

**The Organization of Long-Distance Trade: Reputation and Coalitions in the Geniza Documents and Genoa During the Eleventh and Twelfth Centuries**



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inferior to freeholding in early nineteenth-century Ontario and helps explain why a minority of families continued to rent ever-increasing acreage when they could afford to buy.

The New World experience was therefore rewarding. Wealth and land ownership might be slow in materializing, but the opportunity, the choices, and the attainment of security were all greater than they had been in Ireland—for both tenants and landlords.

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### *The Organization of Long-Distance Trade: Reputation and Coalitions in the Geniza Documents and Genoa During the Eleventh and Twelfth Centuries*

The subject of my dissertation is medieval trade organization. The basic question addressed concerns the emergence, operation, and evolution of nonmarket economic institutions that enabled merchants to increase trade efficiency by operating through overseas agents.<sup>1</sup> Evidence about eleventh- and twelfth-century Mediterranean trade indicates that institutions based upon reputation evolved to govern agency relations. These institutions were a response to contractual problems that arose in complex trade characterized by asymmetric information, slow communication technology, an inability to specify comprehensive contracts, and limited legal contract enforceability.

In long-distance medieval trade, a merchant had to organize a specific transaction, namely the supply of services required to handle his goods abroad. There were two basic modes of organizing this transaction: first, a merchant could have traveled with his merchandise between trade centers; second, he could have hired an overseas agent to supply the services. Three important attributes of this transaction should be pointed out. First, employing overseas agents was "technically" efficient. By employing agents, a merchant saved the time and risk of travel, diversified his sales across trade centers, and so forth. Second, only the person who provided the services observed many relevant variables, such as the final sales price. Moreover, a third party (such as the court) could not observe these variables except at a high cost. Third, these variables were usually subject to large variation. Hence, whenever an agent was employed he could act opportunistically. For example, whenever he had to sell goods he could report a price lower than the one received and expropriate the difference. Furthermore, given the complexity of the trade and the communication technology available, the merchant-agent relations could not be governed by comprehensive contact—a situation an agent could exploit opportunistically.

Traders thus faced an organization problem—cooperation led to efficiency gains that an anonymous market for agents' services failed to capture. The importance of this

<sup>1</sup> This dissertation was completed in 1989 at the Economics Department of Northwestern University under the supervision of Joel Mokyr, John C. Panzar, and William Rogerson. This dissertation has benefited from the encouragement, suggestions, and remarks of Deborah Aron, Charles W. Calomiris, Douglass C. North, and the participants at seminars held at Northwestern University, the University of Chicago, the University of Texas at Austin, Stanford University, MIT, Yale, the University of Arizona at Tucson, the University of Michigan at Ann Arbor, and Washington University at St. Louis. This research was supported by a Sloan Foundation Dissertation Fellowship.

problem for trade efficiency is reflected in the fact that merchant-agent relations were present in all the main forms of business association used in premodern commerce—*commenda*, partnership, and factors. It has been argued that these greatly facilitated the medieval “commercial revolution” in which commercial expansion led to fundamental economic, social, and political changes in Europe.<sup>2</sup>

The hypothesis I advance is that at least in the historical episodes examined, economic institutions based upon reputation governed agency relations. These institutions established a linkage between past conduct and future economic reward in a manner that enabled an agent to credibly commit himself *ex ante* to be honest, not to breach a contract *ex post*. This commitment was achieved by ensuring that the short-run gains from cheating were less than the long-run benefits of an honest agent. Since this situation was common knowledge, the merchant perceived that an agent could not do better by cheating. The agent acquired a reputation of being honest, and the merchant could trust him. Thus, to examine the institution that governed agency relations in a specific historical episode is to study how this linkage was established given the social, political, and economic environment of that time.

To facilitate this study, I construct an explicit reputation model that captures the essence of the merchant-agent organizational problem. The situation is modeled as a repeated game with communication between a merchant and many potential agents, taking into account the operation of many other merchants in the economy. For the model to be applicable to the investigation of the problem in different historical episodes, it includes parameters that represent the attributes of the transaction, such as the degree of uncertainty and asymmetric information involved. Further, it includes parameters that capture the influence of the economic environment, such as merchants’ ability to communicate, institutional constraints imposed by the historical circumstances, and so forth. The model indicates whether, for a given set of parameters, a merchant was most likely not to employ agents, to employ them through an anonymous market, or to employ them through a nonmarket economic institution. Furthermore, the model generates predictions about business practices under the assumption that a specific economic institution is used. Thus, it enables identification and explanation of the nature of a specific nonmarket economic institution used in a historical episode.

The model was used to examine the institutions that governed agency relations among the Maghribi traders—Jewish merchants who operated in the Muslim Mediterranean during the eleventh century—and among the Genoese traders during the twelfth century.

Information about the Maghribi traders is contained in a rich historical source known as the *geniza* documents.<sup>3</sup> The *geniza* suggests that the Maghribi traders arranged agency relations through a peer organization that may be referred to as a coalition. A coalition is a non-anonymous organizational framework through which agency relations were established only among individuals with specific identity. The relations among coalition members were governed by an implicit contract ensuring that a coalition-member merchant would hire only another member as his agent, that a nonmember merchant would never hire a member as his agent, and that no member would ever hire an agent who cheated any other member. Thus, this implicit contract ensured collective punishment of dishonest members and collective reward of honest agents. Hence, the implicit contract increased both the cost of cheating and the benefits of being honest and

<sup>2</sup> See, for example, Robert S. Lopez, *The Commercial Revolution of the Middle Ages, 950–1350* (New York, 1976); Henri Pirenne, *Mohammed and Charlemagne* (New York, 1939); and Henri Pirenne, *A History of Europe* (New York, 1956).

<sup>3</sup> For a general introduction to the *geniza* documents, see S. D. Goitein, *A Mediterranean Society: Economic Foundations* (Los Angeles, 1967), introduction; the article “Geniza” in M. Th. Houtsma, ed., *Encyclopedia of Islam* (2nd edn., Leyden, 1978), vol. 3, pp. 987–99.

enabled the establishment of agency relations in circumstances where simple bilateral reputational mechanisms failed to induce honesty. Furthermore, coalition members shared a common cultural rule of behavior, a "merchants' law," which mitigated the organizational problem associated with incompleteness of contracts and ensured the provision of information required for the operation of the coalition. The implicit contract and the merchants' law enabled coalition members to provide each other with agency services that increased the value of a member's capital. This capital premium available to an honest member increased the gap between short-run gains from cheating and long-run gains of honesty required to support the operation of the reputational mechanism. In short, the traders took advantage of a *perpetuum mobile*—the contractual relations among them reduced the transaction cost associated with agency relations and thus motivated each coalition member to follow these contractual arrangements.

The *geniza* contains direct and indirect evidence supporting the claim that agency relations among the Maghribi traders were organized through a coalition. The direct evidence consists of explicit statements in the *geniza* that reflect various aspects of the coalition, such as the economic nature of the punishment inflicted on cheaters, the linkage between past conduct and future economic reward, and so forth. The indirect evidence is an empirical confirmation of predictions generated by the model under the assumption that agency relations were organized through a coalition. This analysis points to the rationale behind many observed phenomena such as the choice over the forms of business association, accounting procedures, the determination of the coalition's "boundaries," and the relations between the coalition and the related social structure, the Maghribi traders' group.

The study of the institutions that governed agency relations among the Genoese traders during the twelfth century reveals the interaction between these institutions and the political economy of Genoa. Around the middle of the century, agency relations were governed by a "political coalition" in which the political control of a mercantile elite over the profitable long-distance trade provided the basis for the operation of a reputational mechanism. This institution, however, collapsed after this elite lost its political control during the third quarter of the twelfth century. The result was the evolution of a new institution—the patron system—in which differences in wealth distribution and opportunities provided the basis for the operation of the reputational mechanism between agents and their "patrons."

To support the above hypothesis, I have utilized secondary studies based upon cartularies of the twelfth century.<sup>4</sup> Information about the political economy of Genoa and forms of business association was confronted with the assumptions and the predictions of the model. Of special interest is the ability of the model to explain a transition in forms of business association used in Genoa—a transition from the *societas* to the *commenda*.

The extent to which coalitions and other nonmarket institutions played a role in the development of long-distance trade in general, the forms of these institutions, their evolution, and interrelations with institutions related to productions is yet to be explored. An investigation of the nonmarket economic institutions employed in different historical episodes will lead the way to a comparative institutional investigation that

<sup>4</sup> See, for example, Eugene H. Byrne, "Genoese Trade with Syria in the Twelfth Century," *American Historical Review*, 25 (1920), pp. 191–219; Eugene H. Byrne, "The Genoese Colonies in Syria," in L. J. Paetow, ed., *The Crusade and other Historical Essays* (New York, 1928); Gerald W. Day, *Genoa's Response to Byzantium, 1154–1204* (Urbana, 1988); and Hilmar K. Krueger, "The Commercial Relations between Genoa and Northwest Africa in the Twelfth Century" (Ph.D. diss., University of Wisconsin at Madison, 1932).

may facilitate our understanding of the contribution of nonmarket institutions to the process of economic growth.

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### *Schwäbisch Hall, 1650–1750: Urban Social and Economic Life in Southwest Germany After the Thirty Years' War*

My dissertation is a detailed study of the economy, social structure, and demographic system of Schwäbisch Hall, a small southwest German town (roughly 5,000 inhabitants), from 1650 to 1750.<sup>1</sup> This local study also explores on a regional scale why many small urban communities experienced sluggish economic and demographic growth after the Thirty Years' War. In the late Middle Ages and the early sixteenth century, southwest Germany was one of central Europe's most highly urbanized regions. Its numerous small urban communities were prosperous, pulsating centers of manufacture and commerce, but by 1600 the regional economy had faltered, and the dense network of small towns began to atrophy. This was not an isolated development, for during the seventeenth and early eighteenth centuries, most small- and medium-sized European cities had stopped growing. Accordingly, it seems appropriate to consider southwest Germany's urban and economic development within the larger context of the forces that allegedly determined the pace and incidence of early modern European urbanization. It is this larger context that informs my study of Schwäbisch Hall. Thus, the dissertation explores the changes in the town's social and economic structures and relates them to concurrent developments in the surrounding rural economy.

The dissertation in effect treats three principal, interrelated topics. The first is the economy of the town. A variety of sources were used, the most valuable of which are Beet lists: annual records of the proportional wealth tax (Beet) paid by households in the town. With the Beet lists from 1625, 1682, and 1754, I identify the principal occupational groups and chart the changes in their size and wealth. The leather and textile trades, once flourishing sectors of urban craft industry producing for the regional market, suffered dramatic declines. Meanwhile, butchering had become one of the most prosperous trades, reflecting the increasing importance of cattle raising in the region's rural economy. Salt production—an industry that made Schwäbisch Hall rather unique among southwest German towns—expanded more vigorously than any other sector of the urban economy and remained the town's single most important source of employment.

Comparison of occupational wealth distributions from 1545, 1625, 1682, and 1754 shows that, during the two centuries, wealth was redistributed downward within the poorer artisanal trades—potters, tailors, weavers, and shoemakers. By implication, the opportunities for wealth mobility had diminished in these crafts, which now had fewer prosperous artisans. Little change occurred in the distributions of the wealthiest occupations—bakers, butchers, tanners, coopers, and ropemakers. Thus, the economic fortunes of artisanal crafts with low skill and capital requirements eroded steadily during the early modern period.

Why did prosperous artisans disappear only from the poorest trades? In contrast to

<sup>1</sup> This dissertation was completed in 1989 at the History Department of Yale University under the supervision of Harry A. Miskimin, David R. Weir, and R. Emmet McLaughlin. Financial support was provided by the Danforth Foundation, the Council for European Studies, the Ford Foundation, and the German Academic Exchange Service.