formed a non-central organisation. At three points within this multipolar organisation at least, personal bonds between the Hansards came into play through personal contact on a more or less regular basis: at the *Kontore*, where

some of them shared the Hanseatic trade privileges, in the towns, where some of them were members of the council, and at the diets of the Hanse, in which some participated as representatives of their respective towns. For the benefit of the Hanse, these organisational layers, which in part were interwoven through personal bonds, also had to interact with each other.

Problems of Coordination and Institutions to Enhance Cooperation

The First-order Problem of Coordination

Knowing that in theory cartels are thought of as being notoriously instable, the sustained cartel-like behaviour of Hanseatic merchants may surprise to some extent. It points to several basic questions regarding the cooperation within institutional settings that are characterised by incompletely specified property rights, weak legal means and conflicting claims of actors. The tendency of cartels to become instable is generally known as the ‘first-order-problem of cooperation’.²⁶⁵ How could the Hanse, a multipolar network organisation, solve this particular problem? How could this kind of organisation with all its shortcomings nevertheless ensure that its merchants cooperated not only repeatedly, but also in a coordinated manner?

The first-order-problem of cooperation applies to the merchants’ behaviour at the trading outposts (*Kontore*) of the Hanse, namely at Novgorod, Bruges, London and Bergen. Several cases from the history of the Hanse’s *Kontor* in Bruges show that the Hansards were well able to defend their trade privileges as a group. Following a dispute with the city of Bruges over several violations of the Hanseatic trade privilege, in 1280 the Hansards moved the *Kontor* to the nearby town of Aardenburg in Flanders. They even found allies to make their threat more credible, merchants from Spain who were also not satisfied with the actual conditions of trade in the city, and also the count of Flanders himself made use of the conflict for his personal political interests, namely to regain power over Bruges. The negative effect of this trade ban was the reason why the city of Bruges asked for negotiations. After the Hanseatic merchants were promised improved trade privileges, the conflict was settled in 1282 and they returned to Bruges.

265 Cf. VOLCKART 2004a, p. 195 f.

The conflict between Hansards and the city of Bruges in 1307–09 showed almost the same pattern.²⁶⁶ In 1358, the Hansards once again deployed the measure of leaving the Bruges market. By that time, the conflict between Hansards and the city of Bruges became much more serious than it had been in 1280–82. The Hansards felt their rights had been violated after a ship from Greifswald was seized by Englishmen near Bruges and the English king, reacting to the condemnation of the interlopers in Flanders that followed this seizure, had confiscated all Hansard goods in England. The Hansards themselves then entered claims of recompensation for the confiscated goods in Flanders. Since these claims were turned down by the count of Flanders, the Hansards declared a ‘war of trade’ against Flanders. To make their threat more credible, the *Kontor* was moved to Dordrecht in the county of Holland, and together with numerous Hanse towns the merchants of the *Kontor* in Bruges blocked all kinds of trade with Flanders. Because of the economic depression resulting from this trade embargo in Bruges as well as in the county of Flanders, the city of Bruges and the count of Flanders both had to give in, which they actually did in 1360. In turn, the *Kontor* was moved from Dordrecht back to Bruges.²⁶⁷

An older view of such collective action of the Hanse and its merchants would probably emphasise that the Hansards mainly committed to cooperation because it was for a good and noble cause. We think it is not necessary to make this kind of strong and, in a sense, naive assumption to explain the collective actions of Hansards. In our view, arguing along the line of the problems of rational behaviour that typically evolve in connection with the provision and preservation of collective goods would make more sense. In general, cartels provide their members with public goods – a special case of the more general category of collective goods, the right to share trade privileges, for instance, or the power to influence market prices through a coordination of the group’s aggregate demand or supply. A typical spin-off of this kind of behaviour is that also merchants who are not members of a cartel do profit from such trade privileges or price shifts. Assuming the rational and opportunistic behaviour of actors, discipline within the cartel will thus be undermined. Since everybody wants to benefit from the

266 Cf. SELZER 2010, pp. 38–40.

267 Cf. SELZER 2010, p. 50.

public good provided by a cartel, but nobody is willing to pay the necessary cost of producing and maintaining this public good, the cartel will break asunder and members will compete with each other again. So, from a rational-behaviour perspective, cartels prove to be notoriously unstable, because all members tend to act as free-riders, and free-riding is indeed the only rational strategy.

Hanseatic merchants could nonetheless prevent their cartel from dissolution. They were able to coordinate collective action by transforming the public good into a so-called club good. In economic terms this is a good that is owned by a group, but from which all potential consumers who do not belong to the group can be excluded. This transformation was achieved by defining formal rules for the membership, by introducing a hierarchy and by enforcing discipline within the cartel through the threat of punishing those who do not respect rules. Such rules can be found for all of the Hanse's four main outlets of trade. Discipline and punishment was the duty of the *Ältermänner* ('oldest men' or heads), who were elected from the group of merchants. In Novgorod, Bergen and London, where all or most of the merchants lived together in the *Kontore*, the identification of rule breakers in case of a defection was quite easy. Given the rather big and even growing group of merchants, however, the marginal costs of free-riding of individual traders were decreasing. Hence, the formalisation of interaction at the *Kontore* and the implementation of a hierarchy there was a straightforward approach by Hanseatic merchants to solve the first-order-problem of cooperation they were faced with. And, conflict in general helped to stabilise the Hanseatic cartel, insofar as the necessity of binding rules became obvious to everyone. During the Flemish trade ban of 1358–60, at least two cases show that merchants who did not respect the regulations and resolutions commissioned by their respective *Kontor* had to fear a severe punishment. There are good reasons to believe that *Johann van Thunen*, a factor of the Teutonic Order in Bruges, made use of some sort of insider information to buy Flemish cloth much cheaper than other Hanseatic merchants were able to just before the trade embargo ended. As his practice had become obvious, his property was confiscated and he was also threatened with a physical punishment. Another example is that of *Tidemann Nanning* from Bremen, who was suspected of having traded in Flanders, ignoring the general Hanseatic trade ban. This case shows that

a cartel-like behaviour could also be enforced indirectly. In response to *Tidemann Nanning's* disregard of the trade ban all merchants from Bremen were instantaneously excluded from the Hanseatic trade privilege until they attempted to punish their selfish compatriot and confiscate his property.²⁶⁸

Avner GREIF, Paul MILGROM and Barry R. WEINGAST showed in their seminal paper of 1994 that a clear formal and hierarchical internal structure of the Hanseatic cartel was even in the interest of the prince or the town who / which had granted trade privileges to merchants, because this structure reduced the costs for all kinds of negotiation and made trade more profitable even for the granting instance.²⁶⁹

The Second-order Problem of Coordination

Being able to solve the first-order-problem of cooperation for the trading outlets was an important factor in the rise of the Hanse and the economic success of its merchants. Unfortunately, other problems regarding the collective and coordinated action of actors of the Hanse could not be handled that way. In addition to the first-order-problem of cooperation, also a so-called 'second-order-problem of cooperation' usually arises.²⁷⁰ Or, to put it more explicitly: in the beginning, it is not automatically clear who is actually coordinating the cooperation of cartel members. Here, this applies to the widely informal cooperation of Hanse towns, which again emerged mainly in situations of conflict. What appears to have been a relatively easy and straightforward solution at the *Kontore*, where supervision was handed over to the elected officials (*Altermänner*), turned out to be a much more difficult task with respect to the cooperation of Hanse towns. It was only later on that representatives of Hanse towns began to come together at the diets of the Hanse (*Tagfahrten*) on a more regular and also more formal basis. The Hanse's claims and strategic interests as a political actor in North and West Europe had to be specified and also enforced in the case of conflict.²⁷¹

In several wars in 1361–70 and again in 1427–32, different coalitions of Hanse towns fought against the political and geostrategic aspirations of the

268 Cf. SELZER 2010, p. 48 f.

269 Cf. GREIF / MILGROM / WEINGAST 1994.

270 Cf. VOLCKART 2004a, p. 198 f.

271 Cf. HENN (ed.) 2001.

Danish king at the time. Again, the cutback or breach by foreign actors of already existing rights like market access or the opportunity for Hanseatic merchants to use waterways caused conflict. The war of 1361–70 is quite an illustrative example of the formation of a cooperative structure among the towns of the Hanse. In 1361, King Waldemar IV of Denmark took over the herring markets in Scania and denied merchants from Lübeck access to these markets. He also conquered the town of Visby on the isle of Gotland, an important centre of Hanseatic trade in the Baltic, and he finally gained a hold over the Sound, which made Hanseatic maritime trade from the Baltic towns to Western Europe more difficult, if not impossible. As a consequence, the diet of the Hanseatic League concluded on a trade ban on Denmark, and Lübeck, together with some of the Wendian towns, went to war with Denmark. The armament of a small fleet of twelve vessels was financed in part by the pound toll (*Pfundgeld*), a tax paid by all incoming ships in the harbour towns. At first glance, the first phase of this war seemed to have ended in catastrophe for Lübeck and its allies, since the complete fleet of the Hanse was defeated. Nevertheless, following a ceasefire with the Danish king, which was maintained until early 1368, the merchants from Lübeck could regain access to the important herring markets in Scania. Hostilities flared up again in 1368 when a Hanseatic fleet conquered some important Danish strongholds in the Sound and, as a result, the Sound route could be opened again for Hanseatic maritime trade. However, to be prepared for this second phase of the war, complicated and lengthy negotiations between the Hanse towns were necessary. Since the commercial position of Lübeck was more or less fully re-established in the ceasefire of 1362, by which the access to the markets in Scania was guaranteed, Lübeck no longer had a deep interest in going to war again with the Danish king. In contrast, the trade of the Prussian towns and also that of Amsterdam, Kampen, Harderwijk, Dordrecht and Briel in the West suffered from the fact that the Sound route was still closed. At a diet in Cologne in November 1367, the towns decided to go to war again ('Federation of Cologne'), a resolution that was only accepted by Lübeck and the Wendian towns with great reluctance. With a second ceasefire in 1369 and the 'Peace of Stralsund' in 1370, the conflict was finally settled.²⁷² Surely

272 Cf. SELZER 2010, p. 66 f.

these wars, commonly seen as wars of the Hanse, were responsible for the false interpretation of the Hanse as a powerful, well-armed and coordinated political actor encompassing numerous cities and towns. In fact, as can be seen from these cases, only a few of the Hanse towns were actively involved in these wars and other towns, like Amsterdam, at no time members of the Hanse, were included in the Federation of Cologne. Nonetheless, these conflicts then in turn had a catalytic function for a clearer definition of both the internal structure of the Hanse and its strategic claims.²⁷³

The problem of organising a powerful collective response to a violation of the towns' commercial interests can be modelled in a game-theoretical framework, making the usual strict assumptions of utility maximisation, simultaneity of choice and absence of a third-party actor who would be able to enforce a cooperation of players. Then a simple game for two towns (players *A* and *B*) is defined as follows: costs C_A and C_B are the players' individual contribution to the maintenance of a certain level of collective security, for instance. In a cooperative solution both players *A* and *B* accept to bear an equal share $TC/2$ of total maintenance costs, $TC = C_A + C_B$, but each of them is willing to pay the amount of $WP_i \geq TC/2$, if that level of collective security can be realised. There is a fundamental difference to the classic 'public goods problem'²⁷⁴: unlike the production of knowledge for instance, here the public good (collective security) cannot be generated by the efforts of only one player, simply because in most cases this would be too costly, and therefore would be an unrealistic choice. Thus, both WP_A and WP_B definitely lie below TC . In addition, a failure to maintain a certain level of collective security would affect the commercial interests of particular towns as well as those of the Hanse. As a consequence, the absence of the public good is felt by the towns as some sort of disutility $-U_p$, and their commercial interests are in fact at stake if collective security cannot be guaranteed. The amount of disutility cannot be clearly specified, but assuming risk aversion, it certainly lies below zero, and even if some towns are not aware of the commercial risks coming from a blockade of the Sound by the Danish, e.g., this value would equal zero at best. This was the case for the Westphalian towns during the con-

273 Cf. DOLLINGER ⁶2012, pp. 83–90.

274 The classic public goods dilemma is described in terms of the so-called prisoners' dilemma in HOLLER / ILLING ³1996, p. 8 f.

licts of the Hanse with the Danish king, because to them, at first glance, this blockade of maritime trade between the Baltic Sea and the North Sea did not appear to have any impact on their own trade. And this was also true for the strategic considerations of Lübeck before joining the Federation of Cologne rather unwillingly. Naturally, the rather abstract willingness to pay can only be converted into utility if the public good concerned is actually generated. In a cooperative solution, utility is calculated by subtracting individual costs from the willingness to pay ($WP_i - C_i$). For the remaining potential outcomes of the game where collective security will not be generated, because at least one player is not contributing, players would face a disutility $-U_p$, and in the case that one decides to contribute while the other does not, they would also have to write off their own share of costs. Utility levels are displayed in the pay-off matrix of Table 5.1.

Table 5.1: Pay-off Matrix of a Two-Player Collective Security Realisation Game

		Player B		
		contributing	not contributing	
Player A	contributing	A: $WP_A - TC/2$ B: $WP_B - TC/2$	A: $-U_A - TC/2$ B: $-U_B$	$-U_A - TC/2$
	not contributing	A: $-U_A$ B: $-U_B - TC/2$	A: $-U_A$ B: $-U_B$	$-U_A$
<i>Min. (B)</i>		$-U_B - TC/2$	$-U_B$	

Source: Authors' own drawing.

For this two-player-game, the outcome can easily be derived from the behavioural assumptions that are made. For the purpose of maximising their own utility but minimising their risk both players will play a 'min-max-strategy'; that is, they will opt for the best result of their personal worst cases, which in fact is not to contribute. Not contributing gives the maximum of the minima, which is $-U_i$ respectively, the players A and B would have to face with regard to the other player's possible decision. However, without the help of further institutions the players' acknowledgement of the positive value of collective security does not convert automatically into fruitful cooperation. The strong disutility resulting from the commercial risks of not maintaining collective

security is an insufficient condition to finally attain a cooperation of towns to respond collectively. The problem is not only caused by free-riding alone, as is the case of the classic ‘public goods dilemma’. Since by definition collective security usually cannot be ensured without the contribution of both players, free-riding is merely impossible here. Players will not contribute, because they fear that their personal investment could be useless. Investing in the armament of a fleet, for instance, will by no means reduce their own commercial risk if the other player is not doing the same. As the public good of ‘collective security’ will not be realised, this outcome, called the Nash-equilibrium²⁷⁵, is not an optimum result of course, neither with respect to individual nor to overall utility. If both towns decided to contribute, they would be better off individually as well as at the group level. This notwithstanding, refraining from contribution is nonetheless a rational decision given the behavioural assumptions of the game. Even if players do not acknowledge the commercial benefits from collective security ($WP_i = 0$), which was very often the case among Hanse towns, and do not perceive commercial benefits as such ($-U_i = 0$), the outcome would be the same. With $WP_i \geq TC/2$ and $-U_i$ the cooperative solution of the game is Pareto-efficient insofar as neither of the players can improve their own utility level, and therefore also cannot be better off without decreasing the other’s utility level. The much better solution of both parties contributing can only be attained by third-party-enforcement or mutual trust, elements that by definition are missing in this particular setting.²⁷⁶

The game can be easily extended to the more realistic case of n players. For each player the willingness to pay for the maintenance of collective security remains below total costs ($WP_i < TC$), but again is greater than or equal to the individual costs of contribution (TC/n). Unlike the two-player-game, not all players involved necessarily have to decide to cooperate to generate the public good. Collective security nonetheless can only be realised if a considerable number of players contribute. Utility levels for each player i are calculated in exactly the same way as in the two-player-game (see Table 5.2 for pay-offs).

275 See on the concept of Nash-equilibrium KREPS 1990, pp. 28–36; HOLLER / ILLING ³1996, pp. 9–13.

276 Cf. GRAVELLE / REES ³2004, p. 283 f.

Table 5.2: Pay-off Matrix of a N-Player Collective Security Realisation Game

Player <i>i</i>	Number <i>j</i> of other players contributing					Min. (<i>i</i>)	
	<i>n</i> - 1	<i>n</i> - 2	...	<i>n</i> - ...	...		0
contributing	$WP_i - TC/n$	$WP_i - TC/(n-1)$	...	$U_i - TC/n$	...	$U_i - TC/n$	$-U_i - TC/n$
not contributing	WP_i	WP_i	...	$-U_i$	...	$-U_i$	$-U_i$

\leftarrow public good is realised
public good is not realised \leftarrow

Source: Authors' own drawing.

To a certain degree, returns now depend upon the number *j* of players other than player *i* contributing, because if enough players decided to contribute and collective action could be guaranteed, these players would have to pay the maintenance costs. If not enough players contribute to finally realise the public good of collective security, each player will have to write off the equal-share-contribution (TC/n) only. For a particular player *i* the worst case scenario still is the one where he would pay for the maintenance of collective security, but many other players would not, so that security cannot be maintained in the end. Thus, the equilibrium reached will be exactly the same as in the simpler two-player-case. Free-riding is now possible, and this can enhance the towns' unwillingness to further contribute to the maintenance of collective security, because their own contribution not only is perceived as useless, but there is also an opportunity to get rid of the unpleasant commercial risk by not paying for it. This result does not change if the game is played in a sequential mode and players no longer have to decide simultaneously. For that reason the outcome can be referred to as a 'missing-hero-dilemma', because on rational grounds no player would decide to contribute, and be one of the 'heroes' who is paying for the maintenance of collective security. And even if, for whatever reason, enough players decided to contribute, incentives for the remaining players would not be altered in a way that encourages contribution. Quite the reverse in fact; by free-riding on the others' investments the last players could benefit from the collective security already ensured.²⁷⁷ This might very well explain why only a few Hanse towns decided to contribute to any collective action.

277 Cf. DIEKMANN 1992.

An open-ended repeated game now is an even more appropriate model to describe the real-life situation of the medieval Hanse. In general, trust between players can be built up if a game is played repeatedly. Setting the game with infinite repetitions then can make players opt for cooperation, accepting temporary losses of utility in one round, because the likelihood of being compensated in subsequent rounds is quite high due to the existence of trusted relationships. In contrast, given a finite number of repetitions and given that players know when the last round will be played, cooperation cannot be reached. Rationally behaving players will decide not to contribute in the last round, because there are no more rounds to compensate for losses. This last-round-rationale can be transferred backward to earlier rounds, yielding always the same result.²⁷⁸ As long as not all players' contributions are needed to finally realise the public good of collective security, incentives to free-ride still exist, and any free-rider can assume that his own decision to not contribute to ensuring collective security will not prevent the production or the maintenance of this public good.²⁷⁹

The formal, but overall fairly weak structure of the Hanseatic League *per se* was certainly not able to enhance the cooperation of towns for the benefit of all. Participation in the diets of the Hanse was voluntary, the diets' resolutions only encompassed non-controversial issues because of the underlying principle of unanimity, and the Hanseatic League itself had no real authority in getting resolutions accepted. To some degree mutual trust might have been effective here. Trust is a powerful tool for the coordination of private interests in smaller groups²⁸⁰, and the number of towns eligible for potential cooperations was small enough to let trusted relationships be an effective means of coordination, at least in the earlier history of the medieval Hanse. From the prosopographical research of both Dietrich W. POECK²⁸¹ and Friedrich Bernward FAHLBUSCH²⁸² it is a now well-known and acknowledged fact, that there existed many kinship bonds between the councillors of different towns of the Hanse. And even though the diets

278 Cf. AXELROD 1984, p. 10; VOLCKART 2004b, p. 28.

279 Cf. VOLCKART 2004b, p. 28.

280 Cf. DIEKMANN 1992.

281 Cf. POECK 2002; 2010.

282 Cf. FAHLBUSCH 2002; 2005.

of the Hanseatic League might not have been instrumental as a legislative institution of the Hanse, what is more important is that these events created opportunities for town representatives to meet on a more or less regular basis, and in this respect the diets certainly helped to build up trusted relationships between towns. This personal element of the Hanseatic League can very well be seen in the formal structure of the written resolutions of the Hanse diets. These resolutions always began with a lengthy list of the names of those town representatives who were present at a particular diet. So, trusted relationships between town councillors helped to attract towns willing to cooperate, to pass resolutions at the diets and also to put such resolutions into action. On the other hand, the ever growing number of potential members of the Hanse in the end was dysfunctional for a fruitful cooperation of towns based solely on trusted relationships and for effectively preventing free-riding among Hanse towns. Hence, with players assumed to behave rationally, in the long run voluntary care for the avoidance of commercial risk and the contribution to the provision of collective security were barely possible.

A simple, but efficacious solution to enhance cooperation in this sort of situation is to transfer leadership to the actor involved whose private economic interests are at stake as a kind of reward for bearing the majority of costs. In these cases, collective security remained a public good, but the defence of private economic interests served as a strong incentive to also enhance the willingness to contribute to its preservation on the part of those actors whose economic interests were not at stake. This was the case in the war between the Hanse and the Danish king in the period of 1361–70. Lübeck assumed the leadership of the alliance in the first phase of the war with the clear aim of re-establishing the commercial position of its merchants in Scania, but thereafter, in the second phase of the war, handed leadership over to a group of Prussian and Dutch towns, simply because these towns had a much higher interest in ending the Danish blockade of the Sound. In both phases of the war, the pound toll made it possible to receive at least a share in the necessary military expenses of those towns which had initially been quite reluctant to join the cooperation. This notwithstanding, in similar cases the Westphalian towns often argued that they were not affected by such far away conflicts. So in the end a good explanation was needed as to why the resolution of a single conflict would be in the interest

of all Hanse towns. Letting private interests appear as common interests was usually a viable strategy for the potential future leader of the coalition. The leading role of Lübeck within the Hanse developed slowly over time, because the town representatives of Lübeck always tried to turn private strategic interests into common Hanseatic interests in order to pursue their proper economic objectives with the help of other towns. Finally, this pattern also worked well with respect to the fight against interlopers, because here a common interest of usually more than one town was obvious.

As a result, the Hanseatic League as a formal, but in the end weak association of towns evolved, trying by and by, under the leadership of Lübeck, to monopolise Hanseatic decision-making. However, formalisation and hierarchisation of such cooperations on a case-by-case basis is neither a straightforward nor necessary outcome in the long run. This result may explain why such attempts to formalise the cooperation of Hanse towns and to establish a sort of central instance of decision-making were never truly successful. This central instance also failed, because free-riders and rule breakers could not be easily identified. A real threat to them would have been their exclusion from enjoying the trade privileges at the *Kontore*. However, the merchants of the *Kontore* were neither capable nor were they always interested in identifying and punishing those who did not respect the regulations which were negotiated at the Hanse diets.

Determinants of Fruitful Cooperation and of Cooperation Failure

Finally, we shall produce some general conclusions regarding the interplay of the different organisational layers of the Hanse. As has been shown in this chapter, the Hanse was a virtual and multipolar network organisation. Economically, Hanse members formed a cartel to defend the quasi-monopoly of trade they enjoyed in Northern Europe, especially in the Baltic.

Quite similar to modern multipolar organisations, such as NATO, the EU or temporary military alliances, the cooperation of Hanse members was in principle rather difficult and required special conditions. The history of the Hanse, mainly the episodes of conflict with actors from outside the Hanse, can help to identify these requirements, especially with respect to the interaction of towns, merchants and the *Kontore* in the late Middle Ages. An economic theoretical analysis allows an explanation as to why certain

forms of cooperation emerged within the Hanse and others remained poorly developed or were even still lacking at the end of the fifteenth century.

From the Hanse example it becomes quite evident that a lasting cooperation only evolved in the event that a formally and hierarchically structured organisation could be established, as was the case at the *Kontore*. Only this sort of organisation was capable to stabilise the merchants' cartel in the long run. This was because general binding rules were defined and members of the cartel committed to these rules because they were threatened with punishment or, even worse, with the exclusion from the cartel in the event they broke these common rules, and because rule-breakers knew that they could easily be identified. Thus at the *Kontore* the cooperation and coordination of merchants became possible by setting mainly negative incentives.

In other parts of the virtual and multipolar organisation known as the Hanse this kind of regulation was either not implemented or attempts to do so were not successful in the end. Cooperation between Hanse towns was nonetheless possible, and it was usually a result of setting positive incentives. Hence, it was a rather straightforward outcome that such forms of cooperation could only be achieved from time to time, and these occasional cooperations never really turned into a sustained form of cooperation. NATO and the EU have formal rules, and to some degree they also possess hierarchies. The late medieval Hanse lacked both of these institutional elements. Cooperation at the level of towns was based on the principle of setting positive incentives. A transformation of the network structure of the Hanse into a hierarchical structure more or less failed completely when Lübeck switched from setting positive incentives to setting negative ones, by intending to punish those towns or even to exclude them from the Hanse, which were ignoring or breaking the rules that had been negotiated at the Hanse diets, for instance, or by trying to influence the decision-making at the *Kontore* in a commanding manner, even though the competence to rule the *Kontore* historically lay exclusively in the hands of those merchants who traded there. A key factor of this failure was certainly the fact that the economic interests of towns and the commercial interests of merchants who traded at the *Kontore* could never be completely synchronised.

Chapter 6

Competitive Advantage or Limit to Business? – Contingency and Path Dependence

The Context of the Hanseatic Network Organisation

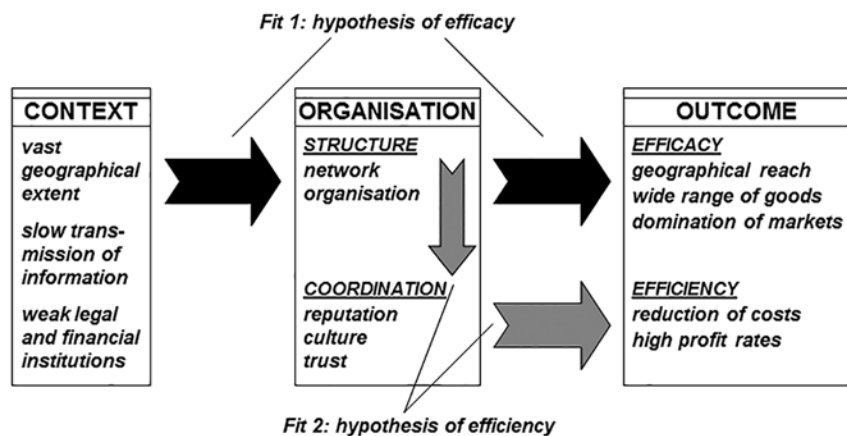
So far, we have shown in the previous chapters that the organisation of Hanseatic trade during the late Middle Ages was in many ways shaped by the principle of network organisation, and we provided arguments as to why this system of trade was instrumental to Hanseatic merchants in operating their commercial activities efficaciously and efficiently, at least from a short-term perspective. However, was this kind of structure also beneficial in the long run in creating a competitive advantage for the merchants, or did it tend to turn into a limit to their business? Or, to put it in a more abstract way, what effects did the Hanse's network organisation produce in general?

To answer this question, two levels of potential impacts of the network organisation have to be distinguished. On the one hand, it is necessary to explain to what extent the form of network enterprise was an economically effective tool at the individual level for Hanseatic merchants in operating their trade. On the other hand, it would also be essential to assess the manifold repercussions this form of trade organisation had on economic development, growth and welfare in Northern Europe. So, both microeconomic as well as macroeconomic features of the Hanse's network organisation shall be examined. Due to a rather poor basis of sources, the latter aspect seems to be far more difficult to analyse than the former. This is also because, unlike individual economic effects, economic development, growth and improvements in welfare cannot be exclusively attributed to the form of network organisation. General economic trends that were independent from the organisation of trade and the changing behaviour of the Hanse's competitors also would have to be considered.

However, under which general conditions was it possible for the Hanse's network organisation to work smoothly as well as successfully? This can be discussed in terms of the contingency theory of organisation. Following this theory, the form of organisation chosen by the Hanseatic merchants

can be explained by looking at some general conditions of their trade. This context, or trade environment, encompasses various features: the Hanseatic merchants saw themselves confronted with a variety of market conditions because the fairly high degree of market development already achieved in the West gradually stopped progressing eastwards.²⁸³ The Hanse's trade also covered an immense geographical area, which is why sending messages along the trading routes took quite a long time. And finally, merchants could only rely on poorly developed legal and financial institutions. As a result, the exchange of commodities between Hanseatic merchants was still done in a rather simple way, without much need for capital, and transactions took quite a long time and they also were highly uncertain. Within the contingency theory of organisation, both the smooth behaviour of the network organisation and its success can be explained as a kind of twin adaptation.²⁸⁴

Figure 6.1: Contingency Approach to the Hanse



Schematic of the contingency approach to the Hanse, showing the twin or double fit between structure and context, and between means of coordination and structure. Source: Authors' own drawing.

283 See Chapter 4 in this volume and EWERT / SELZER 2006a.

284 Cf. LAWRENCE / LORSCH 1967/68; KIESER / KUBICEK³1992, pp. 59 f. and 410 f.

The first of these two necessary adaptations was that of the structural choice to its environmental conditions, or in other words: the network organisation and its ability to enable simple forms of exchange and loose cooperations suited the aforementioned general conditions of long-distance trade in the North Sea and the Baltic during the late Middle Ages. Hanseatic merchants dealt with these conditions by creating a network organisation for trade in the Hanse's region itself, and by selecting, a more formalised type of organisation for their trading outposts, the *Kontore*. The second adaptation necessary was then the choice of a suitable coordination instrument. Within the network organisation of internal Hanseatic trade, non-hierarchical means such as trust, culture and reputation were chosen, whereas the *Kontore* were to some extent hierarchically organised. It was only thanks to this sort of twin adaptation that Hanseatic merchants were able to trade over long distances both efficaciously and efficiently.

This notwithstanding, there are unfortunately some drawbacks in using this theoretical concept. Even though contingency theory provides a general concept to explain the principle determination of organisational choices, this approach cannot explain variations in the particular choice of organisational forms. Economic agents in general – and this certainly applies to Hanseatic merchants – are not restricted to simply accepting a certain causal mechanism triggered by environmental conditions; they are able, to some extent at least, to influence the design of their trade environment. In this respect, the contingency approach would have to be enhanced with some actor-related institutional economic considerations that might have affected the merchants' rationale. In our view, the example of the medieval Hanse very clearly demonstrates that the economic agents had a fairly high degree of autonomy in their decision-making.

Economic Effects of the Hanseatic Network Organisation

Effectiveness and Profitability of Hanseatic Trade

The network organisation was especially suitable for increasing the individual welfare of Hanseatic merchants, and this choice of structure made it possible to cut transaction and information costs significantly. The information costs of the Hanseatic merchants remained comparatively low, because with their reciprocal and reputation-based trade they could delegate

the gathering of all the relevant information for their commercial activities at the sales markets to their independently acting trading partners. This meant that such information did not need to be transmitted across the long distances within the Hanse's realm.²⁸⁵ This increased both the flexibility and the speed of transactions, even though environmental conditions at first glance not appeared to have been amenable to a flexible and fast commercial exchange.

As a result of the high degree of autonomy of trading partners it was possible, even under rapidly changing conditions, to react to market developments without the need for the owner of the goods to intervene. Following the principle of reciprocity, commercial exchange could be done without complicated written contractual commitments. This saved enforcement costs, because on legal grounds such commitments would have been virtually unenforceable. Hanseatic merchants were also able to reduce their organisation costs. As shown in previous chapters, they could minimise a wide range of potential contractual risks even though their transactions were only based on implicitly defined informal contracts in most cases.²⁸⁶ The network structure of the trade system facilitated the finding of trustworthy trading partners when establishing new business contacts. Reciprocal trade itself forced the merchants to act in the interests of the trading partner who had sent them goods, because the reciprocal structure of exchange meant that in the end the profit a merchant made by selling these goods was the profit he could pocket. This idea is clearly expressed in the legal principle by which anyone who dealt with the property of others as carefully as his own was legally unburdened. Thus, it was not necessary to carefully monitor commercial agents, and both sides involved in such reciprocal partnerships could, as owners of deliveries, use the other's goods as a type of security. This institutional arrangement of trade worked because fairness was enforced by a multilateral reputation mechanism, by which any form of merchant defection was threatened with the loss of reputation, and consequently with the complete loss of a merchant's trading partnerships.²⁸⁷ So, the first economic effect of the Hanse's network organisation to men-

285 Cf. SELZER / EWERT 2001; EWERT / SELZER 2010.

286 Cf. RIPPERGER 1998, p. 63 f.

287 Cf. EWERT / SELZER 2010.

tion is that such a simple, but very flexible system enabled the Hanseatic merchants to trade in a wide range of goods, and they were able to do so way into the sixteenth century.²⁸⁸

It is, however, not only the reduction of individual commercial risks that can be attributed to the network-supported trade on a reciprocal basis. ‘Hard’ economic effects can also be quantified, at least indirectly. Walter STARK²⁸⁹ has attempted to estimate the profit rates of the maritime trade between Bruges and Novgorod. The empirical basis of his calculations is given by the fairly well-documented trade between the *Veckinchusen* family and the Danzig / Gdańsk merchant *Johann Pyre*. Although profits measured in terms of the turnover of goods were volatile, STARK ended up with an estimate of the average profit rate as 15 per cent. This meant that Hanseatic firms must have been just as profitable as the South German firm of *Runtinger* in Regensburg, for example.²⁹⁰ In the 1570s, *Wolter von Holsten* made even greater profits than that, due to an exceptional boom in the trade with Russia.²⁹¹ It seems as if in Southern Germany it was not possible to make higher profits than this from traditional trade in the long run. Only through speculative deals involving much higher information costs, and through risky loans to princes, merchants were able to increase their profit rate significantly.²⁹² Thus, with network organisation Hanseatic merchants appeared to have found the economically ideal answer to all the restrictions of their long-distance trade, which generally made their simple and less capital-intensive business lengthy and extremely uncertain.²⁹³

Economic Growth and Collective Welfare

It goes without saying that economists would certainly expect the growth effects of the Hanse’s network organisation to be quantified. Here, the medieval historian definitely comes up against the limits of the available source material. Economic growth and increasing welfare can nevertheless

288 Cf. EWERT / SELZER 2006b.

289 Cf. STARK 1985; 2002.

290 Cf. EIKENBERG 1976.

291 Cf. PELUS 1981.

292 Cf. VON STROMER 1970.

293 Cf. EWERT / SELZER 2010.

be derived from various indicators in qualitative terms. The most visible indicators are population growth, the increase in population density and the urbanisation of the areas covered by the eastbound European colonisation between the river Elbe and the Baltic, and in Scandinavia too. During the twelfth and thirteenth centuries, a dense network of villages and towns evolved in what were formerly only sparsely populated areas. In these newly settled areas, prior to the sharp cut that happened in the first half of the fourteenth century, the population appears to have sporadically doubled every 25 years.²⁹⁴ Some of these newly founded settlements experienced kind of an economic ‘take-off’ within just a few years, a take-off that was not repeated until the nineteenth century period of industrialisation, as is exemplified by Lübeck in the first half of the thirteenth century.²⁹⁵ The most visible sign of the pre-1350 long-term economic boom (which in the short term was potentially a very changeable one in terms of the urban property market²⁹⁶) was produced by the leading medieval segment of the building industry. The ‘petrification’ of the newly established towns, dominated by the typical red brick structures, became the very sign of communal wealth in the North of Europe.²⁹⁷ As residents of these towns, the Hanseatic merchants did not just profit from this economic boom; in part they were also the creators of an increasing collective welfare, inasmuch as their trade system played a major role in promoting economic development and growth.

Distribution of Income and Wealth in the Hanse towns

The rather slim organisational structure of Hanseatic enterprises and the low level of costs resulting from this organisational design made it especially easy for newcomers to start trade with only little capital at hand. The fact that a large number of small merchant enterprises existed in the Hanse must have certainly had an impact on the distribution of wealth in the Hanse towns. Theoretically, one would assume that the choice of network organisation would result in a specific, presumably relatively

294 Cf. BORGOLTE 2002, p. 236.

295 Cf. RANFT 1995.

296 Cf. HAMMEL-KIESOW 1988.

297 Cf. THALHEIM (ed.) 2002.

smooth distribution of wealth within the region of trade.²⁹⁸ This theoretical assumption coincides with the results of the research on inequality and the distribution of wealth in Hanse towns, which was done by Ahasver von BRANDT.²⁹⁹ Using a tax list from 1460, he discovered that Lübeck had a much more balanced distribution of wealth than Augsburg (in 1475). This result was not only found for the town population as a whole, but in particular for its upper class. Despite all the difficulties that typically arise in such isolated analyses of the social structure of medieval towns³⁰⁰, the main feature to be stressed appears to be fairly valid. Late medieval Lübeck had a larger and more broadly supported upper class than Augsburg, while Augsburg at that time showed more inequality, and income and wealth concentrated on a much smaller group of people. More recent research into the social stratification of the towns of Greifswald, Rostock and Stralsund tends to confirm Ahasver von BRANDT's estimates rather than contradicting them.³⁰¹

The Scope of Hanseatic Trade

In the case of Lübeck, undoubtedly the most important trading centre in the Baltic region, it is only possible to obtain a sketchy impression of the scope of Hanseatic trade from customs invoices. A few of these invoices survived in the archives. In 1368 over 1,800 ships entered or left the port of Lübeck. More than a century later, in the period 1492–96, the figures show only 760 arrivals and departures of commercial ships, although the average size of ships had increased in the meantime, of course.³⁰² However, to give a more reliable picture these figures would have to be compared to trends elsewhere in Europe. Peter SPUFFORD attempted to show that, compared with the sales conditions in Lübeck in the fourteenth century the turnover in the port of Genoa must have been five to six times greater than that.³⁰³ It goes without saying that it would certainly not be incorrect to conclude

298 Cf. GREIF 2000, p. 278.

299 Cf. von BRANDT 1979.

300 Cf. MEINHART / RANFT (eds.) 2005.

301 Cf. ISEL 2005.

302 Cf. HAMMEL-KIESOW 1993.

303 Cf. SPUFFORD 2004, p. 281 f.

that the volume of late medieval Hanseatic trade was much smaller than the trade volumes that were exchanged in the Mediterranean by that time, or those in sixteenth century Antwerp.³⁰⁴

The wealth of merchants and economic growth in the areas of Hanseatic trade thus also had its downside, because the lean structure and smaller size of the Hanseatic enterprises was surely related to the scope of Hanseatic trade. While the network organisation and reciprocal trade increased their capability to deliver a wide range of products everywhere in the North Sea and Baltic regions³⁰⁵, it was not possible for individual traders to handle large amounts of a particular commodity. So in the end, the network structure did not really produce ‘economies of scale’.

The Development of the Hanse’s Network Organisation and Path Dependence

Although the effects of the Hanseatic network organisation for the merchants themselves as well as for welfare and growth in the North Sea and Baltic regions in the Middle Ages are obvious, at least in qualitative terms, it must not be forgotten that the story of the success of this organisation is ultimately a story of its long decline. The formal organisation of the Hanseatic League continued to exist until 1669, and some merchant enterprises still remained successful in the sixteenth century. Also, several Hanse towns, such as Hamburg and Danzig / Gdańsk, first experienced great economic prosperity as early as in early modern times. Yet, this picture of a partially continuing economic success cannot hide the fact that the trade monopoly held by Hanseatic merchants in the Baltic region already began to erode during the fifteenth century, and that by the sixteenth century the Hanse had almost lost all of its political and economic importance. And unlike their upper German, English, Dutch and Italian competitors, the Hanseatic merchants had failed to get a foothold in the new transatlantic trade. At the end of the fifteenth century the commercial advantages Hanseatic merchants possessed in the Baltic were rapidly ceasing. Hence, had the Hanse’s network organisation, even though it had once enabled highly

304 Cf. SPUFFORD 2004, p. 282 f.

305 Cf. SELZER / EWERT 2001, p. 158.

profitable trade, now turned into a serious limitation to their business, a barrier that increasingly began to spoil any further development of Hanseatic commerce? And, was this institutional arrangement of trade, as a consequence, not only responsible for the obvious rapid economic growth before 1400, but did it also block a continuing expansion of Hanseatic trade, and therefore inhibited further economic development, growth and welfare in Northern Europe after 1400?

The reasons for the decline of the Hanse at the transition from the late Middle Ages to the early modern period are either generally sought at a political level or this decline is explained by exogenous economic factors only. These determinants primarily include the loss of importance of the commercial centre of Bruges in the late fifteenth century and, as a result of the discovery of the American continent and the opening of the sea route to India, a shift of the European trade routes towards the Atlantic. Such explanatory concepts require a further improvement. It is very likely that some of the factors that determined the decline of the Hanse and the Hanseatic League in the long term were inherent to the structure and to the restructuring of the network organisation, and can thus be interpreted as so-called path dependencies. The concept of path dependency combines the classic straightforward economic explanation, which assumes foresight and the actors' unrestricted ability and autonomy in decision-making, with a historical and process-oriented interpretation.³⁰⁶ This kind of an explanatory concept is very well suited to showing the manifold growth-inhibiting effects of the Hanse's network organisation.

Any organisation can be inefficient for various reasons. Inefficiency can occur, for example, because the organisation's structure and its form of coordination create natural limits to growth, because the smooth functioning of the organisation causes all kinds of change to appear superfluous, or because with a change in either the structure or the coordination mechanism the necessary fit of structure and means of coordination disappear. It may also be that the context of the organisation changes over time, or that the context is deliberately changed by the members of the organisation themselves. Even if such an attempt aims to increase both the effectiveness and

306 Cf. ARTHUR 1989; DAVID 1994; PUFFERT 2006.

the efficiency of the organisation, it might nevertheless result in inefficiency. Therefore, we hypothesise that with the intention of further developing their system of trade, and of protecting themselves against an increasing competition, the Hanseatic merchants repeatedly made decisions by which they unintentionally forced their network organisation into irreversible structural changes. This then led to a so-called ‘lock-in’ of the institutional arrangement, a development path that could not easily be left again after a certain point in time, with the result that Hanseatic trade was no longer efficient. This failure of the institutional arrangement of trade as a whole was path-dependent³⁰⁷ insofar as precisely those strategies that had been employed by the Hansards successfully at earlier stages in the history of the Hanse then turned into a severe hindrance to further sustained growth of their trade system.³⁰⁸

When applying the approach of path dependency to the Hanse case, it is very sensible to distinguish different periods in its history between the thirteenth and the sixteenth century, and to ask to what extent the organisational choices that were made by the Hansards shaped the development of the network organisation. In the literature on the Hanse to date, three main phases of development are distinguished, each of which are connected to a certain historical event, namely: the rise of the Hanse in the late twelfth to the early fourteenth centuries beginning with the second foundation of Lübeck by Henry the Lion in 1158/9, the Hanse’s climax in 1370 (‘Peace of Stralsund’) and its decline after 1474. We attempt to use an economic history perspective to test whether this political split of the Hanse into several development phases still holds (or not) when the parallel development of the trade organisation over time is analysed.

Network Size, Cultural Borders and the Network Paradox

Various structural elements of the Hanseatic network organisation can be identified, which inherently created natural boundaries for the growth of the organisation on a long term basis. Thus the decision to have a network

307 See on the theoretical concept of path dependency, a paradigm which is discussed in economic theory for some time already, for instance ARTHUR 1989; DAVID 1994; PUFFERT 2006; SYDOW / SCHREYÖGG / KOCH 2009.

308 Cf. SELZER / EWERT 2005; EWERT / SELZER 2007.

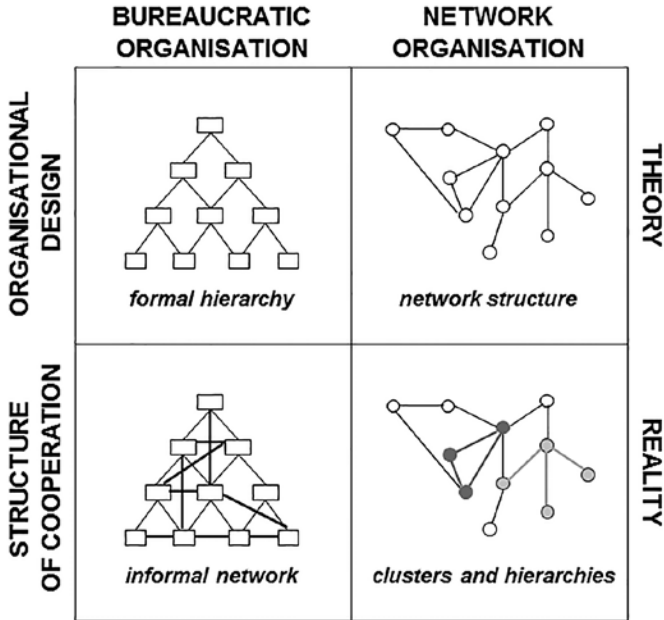
organisation typically caused a path dependence, and as a consequence this also could imply a growth-inhibiting effect, at least in the very long run.

The founding conditions of the Hanseatic merchants' long-distance trade network were shaped, as we saw previously, by the eastward migration of families from the Rhineland, from Westphalia and from Lower Saxony in the twelfth and thirteenth centuries, a migration that was part of the general eastbound European colonisation at that time. The foundation of branch towns in the Baltic region created kinship ties between the trade centres, which were then preserved for generations. However, a significant difference between the Hanseatic network organisation and modern network organisations was that the emergence of a specific organisational pattern, at least in the beginning, was not really the result of conscious effort, but evolved from the geographical and demographical conditions of the time. In the beginning, networking proved to be almost the only viable strategy to establish commercial exchange between the developed regions in the West and the still undeveloped regions in the East, a fact that was tested within a simulation model of early Hanseatic trade.³⁰⁹ There is some evidence however, that over time the so-called 'network paradox' appeared in the case of the Hanseatic merchants' network organisation. The network paradox describes the divergence of the organisational design on the one hand, and the actual pattern in which the members of an organisation cooperate with each other on the other.³¹⁰ A typical development that can be observed in connection with network organisations is the emergence of a rather fixed, sometimes almost hierarchical structural pattern. What was originally thought of as a loosely structured and non-hierarchical organisation becomes petrified as a result of the repeated clustered interaction of network members. This transformation of a network organisation is clear when compared to possible developments within bureaucratic organisations.

309 Cf. EWERT / SUNDER 2012.

310 Cf. ADERHOLD / MEYER 2003, p. 154.

Figure 6.2: The Network Paradox



Cross-classification of the type of organisation and intended vs. actual structure of cooperation inside the organisation. Graph developed following ADERHOLD / MEYER 2003.

Source: Authors' own drawing.

Bureaucratic organisations are based by design on formal hierarchies, but in reality social networks matter very much indeed, as they often allow a much quicker and more efficient way to deal with tasks. Likewise, the organisational design and the actual pattern of cooperation within the organisation can differ tremendously in a network organisation. Although implemented with the intention of enabling loose and flexible cooperation in the best interests of all members, a network organisation can easily turn into a fragmentary group of clusters with a quasi-petrified, formal and even hierarchical structure (see Figure 6.2).³¹¹

311 Cf. ADERHOLD / MEYER 2003.

In the long term, the concentration of trade partnerships to relatives over several generations, the reliance on kinship networks, the emergence of separate subgroups within the network organisation thus led, step by step, to a petrification of the network, a result that fundamentally contradicted the flexibility of this organisational choice. Kinship bonds and social proximity created areas within the Hanse's network organisation where power was distributed asymmetrically. Hence, the Hanseatic habit of predominantly cooperating with family members and friends, which produced, as we have repeatedly shown in previous chapters, significant economic benefits for merchants, nevertheless threatened the generally flexible and variable character of the commercial network.

In addition, the question concerning the exact meaning of reputation and trust as cooperation-enhancing mechanisms arises, as commonly network members' activities only could be coordinated when both trust and reputation already existed. The process of building up trust and reputation took time, of course, and once trust and reputation had been built up, in most circumstances it would have been a non-efficient decision for merchants not to capitalise these means. Nevertheless, using reputation for commercial purposes and only relying on trustworthy partners definitely increased the likelihood of sticking with virtually the same set of trading partners. In turn this meant that the whole commercial network became fragmentary. And in fact, despite trading goods with quite a number of commercial partners, Hanseatic merchants nonetheless usually held on to these already established core partnerships for quite a long time. Moreover, this development of structure then made expansion more difficult, or even impossible. In the case of the Hanse and the Hanseatic merchants, this transformation was even further accelerated, because the multilateral reputation mechanism in reciprocal trade favoured the merchants' orientation towards relatives and partnerships based on kinship bonds, and thus fostered a tendency for the established cluster of persons to close ranks against outsiders.

Finally, for exactly the same reason the concept of 'cooptition' has to be taken very cautiously, even though Hanseatic merchants, in contrast to their contemporaries from Upper Germany, never really forbade cross-

competition inside their networks.³¹² Hence, ‘cooptition’ might be a brilliant idea in theory, but in the long run it seems to have been a rather poor concept in practice for the late medieval Hanseatic merchants.

A second growth-limiting element inherent to the network organisation is its cultural boundary.³¹³ It is a well-established fact of sociological research and network studies, that networks that are based on cultural bonds are hardly able to incorporate members who lack these commonly accepted values, and that such networks cannot be expanded beyond a certain group size without attracting free-riders in greater numbers due to a resulting malfunction of the underlying multilateral reputation mechanism. The organisation therefore cannot grow because cultural identity creates a natural border. A mutual cultural orientation of the network members can only have a coordinating effect if the network is limited to members with the same cultural background. The multilateral reputation mechanism that is an effective and efficient means of coordination in network organisations prevents the crossing of such cultural borders, but above all it loses its effectiveness as the network expands. A greater anonymity of network members and participants of the network significantly reduces the probability of being caught in the case of fraud, just as it becomes less likely with an increasing number of persons that cases of fraud become public.

These very general empirical results regarding networks do apply to the Hanse and its merchants, and they are confirmed by various trends in the development of the Hanse’s network organisation of trade. It has been shown previously that the Hanse was in a sense a ‘small world’ – but only for Hansards. To strangers, however, the Hanse must have appeared as a closed society, almost impossible to reach. And in fact, it really was. The negative impact of such self-containment is quite typical for networks based on cultural identity and kinship bonds. The Florentine banker *Gherardo Bueri* proved to be one of the rare exceptions to this rule, because he managed to settle in the city of Lübeck and establish his business there. However, it was only after he had married into a rich local family that he could also join a Hanseatic network.³¹⁴

312 Cf. SPRANDEL 1984.

313 Cf. GREIF 2000, p. 275 f.

314 Cf. FOUQUET 1998.

A cultural border was already created by the first trade privileges that were awarded to Hanseatic merchants, inasmuch as the initially distinct groups of Lower German merchants who had cooperated in order to gain these privileges had one thing in common – the Low German language.³¹⁵ Ideally, their only contact with other foreign traders was at the markets where the goods entered the Hanseatic trade system, or where goods from North and East Europe left the system again. Moreover, there was a distinct lack of trade fairs in the Hanseatic region.³¹⁶ Cooperation with non-Hanseatic merchants, the so-called *Butenhansen*, became increasingly and also formally forbidden.³¹⁷ In addition, Hanseatic merchants tended to avoid commercial activities in Southern Germany. They frequented of course the Francfort trade fairs, but there was no real Hanseatic trade as such south of the river Main.³¹⁸

This cultural barrier as a kind of informal network boundary was less problematic for economic growth in the Hanseatic region as long as the European trade regions still largely existed alongside one another. In the early stages of the Hanse, trade was restricted to Hanseatic merchants, and it was possible to massively expand the network organisation by founding branch towns in the Baltic and through the easternbound migration of merchants. As a result, by the fourteenth century the Hanse's network organisation became a clearly defined entity. However, with the emergence of an overall European, and soon to be transatlantic economic area after 1450, the Hansards could not explore the new market opportunities that emerged outside of the Hanseatic region. They were not able to gain a foothold in these new markets to the same extent that their competitors were able to penetrate the Hanse's economic realm at the same time.³¹⁹ Particularly symptomatic in this respect is the collapse of the Venetian trading company of the Hanseatic *Veckinchusen* family. What is striking is that this company, which was especially created for the Italian trade, had different legal and organisational structures than those the same merchants commonly

315 Cf. HAMMEL-KIESOW 2000, S. 61.

316 Cf. IRSIGLER 2002.

317 Cf. SPRANDEL 1984, S. 32 f.

318 Cf. SCHNEIDMÜLLER 1991.

319 Cf. SPRANDEL 1984; JENKS 2005.

practised within the Hanse's network trade. This enterprise nevertheless failed due to a lack of knowledge about the personal relationships that were necessary in the Venice trade and that proved to be completely different to the well-known personal bonds within the Hanseatic commercial setting the *Veckinchusen* family was used to.³²⁰ And, since Hanseatic merchants very strictly held on to the trade privileges of the Hanse in London, Bruges, Bergen and Novgorod, and since the multilateral reputation mechanism only worked to perfection in smaller or medium-size networks, it was quite difficult for them to expand beyond the borders of their settled network-based system of trade that had been working for so many generations with such great success.

Adaptations Missed Because of the Success of the Network Organisation

The long-distance trade of the Hanse was successful because of the merchants' privileges in the markets at the outposts of the Hanse, and because the form of cooperation of reciprocal trade within the network organisation had apparently worked smoothly for such a long time. The position of the Hanse in Bruges was unrivalled among the merchants from other European trader nations.³²¹ This traditionally superior position, however, resulted in the Hanse's strategy to maintain its relationship to the Bruges stockyard longer than other nations, and as a consequence, this made it difficult for Hanseatic merchants to use the markets of Antwerp and Bergen-op-Zoom, which were already becoming more important by the end of the fifteenth century. It was only in 1564–68 that the Hansards finally abandoned Bruges and built a new *Kontor* in Antwerp, a much belated attempt to catch up with an economic shift that by this time had in fact been accomplished decades before.³²² The 'network memory'³²³, which saw Hanseatic trade automatically connected to the market of Bruges, thus led to a delay of the necessary restructuring. This in turn facilitated Southern German merchants

320 Cf. STIEDA 1894; KLUGE 2013.

321 Cf. VERMEERSCH 1992.

322 Cf. FRIEDLAND 1963.

323 Cf. WINDELER 2001.

to penetrate Northwestern Europe, merchants who were far more active than the Hanseatic merchants in sixteenth century Antwerp.³²⁴

A second field, where ongoing success inhibited structural change, is banking and financial institutions. The Hanseatic merchants' trade network was well-adapted to the lack of cash in the Hanseatic region.³²⁵ Risk capital was virtually unnecessary in a long-distance trade of this dimension. In addition, the risk capital that firms from Upper Germany obtained from investors in the form of deposits from princes, noblemen and the church, was not available to the urban upper and middle classes in the Hanseatic area, certainly a spin-off of a relatively balanced distribution of income in the Hanse towns. Initially, there was an old contract form known as the *wedderleginge* or *vera societas*³²⁶, which enabled the pooling of free capital by various merchants for a mutual trading venture. This form of cooperation however, was no longer of great importance in the late medieval period, which also points to fact that there was no capital market worth mentioning in the Hanse's realm. Around 1500, when the Hanseatic merchants were confronted with the appearance of effective capital markets – first in Antwerp and later in the sixteenth century in Amsterdam – this lack of risk capital inside the Hanse and the Hanse's only poorly developed banking system then turned into a commercial disadvantage, because Hansards were now faced with competitor enterprises, which were substantially better capitalised, and which also had easy access to risk capital.³²⁷

Likewise, within a system of long-distance trade that operated with little capital and also vehemently attempted to protect itself against competition, there was virtually no need for radical developments of trading techniques, such as the introduction of an efficient accounting system. Nor should it be forgotten that even in the fifteenth century, the simple Hanseatic system of trade was flexible enough to integrate regions which still differed a lot in their economic development. The network organisation enabled Hanseatic merchants to be equally active in the poorly developed market

324 Cf. HARRELD 2000.

325 Cf. SPRANDEL 1975.

326 Cf. CORDES 1998; 2000.

327 Cf. SCHONEWILLE 1998.

of Novgorod³²⁸, where they had to be present in person to trade with the Russian suppliers of furs, skins and wax, and the already highly developed medieval ‘world market’ of Bruges³²⁹, where cashless payment had been common for a long time. However, since the reciprocal trade preferred by Hanseatic merchants preserved a smaller volume of trade and less capital resources in general, the competitiveness of the Hanseatic merchants suffered significantly during the transatlantic expansion of European trade that was a matter of fact in the early sixteenth century.

The Multiplicity of Structure, and a Mismatch of Structure and Coordination

Besides the fact that Hanseatic businesses were quite small in size and thus had to adapt themselves to a given heterogeneous context, the Hanse’s commercial exchange was embedded in several overlapping organisational layers – traders’ networks, the *Kontore*, Hanse towns and the Hanseatic League. A higher degree of formalisation of the cooperative structure of the Hansards can be detected from the middle of the fourteenth century onwards with the formal emergence of the Hanseatic League. This structural change was formerly understood as a transition from the ‘Hanse of merchants’ to the ‘Hanse of towns’³³⁰, and it can be derived from a rationalisation, institutionalisation and recording of the decision-making procedures.

This notwithstanding, the likelihood of potential conflicts between the individual interests of merchants and the collective interests of town communities and of the *Kontore* presumably increased even more after the formation of the Hanseatic League. As the institution that enforced privileges, the *Kontore* were not controlled by any central instance; quite the reverse, in fact. The *Kontore* often developed their own trade policies, which then counteracted the objectives of Hanseatic merchants who not traded at the *Kontore* as well as the policies of Hanse towns. In addition to the *Kontore* in London, Bruges, Bergen and Novgorod, the Hanseatic League itself thoroughly developed its own economic and political scopes and vigorously at-

328 Cf. ANGERMANN / FRIEDLAND (eds.) 2002.

329 Cf. VERMEERSCH 1992; MURRAY 2000; STABEL 2001; GREVE 2000; 2001.

330 Cf. WERNICKE 1983; HENN 1984.

tempted to get these interests accepted, not only by foreign traders, but also by the Hanseatic merchants themselves.³³¹ Originally designed to coordinate the merchants' interests, to oversee trade and to provide the enforcement of privileges and trade regulations, it was this multiplicity of structure itself that put a further constraint on the activities of Hanseatic merchants.³³² The most important Hansards acted as town representatives at the diets of the Hanseatic League. These regular meetings of envoys from the Hanse towns are often misunderstood as a sort of 'Hanse parliament'. However, the group of representatives at these conventions typically claimed that they were acting in the interests of the society of German merchants³³³, but the coercive measures available to them usually proved to be much too weak to enforce and to maintain any of the agreed resolutions. Often, massive conflicts with the *Kontore* arose, typically concerning the measures to be employed to promote Hanseatic trade in a particular place.³³⁴ The emergence of the Hanseatic League as a formal political entity furthermore points to the problems of collective action and the notorious instability of cartels as has shown previously in Chapter 5 of this volume. It was foreseeable, that a powerful member of this cartel, namely Lübeck, had to take over to prevent its dissolution.³³⁵

As the *Kontore* in Bruges, London, Bergen and Novgorod, particular Hanse towns and the Hanseatic League often did not have the same economic and political scopes, merchants became increasingly trapped by the negative effects of this multiplicity of structure. This of course could create situations in which single merchants came into conflict with higher order economic interests, for instance when they were confronted with the Hanse's typical ban on the formation of business partnerships with non-Hanseatic traders.³³⁶ This seems to have been the case during embargoes. During the Hanse's blockade of Flanders lasting from 1358 to 1360 for

331 Cf. SPRANDEL 1984, p. 31 f.

332 Cf. von BRANDT 1963.

333 Cf. PITZ 2001.

334 Cf. HENN 2001.

335 See for a description of this economic phenomenon in a medieval setting VOLCKART 2004a; 2004c.

336 Cf. SPRANDEL 1984, p. 32 f.

instance, the traders of the town of Kampen tried to profit from the circumstances by neglecting to respect the prohibition of trade.³³⁷

All in all, this development can be seen as the typical kind of confrontation that evolves when attempts are made to coordinate a network organisation in a hierarchical manner. In the terminology of contingency theory, one could say that as soon as the more or less regular diets of the Hanse started to be effective, there was no longer a match in the structure and coordination of the Hanse's network organisation. As a consequence, inefficiency within the network organisation was inevitable. Such a negative consequence could arise, as in the case of Breslau / Wrocław in 1474, if a town voluntarily renounced its membership of the Hanse³³⁸, also causing a rupture in the network at merchant level. Following the town's departure all merchants from Breslau / Wrocław were officially excluded from the use of the Hanse's trade privileges, a fact which tore apart numerous personal bonds between Breslau / Wrocław merchants and merchants from other Hanse towns.

The acceptance of responsibility for the cooperative structure of the Hanse by the town councils from which the members came also provoked conflicts of interests within towns, which is vividly expressed in the form of the many urban riots that can be observed in Hanse towns from the last third of the fourteenth century onwards.³³⁹ In most cases, neither all of the citizens, nor all of the merchants of a particular Hanse town were equally interested in the use of the Hanse's trade privileges. The distribution of load between the members of the cooperative as the beneficiaries of trade privileges became even more complicated by the involvement of the towns insofar as these had very different interests in the privileges at the different trading centres. This becomes clear when looking at the commercial interests of those groups that were involved in the Lübeck riots at the beginning of the fifteenth century. It was only the 'Old Council', which traditionally consisted of merchants, that explicitly argued with Hanseatic interests, and not the opposition party, which was also supported by a

337 Cf. FRICCIUS 1932/33.

338 Cf. HAMMEL-KIESOW 2000, p. 111 f.

339 Cf. EHBRECHT 1976.

group of merchants.³⁴⁰ In such conflicts the diets of the Hanseatic League commonly took the side of the established council members, who in turn also supported the interests of the Hanse, and vigorously expelled towns from the Hanseatic League after a violent change of the town council. As a consequence of such a *Verhansung* ('an exclusion from the Hanse') the Hanseatic network organisation of trade was partially damaged, because expulsion also always meant a rupture of valuable personal bonds.

The Change of Economic Conditions

Changes, either exogenous or endogenous, in the commercial environment to which the Hanse's network organisation of trade had originally been so well adapted, obviously put this trading system under severe pressure towards the end of the fifteenth century. Firstly, the merchants' potential to remain flexible at the cost of an under-developed capital market structure within the inner reach of the Hanseatic system of trade meant that Hanseatic merchants, unlike their non-Hanseatic competitors, had almost no access to risk capital, which would have been urgently needed for much bigger commercial endeavours than those that had been typically undertaken within the internal Hanseatic trade.³⁴¹ Secondly, the Hanse's policy to block opponents on the grounds of the privileges and liberties its merchants enjoyed in Bruges prevented both of them from realising early enough that the economic importance of the Bruges market was rapidly declining as the Antwerp market expanded during the second half of the fifteenth century. And finally, harmonisation of the conditions of internal Hanseatic trade reduced transaction costs inside the Baltic for Hanseatic merchants, vastly facilitating their trading operations. By a standardisation of weights and measures, the introduction of quality control for goods, the increase in legal security for shipping goods abroad and the attempt made at introducing a main currency by establishing a regional minting association the Hansards were able to gradually harmonise the economic regions of Northern Europe, and thus reduce the transaction costs of trade.³⁴² This

340 Cf. BARTH 1974.

341 Cf. SCHONEWILLE 1998.

342 Cf. JENKS 2005.

much is true. Yet, the externalities of such harmonising attempts lowered transaction costs for non-Hanseatic merchants as well. As a result, by the end of the fifteenth century the commercial competitors of the Hanse were then more and more able to enter the Hanseatic system of trade, and this posed a serious threat to the privileged commercial position Hanseatic merchants had so far enjoyed in the Baltic.

However, a serious point of criticism using contingency theory with regard to the causal impact of the organisational context on the organisation itself is that this kind of explanation sticks to a far too mechanistic perception of the world.³⁴³ In this view, organisations, or their members, are thought of as actors, who are only capable of reacting to a changing environment. It unquestionably makes sense in the short term, for example because of transaction cost economics considerations, to choose a structure to suit the context, but in the long term the context itself can, in turn, be altered by the members, to a certain extent at least. Therefore organisations and their members do not always have to passively accept a given environment for their activities, and in the long run their ability to act is not solely limited to designing the organisational structure in a reactive manner and to selecting the appropriate coordination mechanism. In the strict sense of the concept, the further development of the organisation is considered path-dependent only if such adaption and a restructuring of the organisation would be, for whatever reason, impossible.

There is another form of organisational path dependence, however, which is characterised by initially unintended externalities that are produced by a proactive behaviour of organisation members. Such a proactive behaviour appears to have happened with regard to the Hanse's network organisation of trade. In what were originally very heterogeneous economic zones of trade and a commercial world with poorly developed institutions, networking proved to be an optimal strategy for Hansards to operate their trade. Using the pattern of reciprocal trade, in combination with the coordinating effect of the merchants' reputation, was initially an ideal choice of structure for the emerging institutional arrangement of trade. With the establishment of the Hanseatic League by the middle of the fourteenth century at the

343 Cf. CHILD 1972; KIESER / KUBICEK 1992.

latest, the Hanse and Hanseatic merchants tried to alter these basic conditions for their trade in such a manner that the network organisation was no longer suitable as an alternative means of organisation, simply because it no longer fitted the context. It was at this point that path dependence came back into the picture, because all of the restructuring and harmonising attempts had unintended, but nevertheless serious consequences for the competitiveness of Hanseatic merchants. What sought to improve the market position of Hanseatic merchants finally turned against them. Even though these measures actually reduced transaction costs for Hanseatic merchants, transaction costs for all of their potential competitors were equally reduced. For potential competitors it now became easier to operate in the core areas of the Hanse, because they could no longer be effectively excluded from making use of these newly established public goods.³⁴⁴ There was also a general reduction of transaction costs at the *Kontore*, which in turn diminished the commercial value of the trade privileges enjoyed by the Hanse and its merchants. As a consequence, the commercial advantages of Hanseatic merchants began to slowly fade away. Under these circumstances potential competitors of the Hanseatic merchants were now able to achieve higher ‘economies of scope and scale’ with their more efficient forms of organisation than those of the Hanseatic merchants, and this was one of the reasons for the Hanseatic merchants’ loss of ground in international trade around 1500 and the beginning of the Hanse’s long decline.

344 Cf. SEIFERT 1997.

Chapter 7

Perspectives of Research into Hanseatic Trade – the Impact of the Model of Network Organisation

A Short Look Back

Our first article on the network pattern of Hanseatic trade dates back to the year 2001 and was published in the *Hansische Geschichtsblätter*, the leading scholarly journal of Hanse historiography.³⁴⁵ Through a description in terms of network organisation of the typical modes by which the Hansards usually handled commercial exchange we were able to use economic theory to explain many features of the Hanse's system of trade, such as a dominance of small-size firms, a dominance of reciprocal trade without formal contracting and an obvious lack of risk capital, and this in turn revealed that the whole trade system of the Hanse must have been a very efficacious and efficient and thus viable pattern of commercial exchange. We gained our insights on the basis of the, in those days still relatively scarce, available source material on the commercial practices of Hanseatic merchants, some of which was already edited, and on the grounds of a careful interpretation of the published literature.

With this first result the floor was open to further analyses of Hanseatic trade and the Hanse's institutions of trade. However, even though the idea of network and of network organisation in connection with Hanseatic trade was quickly picked up by many other researchers and is now widely accepted within the scientific community, progress in this field proved to be much slower than initially expected. We ourselves recurrently contributed with numerous articles and working papers to the vivid evolving discussion on the characteristics of the institutions of Hanseatic trade.³⁴⁶

345 Cf. SELZER / EWERT 2001.

346 Cf. SELZER / EWERT 2005; 2010; EWERT / SELZER 2001; 2006a; 2006b; 2007, 2009, 2010, 2015.

Yet, what we hoped for some 15 years ago – a much richer empirical test of the hypothesis of network organisation with respect to Hanseatic trade and a much more fruitful discussion in economics and economic history on general trends in the development of late medieval institutions of trade – has so far not been fulfilled by Hanse historiography. Nevertheless, compared with the situation that was apparent around the year 2000, Hanse research since then had developed significantly into this new field, theoretically as well as empirically. Hence, we will finally give a brief sketch of what in particular has changed during the last decade and of the newer trends in the economic history of the Hanse that have emerged in recent years.

Methodological Advances and Newly Published Sources

As discussed in Chapter 1 of this book, around the year 2000 research into the Hanse was not really strongly connected to economics in a broader sense, neither to economic theory nor to economic history. In this first chapter we attempted to show how, for various reasons, an older relationship between Hanse historiography and economics that existed in the late nineteenth as well as in the early twentieth century was broken after 1945. Given this tremendous divergence in the development of Hanse historiography on the one hand side and of economics on the other, it is quite astounding in retrospect that economists like Avner GREIF, Paul MILGROM and Barry M. WEINGAST were taking the Hanse, or to be more precise, the voluntary cooperation of Hanseatic merchants at the Bruges *Kontor*, as an example of their model of guild formation they developed in their seminal and extremely influential paper of 1994.³⁴⁷

In contrast to what was the standard at about 15 years ago, recent publications, namely those in the *Hansische Geschichtsblätter*, on Hanseatic trade and topics related to it, now have a different scope and a much more pronounced theoretical emphasis. They often incorporate concepts from the social sciences or from economics such as transaction cost theory³⁴⁸ or sys-

347 Cf. GREIF / MILGROM / WEINGAST 1994. For a discussion of this approach see CLARK 2007 and OGILVIE 2007.

348 Cf. SELZER / EWERT 2005; JENKS 2005; LINK / KAPFENBERGER 2005; EWERT / SELZER 2009.

tems theory and cybernetics³⁴⁹. Even the methodological approach of game theory to both the Hanse and to Hanseatic trade, used before by Mark SCHONEWILLE³⁵⁰ and ourselves, has also been taken up again.³⁵¹ Certain ideas originating from another historical context, as is the case with the concept of a distributive revolution in the nineteenth century, have now been transferred to the commercial world of late medieval Hanse towns, thereby making use of Hanseatic source material.³⁵² This newly established and fruitful openness also pertains to several recently published surveys on the Hanse.³⁵³

What is presumably most important for the apparent ongoing change in scope and methodology within the research into the economic history of the Hanse is the fact that during the last 15 years several valuable series of source material have been edited and published, which in the near future will certainly allow for tests of some of the hypotheses regarding the effectiveness and the efficiency of Hanseatic trade institutions, hypotheses that have so far only been formulated on the grounds of economic theory. Among these recently edited sources are the pound toll lists of Danzig / Gdańsk, some of the account books of the commercial agents and the chief sales and buying officer (*Großschäffer*) of the Teutonic Order, many of the journals and manuals of the *Veckinchusen* family and a pound toll list from 1485/86 for Hamburg and Lübeck.³⁵⁴

Network Organisation as a Formative Pattern of Pre-modern Trade

Our initial approach to take the institutional arrangement of Hanseatic trade as an early case of network organisation is widely accepted now.³⁵⁵

349 Cf. JAHNKE 2013; JENKS 2014.

350 Cf. SCHONEWILLE 1998.

351 Cf. WUBS-MROZEWICZ 2013.

352 Cf. JENKS 2015.

353 Cf. SELZER 2010; WUBS-MROZEWICZ / JENKS (eds.) 2013; JAHNKE 2014; HARRELD (ed.) 2015.

354 Cf. JAHNKE (ed.) 2006; HESS (ed.) 2008; LINK / SARNOWSKY (eds.) 2009; JENKS (ed.) 2012; LACZNY / SARNOWSKY (eds.) 2013; LESNIKOV / STARK (eds.) 2013.

355 See e.g. DE BOER 2007; HOLBACH 2009; BRAND / KNOL (eds.) 2009; EDWARDS / OGILVIE 2011; HÄBERLEIN 2011; SCHULTE BEERBÜHL 2011; HAMMEL-KIESOW 2012; JENKS 2013.

The examples we used to illustrate certain features of this model like the lack of formal contracting, the great variety of trade partners or the building of mutual trust over time, were taken from the older literature. This empirical basis has been enriched substantially in recent years with several case studies on the trade of certain Hanseatic merchants, on groups of traders as well as on the means these merchants used.³⁵⁶ Also, the graphical representation of trade networks and other economic issues is now under careful research in Hanse historiography.³⁵⁷

Nonetheless, Hanseatic networks of trade are not the only elements that were analysed by the network approach during the last decade. In a way, the focus of Hanse historiography has also moved to social networks and their various appearances, which could be identified as a formative element of social cohesion between the inhabitants of Hanse towns.³⁵⁸ In the model of network organisation, social nearness, friendship and kinship are necessary prerequisites for a form of trade organisation that is mainly based on trust and reputation. This notwithstanding, in the literature one does not always find a proper discrimination of social networks on the one side and network organisation of trade on the other, although such a clear-cut distinction would be extremely important to explain specific mechanisms of Hanseatic trade.

Apart from kinship and friendship, social proximity and cooperative forms of interaction among Hansards, the aspects of communication and mobility have so far been treated rather poorly.³⁵⁹ Communication and mobility are pivotal elements of the Hanse's network trade system inasmuch as these elements can reveal a lot about the likelihood of long-distance trade evolving within in a wide geographical area like the Baltic and the North Sea as well as about the opportunities for the Hansards to design their commercial exchange in such a commercially different environment, as shown in Chapter 4 of this book.

356 Cf. JAHNKE 2005; 2010; BURKHARDT 2009; 2012; PAJUNG / POULSEN 2011; KLUGE 2013.

357 Cf. SELZER 2016b.

358 Cf. IGEL 2002; 2005; 2006; 2007; 2008; 2010; KOPPE / KOPPE 2006; MEYER 2010; POECK 2010; EWERT / SELZER 2015.

359 Cf. MÄHNERT / SELZER (eds.) 2012.

At first, our approach to explaining the specific pattern of commercial exchange prevalent among Hansards in terms of network organisation also dealt with the hypothesis of Wolfgang von STROMER. It was intended to put his claim of a seemingly commercial backwardness of the late medieval Hanse to the test and to find empirical evidence in order to possibly reject this hypothesis. In a paper published in 1976, Wolfgang von STROMER had claimed that the Hanse and its merchants were in a way outdated in the fifteenth and early sixteenth centuries, in part because of the apparent lack of centralisation within the Hanse and the lack of bureaucracy of Hanseatic business firms, and because Hanseatic merchants seem to have been quite reluctant to commit to formal contracts and to make use of the commercial innovations in European trade of the later Middle Ages.³⁶⁰ In dealing with this hypothesis our argument was that because of the network structure of Hanseatic trade that guaranteed coordination and fairness through culture, trust and reputation, merchants neither needed much formal contracting nor did they have to use newer business techniques.

Very soon, however, it transpired that categories like ‘modern’ or ‘backward’ are inappropriate to assess and to judge both the institutional arrangement and the economic performance of a particular system of commercial exchange. Taking the Weberian bureaucratic-hierarchical model as a point of reference, like Wolfgang von STROMER did, the Hanse’s institutions of trade certainly appear to have been backward at the end of the fifteenth century. In contrast, if the reference is changed to the model of network organisation, the same institutions appear as an extremely efficient, clever and modern solution to all the problems of organisation and coordination that typically arose in late medieval long-distance trade. Consequently, the question of backwardness of Hanseatic trade no longer is an issue, because with the model of network organisation at hand, Hanse research now is in possession of arguments able to convincingly reject any such reproach.

Moreover, nowadays it is obvious that the pattern of network organisation pertained to much more historical systems of trade than previously thought, and therefore the geographical spread of this particular institutional arrangement was much wider in the late Middle Ages and in early-

360 Cf. von STROMER 1976.

modern times. Numerous case studies as well as several recently published collected volumes based on the papers prepared for workshops and conferences prove this³⁶¹, and even the traditional ‘Reichenau-Tagung’ of the German medieval historians in its 2008 conference dealt with the concept of networks in medieval trade.³⁶² In sharp contrast to the judgement of Wolfgang von STROMER dating back to the year 1976, and based on the results of present-day research on medieval and early-modern long-distance trade, today one would say that in late fifteenth century and even beyond this historically important watershed, network patterns of trade were much more common than bureaucratic-hierarchical organised businesses, represented by a few firms from Upper Germany, that were taken, not without reason, of course, as a point of reference by Wolfgang von STROMER.

The Hanse as a Political Organisation

The explanatory power of theoretical economic concepts is not restricted to the analysis of the institutions of Hanseatic trade. Theoretical economic concepts are also instrumental in the analysis of the Hanseatic League and they can help to reach a better understanding of the Hanse as a political organisation. Beginning with Angelo PICHIERRI’s publication on the Hanse as a state of cities in the year 2000³⁶³, several approaches to the analysis of the Hanseatic League can now be found that rely, at least in part, on social science concepts or theoretical economic reasoning.³⁶⁴

At the beginning, the issue of the Hanseatic League was not the focal point of our own research, which was originally directed towards the sphere of individual Hanseatic merchants and their commercial exchange. However, in Chapter 5 of this book we describe the formation of the Hanseatic League as the association of Hanse towns, as the emergence of a multipolar network organisation evolving in times of crisis through a more formal and more vigorous cooperation of certain actors within the Hanse, including merchants, the *Kontore* and town representatives, and therefore producing

361 Cf. von SALTERN 2009; KALUS 2010; LAMIKIZ 2010; GESTRICH / SCHULTE BEERBÜHL (eds.) 2011.

362 Cf. FOUQUET / GILOMEN (eds.) 2010.

363 Cf. PICHIERRI 2000.

364 Cf. SCHELLERS 2003; BRAND (ed.) 2007; TAKE 2013.

additional organisational layers, again interwoven with each other by the ever-present personal relationships of Hansards.

To a certain extent, this approach is in line with other interpretations of the Hanseatic League that are based on institutional economics, public choice and game theory, like the concept of *Functional Overlapping Competing Jurisdictions* (FOCJ), which was introduced to public choice theory by Bruno S. FREY and Reiner EICHENBERGER in 1996³⁶⁵ and has now been used by Alexander FINK in several articles on the Hanseatic League.³⁶⁶ Nevertheless, some aspects that are important in understanding the history of the Hanse are missing within this concept. Neither the historical reasons for an association of Hanse towns to emerge nor the fact that a majority of towns were non-permanent members with only a loose association to the Hanseatic League are taken into account. The personal element, which in pre-modern societies was extremely important in reconciling eventual conflict, is also lacking. This is fairly straightforward because the concept of FOCJ developed from a modern states' background. Instead, our model of a multipolar network organisation is able to incorporate the organisational attempts that were made around 1350 to form a closer cooperation of Hansards at various levels, and it can also explain why a fundamental problem of cooperation arose in several instances belonging to this newly existing, yet loose association. The manner in which cooperation was handled over time, namely by attempts to formalise and to centralise it, naturally produced disincentives for merchants, for the *Kontore* and even for the towns to commit unreservedly to this kind of association, which in turn was one of the reasons for the Hanse's declining economic performance at the end of the fifteenth century.

The Structural Change around the Year 1500

For various reasons, there were significant changes around the year 1500 in global trade routes, in patterns of European long-distance trade and in the dominance of particular merchant groups in Europe. It was at this time that Hanseatic merchants started to lose the competitive advantages

365 Cf. FREY / EICHENBERGER 1996; FREY 2005.

366 Cf. FINK 2011; 2012.

they had enjoyed for so many generations in the North Sea and the Baltic. Based on trade privileges, Hanseatic merchants had been able to form an extremely stable cartel for quite a long time, which then became unstable and, showing first signs of dissolution, began to erode. In Chapter 6 of this book we attempted to show that the end of the Hansard's competitive advantage was in part due to the network organisation of long-distance Hanseatic trade, because this institutional arrangement not only enhanced trade but in the long run had negative repercussions on economic development and growth, too.

The rising competition the Hansards were faced with around the year 1500 was also caused by additional determinants, which lie beyond a purely organisational explanation. In a recently published collected volume, the structural change around 1500, its potential determinants as well as its consequences are discussed from a Hanse perspective.³⁶⁷ For the history of the Hanse this transition is extremely important insofar as the change of the economic environment marked not only a change in the state of commercial competition at the merchant level, but also a change in the meaning of the political organisation of the Hanseatic League. By focusing particularly on this transitional period, the German research into the Hanse becomes more closely connected to the rich strand of literature on Flemish and Dutch economic and urban history, which has long been well aware of the ongoing commercial change and of the impact the late medieval and early-modern business cycles had in these areas. Flemish and Dutch economic historians have naturally analysed these business cycles, which become most evident in the increasing and decreasing importance of the markets of Bruges, Antwerp and Amsterdam, on the grounds of modern economic concepts.³⁶⁸

Insights Relevant to Historical Economics of Trade

The above-cited paper of Avner GREIF, Paul MILGROM and Barry S. WEINGAST on the interaction of medieval rulers and merchants can undoubtedly be considered as extremely influential, in economic history as well as in economics, but also in political science. One recent example of this influ-

367 Cf. HAMMEL-KIESOW / SELZER (eds.) 2016.

368 Cf. GELDERBLUM 2013; CARACAUSI / JEGGLE (eds.) 2014; OGIIVIE 2014.

ence is a volume on development economics where the Hanse case and the considerations of GREIF, MILGROM and WEINGAST are described at some length within a section on alternative institutions for contract enforcement.³⁶⁹ Given this immense scientific impact, and the fact that the authors used the cooperation of Hansards at the Bruges market as an example of guild formation in the Middle Ages, one would have expected the Hanse, and especially the trade institutions of its merchants, to be back on the agenda of international economic history. Unfortunately, this is not the case. As a consequence, debates in international economic history of the Middle Ages in most cases do not really consider developments in Northern European trade. Meanwhile, because the Hanse perspective is rather under-represented in these scholarly debates, Hanse historiography cannot profit from the empirical findings and conceptual improvements that typically arise in connection with the study of a wide range of European examples.

Two of the current discussions in economic history will be briefly mentioned here. For quite a while now, the role of guilds in medieval and early-modern trade has been re-assessed conscientiously in the international literature. A series of newer publications on this topic³⁷⁰ show that merchant guilds not only had positive effects on the volume of trade, on economic development and on economic growth. Since a general principle of medieval and early-modern guilds was to include as well as to exclude individuals, merchants who were members of a guild could benefit from the collective goods the guild provided to them, whereas others, the non-members, did not. Growth, however, was obviously much more pronounced in a setting where not only groups of merchants were privileged, but also where individual traders were granted access to reliable and efficient institutions of trade, meaning that communities and not just guilds provided merchants with all kinds of services to enhance trade. The work of Erik LINDBERG, even though it covers the later developments of the sixteenth and seventeenth centuries, reveals interesting insights and inspiring results for Hamburg, Lübeck and Königsberg / Kaliningrad in this regard.³⁷¹

369 Cf. ALTMANN 2011, pp. 59–61.

370 See in general GRAFE / GELDERBLOM 2010 and OGILVIE 2011, and for the *Kontor* of the Hanse in Bergen WUBS-MROZEWICZ 2008; 2010; 2011; 2012.

371 Cf. LINDBERG 2008; 2009; 2010.

Another important and rather controversial discussion on medieval trade in economic history is currently concerned with the mechanisms of enforcing cooperation between merchants in impersonal exchange. Arguing on the grounds of the cases of the Maghribi traders, the Hansards' guild in Bruges, and Genoese merchants, Avner GREIF strongly advocates the outstanding role that in his view self-enforcing institutions and corporative mechanisms played in contract enforcement and in securing merchants' property rights.³⁷² In opposition to this, Jeremy EDWARDS and Sheilagh C. OGILVIE are eager to stress the importance of public legal institutions in enhancing impersonal exchange.³⁷³ In their opinion, the medieval Champagne fairs are a good example of public institutions having been a necessary requirement for providing merchants with an institutional arrangement by which merchants' property rights could be secured and contracts could be enforced. In the case of the medieval Champagne fairs, this was achieved with a certain commercial policy of the count of Champagne.

We think that this point would be of fundamental importance for the research into the institutions of Hanseatic trade, but unfortunately a specific Hanse perspective has not been established so far in this scholarly debate. Yet, there would be a good reason to do so because the Hanse's network organisation of trade consists of private-order institutions as well as of public institutions, even more so after the Hanseatic League emerged at the middle of the fourteenth century. Hence it follows that the Hanse is a good example of self-enforcing institutions of the like Avner GREIF mainly points to, co-existing with means of third-party-enforcement. Corporative mechanisms of enforcement based on common values, trust and reputation were extremely instrumental in enhancing the cooperation of Hanseatic merchants, but to make these institutions work effectively, public institutions such as the merchant law or the communal responsibility to enforce

372 Cf. GREIF 2000; 2002b; 2006. Avner GREIF was recently criticised for having seemingly copied – without correctly citing his source – the idea of corporative mechanisms of enforcement in commercial networks based on culture, trust and reputation from the work of the American anthropologist Janet LANDA, who had developed this idea in a study on a group of Chinese traders in Southeast Asia (see LANDA 1978; 1981; 1994). Cf. ROWLEY 2009, and the reply to this allegation by GREIF 2009

373 Cf. EDWARDS / OGILVIE 2011; 2012.

the merchants' property rights abroad were also necessary. In addition, the Hanse would also be a good example of how important for the overall economic performance of the institutional arrangement of trade a perfect tuning of different types of enforcement was. As discussed in Chapters 5 and 6 of this book, the attempts to re-structure the Hanse's network organisation of trade and thereby superimpose private-order and corporative institutions with public institutions of enforcement, presumably contributed substantially to the economic decline of the Hanse that had begun in late fifteenth century, because with these attempts some of the traditional but efficient institutions of Hansards like the *Kontore*, were seriously at risk of being neutralised in a more centralised, more hierarchical and more town-oriented structure.

In our view, the Hanse's institutional arrangement of trade is worth consideration as a significant case of institution building in medieval and early-modern commercial exchange. Both economic history and Hanse historiography would benefit from such analysis. The Hanse's institutional arrangement of trade and the network organisation of Hanseatic trade has all the ingredients needed for good institutional economics reasoning – rules of trade and trading practices, distinct forms of merchants' cooperation and institutional change – all of these enable us to derive incentives as well as disincentives to trade, and to analyse the manifold repercussions institutional change had on trade. Vice versa, for Hanse historiography this would be a valuable approach because the Hanse's institutional arrangement could be embedded into a more general framework of trade in medieval Europe, and this in turn would allow Hanse research to make profound statements about what the institutions of Hanseatic trade had in common with other institutional arrangements of medieval European traders, and in what respect the Hanse's institutions were special. For rather obscure reasons such a potentially fruitful scientific exchange between different fields in economic history can thus far only be considered as underdeveloped. We continue to hope that our analysis of the Hanse's network organisation of trade presented in this book may help at least a little bit in improving this.

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