4 / The Evolution of Institutions Favorable to Commerce

The growth of European trade from the fifteenth century on was dominated by private traders in shifting and complex relations with their national political authorities. More was needed for the expansion of trade than a simple abandonment of the medieval objection to trading at negotiated prices. Medieval society was not well adapted to even the most essential trade between regions, and the expansion of trade which occurred in the fifteenth and sixteenth centuries required the invention or adoption of new institutional arrangements to supplement or replace the old medieval institutions.

Some of the institutional innovations reduced the risks of trade, either political or commercial. Among them were a legal system designed to give predictable, rather than discretionary, decisions; the introduction of bills of exchange, which facilitated the transfer of money and provided the credit needed for commercial transactions; the rise of an insurance market; and the change of governmental revenue systems from discretionary expropriation to systematic taxation—a change closely linked to the development of the institution of private property.

Large-scale trade outgrew the family firm whose internal loyalties were based on kinship. What was required was a concept of a firm as an entity distinct from its proprietor and from the family—an entity with a continuity of association among those whose working lives were organized around it and with a capacity similar to that of the family enterprise to create feelings of loyalty and duty. Such an entity required a degree of separation of the individual's property and transactions from the property and transactions of the enterprise unknown in the earlier family firms. The invention of double entry bookkeeping supplied the required separation; perhaps even more important, double entry bookkeeping supplied a financial history and financial picture of the enterprise which enabled other traders to deal with it as an entity and with some understanding of its capacity to meet its commitments.

The need for a form of enterprise which could command trust and loyalty on some basis other than kinship was only one facet of a broader need: the rising world of trade needed a moral system. It needed a morality to support reliance on its complex apparatus of representation and promise: credit, representations as to quality, promises to deliver goods, or to buy goods in the future, and agreements to share in the proceeds of voyages. A moral system was also needed, as we have just seen, to supply the personal loyalties necessary to the development of firms outside the family, as well as to justify reliance on the discretion of agents, ranging from ships' captains to the managers of remote trading posts and including merchants' own partners. The ethical system of feudal society had been built around the same military hierarchy as the rest of feudalism, and it did not meet the needs of the merchants. It was out of the turbulence of the Protestant Reformation that there developed a morality and patterns of religious belief compatible with the needs and values of capitalism. The part thus played by religion in the rise of capitalism is one of the more controversial topics of economic history.

Finally, two political factors affected the growth of trade significantly. The first was the mercantilist partnership between the royal authorities and the merchants. As compared to a system of free trade, this alliance of politicians and traders no doubt lessened rather than increased trade. But by comparison to the antecedent restrictions, it was an alliance that did much to expand commerce. The other factor was that military power was consolidated in several royal governments, rather than in one comprehensive empire. From the sixteenth century on, political power passed from the diffusion of the Middle Ages, to the oligopoly of a relatively few governments. But no government succeeded in achieving monopoly, and competition among governments for the patronage of the merchants was important—even essential—to the formation of an autonomous economic sphere.

It is difficult, because of the close relationship between the rise of trade and the rise of the towns, to distinguish between institutions invented to meet the needs of trade and those invented to meet the needs of urbanization. Even so basic a capitalist institution as private property grew as much from the needs of urban life as from the needs of trading.

We can consider each of these many developments only briefly: (1) legal enforcement of contracts and property claims; (2) bills of exchange and banking; (3) insurance; (4) the substitution of taxation for confiscation and the recognition of property rights; (5) economic association without kinship; (6) double entry bookkeeping; (7) the development of a religious and moral system suitable to the commercial community; (8) the mercantilist partnership; and (9) the divided European political structure and the part it played in allowing the growth of an autonomous merchant class.

The Changing Legal Structure

Large-scale commerce ordinarily involves transactions that take place over a considerable period of time. Unlike the everyday cash sale of goods, the medieval trading voyage, even within the Mediterranean, often lasted six months or more, and trading ventures to the East took years. Thus, the merchant who bought timber, wool, wheat, leather, salt, spices, or other commodities in large quantities was engaged in transactions that took time, and that could not be consummated without unreasonable risk in the absence of dependable commitments at the outset from sellers, shipowners, buyers, and lenders. It was not absolutely essential that these commitments be legally enforceable; reliance could be, and was, placed upon the character and reputation of the other parties to the transaction. But the lack of enforceability added to the risks and thereby raised the cost of trade and limited its volume.

The development of a commercial law and commercial courts was in part a response to the expansion of commerce. A comprehensive and reliable commercial law required judges experienced in adjudicating commercial disputes and the development of a body of precedents for deciding them. Medieval courts could not develop a body of commercial law until the volume of commerce was large enough to generate a regular flow of commercial disputes, and courts were not likely to be presented with commercial disputes so long as their decisions were made unpredictable by lack of precedent, by medieval concepts of discretionary justice, and by possible bias against foreigners. The impasse was broken here and there, in the courts of trading cities, by the late Middle Ages. But it was not until the latter part of the eighteenth century that the royal courts in London had accumulated enough experience in deciding disputes over insurance, bills of exchange, ships' charters, sales contracts, partnership agreements, patents, arbitrations, and other commercial transactions to make English courts and law seem a factor contributing positively to the development of English commerce. The English courts allowed suits by foreign merchants and acquired a reputation for treating foreign litigants with scrupulous fairness. Mercantile transactions, insurance policies, and credit instruments subject to English law seemed more secure, more calculable in their consequences, less subject to the vagaries of sovereigns and changes of heart by one party or the other—advantages reflected in the growth of the British insurance industry, of London as a world financial center, and of British trade generally, as well as in low interest rates. Other Western countries sought to emulate these advantages by adopting commercial codes and establishing commercial courts.

Max Weber emphasized another aspect of European law. The West inherited from Roman law a formal, logical mode of juristic reasoning, ostensibly free from discretionary, ritualistic, religious, or magical considerations. Modern legal thought tends to emphasize and even justify the informal and discretionary aspects of judicial decision, but there remains a striking contrast between a system of law which seeks to make the legal consequences of human action coherent and predictable and the many systems which either have no such objective or allow it to become lost among competing objectives. The Western system lends itself to calculability; the others do not. As Weber put it:

> In China it may happen that a man who has sold a house to another may later come to him and ask to be taken in because in the meantime he has been impoverished. If the purchaser refuses to heed the ancient Chinese command to help a brother, the spirits will be disturbed; hence the impoverished seller comes into the house as a renter who pays no rent. Capitalism cannot operate on the basis of a law so constituted. What it requires is law which can be counted upon, like a machine; ritualistic-religious and magical considerations must be excluded.[1]

Thus, systematic law added to the ability to predict the behavior of others, including people of all social ranks, in a wide variety of possible contexts. It thereby reduced the risks of trading and investing with them. This substitution of comparatively dependable rules for the discretionary justice of the manorial courts or the royal father figures, however Solomonic they might be, was an important element in the development of capitalist institutions.[2]

Bills of Exchange

Merchants in Italy began using drafts drawn on their accounts with each other as a substitute for payment in coin during the thirteenth century. The use of bills of exchange permitted merchants to transfer the amounts they owed each other in the same way that we now transfer bank balances—by drawing a check, which is itself a bill of exchange drawn on a bank. In Antwerp, and later in Amsterdam, markets developed for the buying and selling of bills of exchange. In effect, these markets supplied, at low cost, the short-term credit needed to finance a growing commerce.

Deposit banking developed in a somewhat circuitous way, concurrently with the market for bills of exchange. Trading in bills of exchange circumvented the Church's prohibition of the payment of interest, since the purchase of a bill at a discount from its face value was treated as reflecting the risk that the bill might not be honored when it was presented, rather than as a payment of interest. As bills of exchange came into wide use, lesser-known merchants began to deposit funds with more widely known merchants, in order to place themselves in a position to pay by bills of exchange drawn on the more widely known merchants. It did not take long for the merchants who accumulated these deposits to discover that only a small portion of the deposits needed to be kept on hand to cover withdrawals, and that the balance could safely be used to buy bills of exchange at a discount—that is, for lending money at interest despite the prohibition of usury. They thus introduced deposit banking as a profitable and growing business in a society which prohibited the payment of interest.

Insurance

The earliest form of marine insurance was a loan, repayable with a high premium if the voyage succeeded, but not repayable at all if the vessel was lost. Known as a "bottomry and respondentia bond," this form of insurance loan was used by the ancient Greeks. The separation of insurance from financing took place in Italy, perhaps as early as the latter part of the twelfth century, when insurers began to guarantee against loss of the vessel in return for a stated premium. There is, however, only a scant record of the use of marine insurance before the sixteenth century. A Florentine statute of 1523 contained a form of policy which differed but little from the form adopted by Lloyd's in 1779. Lloyd's itself dates from the late seventeenth century. Merchants who were prepared to accept an insurance risk would meet with shippers and shipowners at Lloyd's coffee house, in London, and negotiate the premium. The insurers were individuals who either did not have enough capital to pay for the loss of an entire vessel or who felt it imprudent to accept the whole risk. So, once a rate had been agreed upon, a number of insurers would sign on, each for a portion of the risk.

The development of marine insurance markets in Italy, Amsterdam, and London separated commercial risks from the risks posed by the perils of the sea and made it possible for merchants to venture increasingly large amounts of capital on the commercial outcome of a voyage without subjecting themselves to the less calculable uncertainties of the sea. The commercial risk was that the cargo might not bring prices as high as had been hoped for, so that the voyage might not be as profitable as expected, or might even result in a loss. But only rarely was there a commercial risk that the cargo might prove wholly worthless and produce a loss of the entire capital invested—a risk decidedly present from storms, pirates, and the other hazards of the sea.

The division of risk between the perils of the sea and the perils of the market, with specialized insurers undertaking the former and merchants and shipowners the latter, converted an intrinsically hazardous business into one capable of drawing capital from relatively cautious and conservative merchants. Some such division of risk was essential to the development of maritime commerce. It is possible to think of other ways the risks might have been divided, such as marketing shares in the voyages themselves at Lloyd's instead of shares in the risk of loss from perils of the sea. But this would have required the underwriters at Lloyd's to familiarize themselves not simply with the risks of the sea, but also with the commercial risks involved in every line of trade conducted by sea. The division between specialists in maritime risks and specialists in market risks greatly facilitated the growth of maritime trade.

Substitution of Taxation for Confiscation

Familiar as we are with constitutional systems that deny governments the power to seize the property of their citizens without compensation, most of us find it difficult to visualize societies in which governments had and commonly exercised exactly that power. Feudal sovereigns might have protected individuals' property against the depredations of other individuals, or even of other sovereigns, as a shepherd protects his sheep from shearing by others. But against their own sovereign lord, individuals of all social classes had to protect their accumulated capital and savings as best they could. Arbitrary assessments were always possible, and even some of the established feudal dues were unpredictable in timing and amount. The chronic threat of such assessments made it prudent for any considerable accumulation of assets of the subject to be held in mobile and concealable form.

Mobility and concealment were not, however, devices available to the barons whose accumulated wealth was in land, stored crops, farm animals, farm buildings and dwellings. The alternative was resort to force, and it was with force that the English barons confronted King John at Runnymede in 1215, long before their military power had been lost to professional armies. The result of the confrontation was Magna Carta, the great charter accepted conventionally as establishing the right of subjects to the enjoyment of their property without arbitrary expropriation by the Crown. Although it was a feudal document, sometimes deprecated as overstressing the rights of the great landowners who exacted it of the king, it contained a number of provisions guaranteeing rights to merchants (including foreign merchants), and merchants benefited from the property rights it established as part of English law and political tradition. The establishment of the right to hold property free of the risk of arbitrary seizure was important to the expansion of commerce, and Magna Carta gave the English a considerable lead on their neighbors.

In the fifteenth century, as professional armies, paid and supplied by money, replaced the self-sustaining feudal militias that fought in exchange for land tenure, the new central monarchies required regular and dependable sources of money. The traditional emergency levies might do once in a while, but as regular sources of revenue they could not be depended upon, partly because of cumulative public resistance and partly because of their disruptive effect, likewise cumulative, on economic activity. The upshot was that rulers were encouraged to give up the power to deal with the property of their subjects in an arbitrary way in exchange for the substitution of the power to levy regular taxes at stipulated rates.

This change had an effect whose significance can be appreciated only by contrast to the Asian and Islamic empires, which never adopted it. Arbitrary levies on the property of a subject were a ready means of political reprisal and social control, preventing successful merchants from accumulating wealth on a scale judged inappropriate to mere subjects. The abandonment of arbitrary levies was thus a major step toward allowing those in the economic sphere to develop their own ways of creating and accumulating wealth. Landes describes the change in this way:

> . . . the ruler learned that it was easier and in the long run more profitable to expropriate with indemnification rather than confiscate, to take by law or judicial proceedings rather than by seizure. Above all, he came to rely on regular taxes at stipulated rates rather than on emergency exactions of indefinite amount. The revenue raised by the older method was almost surely less than that yielded by the new; over time, therefore, it constituted a smaller burden on the subject. But the effect of this uncertainty was to encourage concealment of wealth (hence discourage spending and promote hoarding) and to divert investment into those activities which lent themselves to this concealment. This seems to have been a particularly serious handicap to the economies of the great Asian empires and the Muslim states of the Middle East, where fines and extortions were not only a source of quick revenues but a means of social control—a device for curbing the pretensions of *nouveaux riches* and foreigners and blunting their challenge to the established power structure.[3]

The result was not entirely a substitution of concealment of assets from the tax collector for concealment of assets from the sovereign's bailiffs. So long as taxes were levied at known rates at known times, a merchant could calculate the prospective profits from investment in goods or real estate too visible and immobile to escape taxation, deduct the prospective taxes, and at least occasionally make a decision in favor of investment in taxable wealth.

The distinction between confiscation and taxation made the greatest difference in England and Holland, where the royal governments lost the power to impose arbitrary levies without gaining the power to impose arbitrary taxes. In both countries, the power to impose taxes resided in parliaments in which the merchant class was strongly represented, and the two countries were the leaders in the accumulation of visible forms of mercantile wealth.

In retrospect, it is difficult to see how even modest amounts of trade could have been carried on except where merchants had a measure of immunity from arbitrary seizure. Substantial commerce required a tangible apparatus scarcely less visible than real estate, though for the most part much more mobile: ships, stocks of goods, and warehouses in quantities roughly proportional to the volume of trade. Both commerce and its tangible apparatus were bound to grow more rapidly where the apparatus enjoyed security from arbitrary expropriation—that is, in England, Holland, and the trading cities that had gained similar immunities through feudal charters.

Feudal and early modern monarchs incurred the political risks of expropriation and extortion because they badly needed the money, mainly to finance chronic wars with each other. At the time of Runnymede, King John had inherited the resentment left by the exactions of his predecessor Richard the Lion Heart, whose highly romanticized crusade, ransom from captivity in Austria, and recurring wars with Philip Augustus of France had been military failures of negligible benefit to the subjects who had been forced to pay for them. John himself was financially pressed by the cost of resisting the French king's conquest of Normandy. Both English and French monarchs also resorted to the sale of monopolies, a mode of extortion whose long-term burdens could exceed the burden of intermittent expropriations, and in France almost certainly did so. There, the monopolies were local, and in combination with internal tariffs they precluded the development of a French national market until after the Revolution of 1789.

The practical exercise of political power over the merchant class was circumscribed by physical limits to the ability of officials to suppress smuggling and piracy and by the possibility that sufficiently disgruntled capitalists might move their enterprises and capital to another country. Amsterdam seems to have benefited greatly from such movements. Also, the invention of bills of exchange had made it easy for merchants to keep their liquid capital, if not their tangible assets, beyond the reach of the royal fiscal agents. "Dozens of . . . refuges for entrepreneurs were scattered across the face of Europe, thanks to its peculiarly fragmented political geography."[4] In an age of concern about Swiss bank accounts and Caribbean tax refuges, it is useful to remember that it was not until the nineteenth century that merchants developed enough confidence in governments to invest in large, immobile factories rather than in bills of exchange, ships, and movable stocks of goods.

In some instances, of course, the conflict between the fiscal requirements of the state and the insistence on autonomy by a vigorously expanding capitalist class could be resolved only by a resort to arms, as in seventeenth-century England and sixteenth- and seventeenth-century Holland, which spent decades fighting itself free of the financial exactions of its Spanish overlords. In England, the conflict was not simply a question of Cromwell's period of Puritan rule or the Glorious Revolution of 1688. It was a question once again of irrepressible lawlessness. As Nef described it:

> During the reigns of James I and Charles I, from 1603 to 1642, the policies of industrial regulation and direct taxation of property practically broke down because of the resistance of leading English merchants and industrialists. They used their growing influence as justices of the peace, as municipal officials, and as members of the House of Commons to defeat policies which seemed unfavorable to their interests. The inability of the Stuart kings and their privy councils to enforce unwelcome proclamations, orders, and other regulations which were issued without the support of Parliament, gave the English merchants and industrialists advantages over the French in developing heavy industry. A weakening of effective administrative control over economic life facilitated the early English "industrial revolution."[5]

The elimination of arbitrary exactions and the substitution of regular taxation belong in the category of government policies that tended to assure that the benefits of trade and accumulation would accrue to those who did the trading and accumulating—what North and Thomas have characterized as definitions of property rights in which private benefits and costs parallel social benefits and costs. Although such policies are important to trade and accumulation, before the nineteenth century instances where governments adopted such policies as a matter of deliberate choice, as distinguished from having the policies thrust upon them by armed revolt of the burghers, are rare. Almost always, government measures that altered property rights were adopted for the primary purpose of increasing revenues. When such measures had a favorable effect on property rights, it was a lucky accident, not a result of a belief held by anyone in authority that the measure might further long-term economic growth. Inevitably, measures favorable to property rights were offset by opportunistic measures of the opposite character.[6]

As exceptions to the general tendency of governments to put immediate fiscal interest ahead of the rational development of property rights, North and Thomas mention the administration of the Low Countries by the Burgundian dukes and the early Hapsburg rulers, whose enlightenment eventually faded as their need of money for wars grew more acute.[7]

In order to judge whether increased security of property in fact contributed to the growth of trade, one has to ask whether there really was greater security of property in 1750 than in, say, 1300. The struggle of merchants to secure their possessions from arbitrary seizure by their own sovereigns took place through centuries of chronic warfare, and the gain in security of property was at least partly offset by the looting and requisitions of invading armies. However, until after the French Revolution, European wars tended to be fought on a small scale, with comparatively little pillaging of the merchants. There were conspicuous exceptions, such as the Hundred Years' War in France. But after that ended, in the mid-fifteenth century, France remained substantially free of invaders until 1814. A second exception was the devastating Thirty Years' War fought in Germany from 1618 to 1648. Still, it is a fair conclusion that the wars of the times fell short of offsetting the gains in security of property interests vis-à-vis the merchants' own sovereigns. This was especially clear in England and only a little less so in France and, after the sixteenth century, in Holland. We may conclude that there was, in fact, a net increase in the overall security of property during the period of growth of Western trade.

Economic Association without Kinship

The family is no doubt the most ancient of social institutions, and in all likelihood it is also the most ancient of economic organizations. We take for granted the economic role played in agriculture by every member of the extended family except the very youngest. In the Middle Ages, the business enterprise, like the family farm, tended to be a family affair, built on a family fortune, and with key managerial and technical skills bound to it by family and kinship ties. Even in so advanced a mercantile community as Venice, commerce was organized around family partnerships and ad hoc joint ventures. The need for long-term investment in shipping and shipbuilding on a scale too large for family enterprise was supplied by the state.[8]

Apart from the family, the Middle Ages offered no satisfactory models for mercantile enterprises. The two great hierarchies were the feudal system itself and the Church, and both embodied the obligations of subordinate to hierarchical superior in elaborate ritual and oath. Solemn though they were, neither produced, in the practice of the later Middle Ages, the practical relationships of trust and confidence needed for long-term economic association.

Yet, where the required scale of trading exceeded the capacity of family firms and of ad hoc joint ventures, private firms could conduct trade and investment only if there existed some basis, beyond kinship, for mutual trust. The expansion of nongovernmental, secular trade and investment after the sixteenth century would simply not have been possible without the creation of a purely economic form of organization, capable of producing the necessary equivalent of family ties. Without it, some solution like the Venetian oligarchy, with the state financing projects too large for families and joint ventures, would have been unavoidable.

How these loyalties were created, what psychological sources were tapped to bring into being new forms of fidelity to institutions wholly alien to the moral and religious structure of the age then passing, we cannot know for sure. Even today, every Western country has its share of individuals who feel themselves incapable of forming attachments to economic enterprises grubbing for sales and profits, and what we have left of such feelings is only a small residuum of the attitudes that must have prevailed in the immediate aftermath of feudalism. Creating the seventeenth-century version of the organization man was no small achievement. Later on, commercial enterprises became common, and the requisite organizational loyalties become explicable by the personal associations formed in long years of apprenticeship and subordinate service. But in their origins, nonfamily enterprises must have borrowed from other sources.

The notion of loyalty to an enterprise also presupposes an enterprise. Sombart claims that capitalist enterprise involves:

> . . . the emergence of a separate economic organism, above and beyond the individuals who are engaged in economic activity: all business transactions that formerly occurred in a more or less separate way—side by side or one after the other, in various ventures—are now included in one conceptual unit, namely, the enterprise. This unit is a going concern, continuing beyond the lives of the participating individuals and appearing as the "carrier" of the economic actions.

> It is true that in earlier times supra-individual organizations had occurred, particularly in the economic sphere, but they were organisms binding together natural groups of human beings in all aspects of their life. The continuity of such communities or total associations was the consequence of the natural sequence of generations. Tribe, clan, family, even village community and guild, were examples of this kind of supra-individual organism, and economic actions were a part of their existence, viewed in relation to them.[9]

Group loyalty, mutual trust, and mutual reliance were sentiments cultivated out of necessity among those who shared the dangers of military life or life at sea, and it may not be coincidence that many English and Dutch merchants of the turbulent sixteenth and seventeenth centuries had been warriors or mariners. It is easy to imagine business enterprises formed among companions who learned to trust each other at war or at sea, for it happens often enough in our own times. (The generation which fought the American Civil War in their twenties, for example, invented that epitome of enterprises not based on kinship, the modern industrial corporation, in their forties.) But there were other conceivable sources of such ties. The groups of merchants of the English and Dutch towns and cities were relatively small, often organized in guilds, and united by a passionate interest in the political outcome of the Dutch struggle against the Spanish or the British merchants against the Stuart monarchs. Their personal status among their peers depended largely on their record of fulfilling their commitments and standing behind their representations—habits which, carried over into organized enterprises, would go far to meet the requirements of our organization man.

In the early corporations, the trust and confidence required had to bridge a more remote and distant relationship. It was not a matter of relying on close business associates, but of the reliance of a large number of investors on the integrity and skill of the directors and managers of a corporation. Somehow, appreciable numbers of people with money (those who invested in corporations) must have come to believe that others (those who directed and managed corporations) were honest, diligent, and could be trusted. Such trust presupposes a widely shared sense of business morality, and that sense of business morality could hardly have been borrowed from the teachings of the Catholic Church or from the older aristocracy. Its sources have to be sought, in part, in the associations of merchants within a trading community, perhaps reinforced in England and Holland, the leading trading countries, by the appeal of the Reformation and its concomitant morality—a subject considered at greater length later in this chapter. The very contempt in which the clergy and the older aristocracy held the rising merchant classes could only have encouraged the merchants to develop a code of honor pivoting on scrupulous care in timely payment of debts and on loyalty to superiors—both points of striking weakness in the aristocratic code.

Perhaps the historians who wonder at the emergence of organizational ties not based on kinship thereby betray an aspect of their own feudal inheritance: an aristocratic disdain of bourgeois moral values. It is certainly more usual to stress the aggressiveness and acquisitiveness of post-feudal merchants than to stress their moral creativity, but the inescapable fact is that the merchant class evolved a moral system suited to life in highly organized enterprises. In no other way could the enterprises that went beyond family and organized such ventures as colonization, foreign trade, and canal building (and, later, railway building) have found the institutional loyalties essential to carrying out their economic functions—and find them they plainly did.

Double Entry Bookkeeping

In order to create an economic enterprise distinct from the family, it was necessary first to conceive of an enterprise distinct from the family, and second to establish some way of distinguishing the affairs of the enterprise from the family and household affairs of its principals. This was not easy to do in an age when the members of the family and the members of the enterprise were one and the same, when the enterprise and its owners dwelt in the same premises,[10] and when all the members of the family traded for the joint account of the family.

In a world of family enterprises, the need for a distinction between family and individual assets must have arisen from the desire of individual members of the family to trade for their own account or to distinguish between their own assets and the assets of the family, at least sometimes. It was necessary to do more than simply list the assets of the enterprise separately from the assets of the individual owners. The record of the enterprise's transactions had to be separated from the record of individual transactions, and it had to be related to the assets of the enterprise rather than of the individual. The successes of the enterprise had to be recorded as enhancing its assets, the failures as diminishing them.

The most obvious reason for merchants to adopt double entry bookkeeping was that it provided a check on the clerical accuracy of the entries for each transaction. The general principle behind the complex rules of the system was that one member of each pair of entries recorded a change in assets (or income) and the other an equal change in liabilities (or expenses). Entries of the two types could be separately totaled, and if the totals did not match, an error must have occurred. Neither the principle nor the merchants' interest in clerical accuracy carried any hint that double entry bookkeeping might be the source of the idea of the continuing enterprise as an entity separate from its owners, except for one point: for liabilities to equal assets, the liability accounts had to include both liabilities to third persons and the liability of the enterprise to its owners—its net worth.

Thus a bookkeeping system whose practical appeal lay in its ability to detect errors compelled the merchants and bookkeepers who used it to acquire the habit of thinking of the enterprise, either as a debtor to its owners or as itself the owner of its own net worth. Either way, it was an abstraction created by its own books of account. Sombart went so far as to say that "One cannot imagine what capitalism would be without double-entry bookkeeping."[11] For double entry bookkeeping is an actualization of the profit-seeking firm as a truly autonomous (indeed, one might add, as did Sombart, an abstract) unit, the property of which is no longer mixed up with that of the family, the seigneury, or other social units.

There was another reason for developing a formal record of the assets and transactions of the enterprise, going much beyond the need to distinguish the enterprise from its individual owners. It was indispensable to the growing use of credit to find an objective, quantitative method for evaluating the financial status and prospects of the firm. The needed method eventually emerged from double entry bookkeeping as a set of rules for expressing all economic transactions in numerical terms. It grew into an agreed-upon procedure for recording all economic events in a measurable and therefore calculable way. In a very real sense, economic reality became that which could be expressed in numerical terms in the books: *Quod non est in libris, non est in mundo.*

It was not, in other words, so much the initial advance represented by double entry over single entry bookkeeping that made the great difference in the development of Western capitalist institutions, as it was the impetus which that advance gave to the development of financial accounting and the practice of evaluating the credit of the enterprise by viewing its status in terms of its balance sheet and its activities in terms of its statement of profit and loss.

The Development of a Moral System Suitable to Commerce

There is another facet to the emergence of an autonomous business sphere that, historically, was of immense importance. The growth of commerce created a world in which individuals were free to enter into contractual relations on terms that reflected current supply and demand conditions and the risks of the transaction. The morality needed for forms of economic association outside the manor, guild, and family was only a beginning. The whole complex of the promissory and agency apparatus of commercial capitalism needed a morality epitomized in such terms as "honest dealing," "promise keeping," and "punctuality," and (in the case of employees) "industry," "diligence," "honesty," and "fidelity." At least in the sixteenth and seventeenth centuries, the source of this morality had to be in religion.

The social teachings of the Catholic Church came from the Middle Ages. During the Middle Ages, the custom of the manor rigidly prescribed the terms of manorial economic relationships, and in the towns the rules of the guilds were nearly as comprehensive. A morality inherited from a medieval economy based on faithful compliance with customary relationships could not have been expected to fit a commercial economy in which individual choice and bargaining had superseded custom as the basis of exchange, and which was eventually to displace most of the earlier customary relationships. The prohibition of the charging of interest is the most often cited example of Church doctrine running head-on into the needs of a rising merchant class. But something more important was missing: a moral outlook that would facilitate, encourage, and legitimize the rising world of market relationships.

What was required for the growth of Western economies did *not* include a high degree of moral concern for the welfare of the least well-off members of society, nor did it contain a suggestion that unusual economic success was not evidence of personal merit, was evidence of defects of character, or might be an obstacle to one's eternal salvation. There is little indication of any widespread belief that greater equality of distribution of income might be morally desirable. Many modern moralists put these matters near the center of political and economic morality, concerned as it thus becomes primarily with questions of distribution. But almost no one thinks of them as relevant to economic growth or to the development of Western economic institutions—matters which turn chiefly on questions of productivity and supply. The perception of poverty as morally intolerable in a rich society had to await the emergence of a rich society, considerably later than the period with which we are now concerned.

The moral outlook required for mercantile capitalism was supplied in the sixteenth century by the Protestant Reformation. The specific connection between the historic rise of capitalism in Europe and the Protestant Reformation, beginning early in the sixteenth century, has been hotly debated. The debate has raged, without letup, ever since the publication of Max Weber's *The Protestant Ethic and the Spirit of Capitalism.*[12] Weber, while he was careful to state that he was not attempting to present a monocausal explanation of the rise of capitalism, argued that Protestantism had served to promote it. As Landes explained, Weber:

> . . . never argued that Protestantism alone made capitalism; indeed he specifically adduced other factors to complete his explanation of the development of a modern industrial economy: the rise of the modern nation-state resting on a professional bureaucracy; the advances in science; the triumph of the rationalist spirit. But he came to the problem of capitalism with a worldwide perspective. He wanted to know why industrial capitalism appeared in the West, specifically in northwestern Europe, and not for example in China, which only a few hundred years before had been far richer and more advanced politically, economically, and technologically. And he found that Protestantism was one of the salient differentiating characteristics.[13]

Weber had in mind particularly the Calvinist branch of Protestantism. Calvin placed great emphasis on the notion of the "elect" who are predestined for salvation. In Weber's view, Protestantism cultivated an intense devotion to one's work or "calling," in order to assure oneself that one had in fact been selected for salvation.

Weber may have missed the point, though not in a way that mattered very much to his argument. In the context of his quarrel with the Roman Catholic Church, Calvin was concerned both to deny that the Church hierarchy had the power to dispense salvation and that the priesthood had moral responsibilities or other powers which set them apart from laymen. The doctrine of predestination contradicted the idea of a church with the power to supply salvation.[14] To those naturally curious about whether they were predestined for salvation or destruction, Calvin offered assurances based on the evidence of their calling, faith, and flight from sin, along with contrary and calamitous assurances to those who did not hear the call, lacked faith, or persisted in sin.

It is easier to recognize a directly influential factor in the economic success of Protestant communities in another doctrine also related to Calvin's rejection of special powers of the priesthood, that is, the doctrine that the work of all members of the Christian community, and not just those engaged in specifically church work, is a form of service to God. He drew the inference for everyday work, that "we shall not rush forward to seize in wealth or honors by unlawful actions, by deceitful and criminal arts, by rapacity and injury of our neighbors; but shall confine ourselves to the pursuit of those interests, which will not seduce us from the path of innocence."[15] He may have been more provocative than he knew in not ruling out the seizure of wealth and honors by industry, diligence, and dependability.

In any event, Calvinism imbued the work of the merchant and artisan, as much as the work of the priest or monarch, with all the values of religious service. It is no wonder that the sanctification of work by Calvinist Protestantism served to generate reliable patterns of behavior among its membership of a kind which were wholly compatible with a smoothly functioning capitalism: an intense commitment to work, dependability, diligence, self-denial, austerity, thrift, punctuality, fulfillment of promises, fidelity to group interests—in short, the "inner-worldly asceticism" that Weber contrasted with the "other-worldly asceticism" of the Catholic monk who, lacking the Calvinist belief that the world's everyday work is itself as sanctified as any other form of service to God, rejects the concerns of this world by retreating to a monastery. The "inner-worldly asceticism" of the Protestant, by contrast, led to an intense channeling of human energies into business affairs at the same time that it spurned the frivolous pleasures of the material world. Weber was not the first to observe the adverse secular consequences of other-worldly asceticism and monasticism. Edward Gibbon, in his *Decline and Fall of the Roman Empire,* published in 1776, had criticized the more ancient civic irresponsibility of the monastic movement in chapter 37, observing, in one of his milder comments, that "whole legions were buried in these religious sanctuaries; and the same cause, which relieved the distress of individuals, impaired the strength and fortitude of the empire."

In the prolonged debate over Weber's thesis, two counterarguments have been dominant.

First of all, capitalist institutions emerged in many places where Catholicism had prevailed, especially in such places as Italy, portions of Southern Germany, and portions of the Low Countries, though perhaps not so rapidly as in Protestant areas. It is perhaps useful also to keep in mind the complication that both Protestantism and Catholicism were heterogeneous. The Protestantism of the Church of England and the established Lutheran Church of the German principalities is sometimes considered closer to Roman Catholicism than to the Protestantism of Calvin or Knox or, later, of John Wesley. One must therefore ask why England, probably the least Protestant of the Protestant countries and particularly repelled by ascetic Protestantism owing to its unhappy seventeenth-century experience with Cromwellian Puritanism, led in the development of capitalism. Perhaps a partial answer is to be found in the Calvinist tradition of the Scotch, who are popularly thought to play a role in British business out of proportion to their numbers. Catholicism also, from the time of the first missionary journeys to Ireland and other parts of Northern Europe, had shown substantial willingness to adapt to local circumstances and local customs. Without a close (and by now all but impossible) study of local Church practices in Catholic areas where commerce developed at a relatively early date, it is not safe to assume that the local religion was as out of touch with the needs of the merchant class as mainstream medieval Catholicism.

Second, many have argued that the causal relation between Protestantism and capitalism was far more complex than the rather simplistic interpretation attributed to Weber. One might argue, not that Protestantism created capitalism, but rather that capitalism created Protestantism.[16] By this, Weber's critics have essentially meant that Protestantism offered a set of beliefs which were highly congenial and flattering to the successful capitalist, who therefore embraced it. Or, less invidiously, one might argue that the new merchant and capitalist class felt religious and moral needs not satisfied by the religious institutions of feudalism, thereby creating a vacuum which Protestantism filled.

For it is hardly necessary to suppose that capitalists picked a religion to suit their financial interests. It would not be surprising if sixteenth-century individuals with a stronger moral sense than was common in Renaissance Europe were attracted, in numbers disproportionate to their number in the population, by religious reform movements and were useful, again in numbers disproportionate to their number in the population, in emerging capitalist institutions. Renaissance society is not noted for its high moral scruples, and the traits of character essential to an emerging capitalism may very well have been most common among those interested in religious reform.

It is not necessary to attempt to assess the merits of these positions.[17] Rather, we would emphasize some relatively uncontroversial aspects that bear more on our present concerns. Weber's interest was not so much in the specific doctrine or symbolic content of Protestantism as it was in the patterns of social behavior inculcated by that belief. Protestantism undoubtedly encouraged and legitimized specifically capitalist patterns of behavior or patterns which were highly conducive to success in the capitalist marketplace. Second, there can be little doubt that the long-term effect of the Protestant Reformation was the progressive removal of religion from intimate involvement in the sphere of business activity. Protestantism sanctioned a high degree of individual responsibility for moral conduct and reduced the authority of the clergy; and Protestant merchants were able to free themselves of clerical constraints which they found incompatible with their own experience. Under the circumstances, it would have been too much to expect the Catholic clergy to continue to stress doctrines which could only turn prosperous parishioners toward Protestantism. More and more, the religious world came to concede that what seemed right within the world of commerce was right for that world. Thus, with respect to the prohibition on usury, Sir John Hicks observed:

> [T]he appearance of banking, as a regular activity, is an indication that the bar against interest, at least in appropriate fields, is breaking down. This began to happen, it should be emphasized, long before the Reformation; in so far as the "Protestant Ethic" had anything to do with it, it was practice that made the Ethic, not the other way round.[18]

Thus, religious authorities, whatever judgments they might pronounce over the conduct of business affairs, gradually abandoned the position that the day-to-day conduct of business ought to be regulated by, or be directly subject to, ecclesiastical authority. In the course of the sixteenth and seventeenth centuries, the business sphere was, in a word, secularized. As it grew increasingly independent of ecclesiastic authority, it acquired a much higher degree of autonomy, this time from religious intervention, than it had previously possessed. Religion was gradually transformed from a restraining influence upon capitalist development to a force that both sanctioned and supported mercantile capitalism by precisely the moral teachings required for the smooth running of the rising commercial system. This was not wholly a question of the theological content of either Catholicism or Protestantism. It was partly a question of the competition inherent in the existence of several rival religions, which, like the existence of competition inherent in the existence of several rival national states, enabled a rising merchant class chafing under the restraints of one authority to take refuge with another more congenial.

A full appreciation of the historical relations between capitalism and religion requires an understanding of the dialectical relation between those two spheres but, in addition, a comprehension of the accommodation and change that occurred within the religious sphere itself. Tawney saw a "violent" contrast between the "iron collectivism" practiced in Calvin's Geneva and the "impatient rejection of all traditional restrictions on economic enterprise which was the temper of the English business world after the Civil War," a century later—a view that has been shared by others.[19]

The perception of inconsistency arises in part from two of the many different strains in Protestant thought and in part from a combination of changes in moral perceptions and a certain intellectual insensitivity to the meaning of the shift from an integrated to a plural society. Protestantism emphasized the belief that salvation was intensely individual and personal. Good works done under the compulsion of social control or compassionate transfers of wealth forced by the tax collector did not advance the pilgrim's journey to salvation by a single step. At the same time, Protestant preachers and churches viewed themselves as instruments of teaching and example, and they had no hesitation about lecturing their errant sheep on the errors of their ways and not much hesitation in excluding persistent wrongdoers from their communities. Between the sixteenth and nineteenth centuries, a burgeoning middle class came to view the "traditional restrictions on economic enterprise" as oppressions of a decadent aristocracy. Yet the two strains in Protestant thought continued, and the Protestant clergy did not allow to pass unnoticed what they saw as excesses of nineteenth-century businessmen. Indeed, the clergy played an appreciable part in the enactment of the first English factory acts. But by then the world of business had become highly specialized, and those who lived in it were no more receptive to correction by the moral judgments of the clergy than were those who lived in the worlds of science, art, music, or literature. Tawney might as aptly (or ineptly) have contrasted the "iron collectivism" of Puritan England with the "impatient rejection of all traditional restrictions" on literary enterprise, "which was the temper of the English" literary world "after the Civil War"—the age, be it remembered, of Restoration drama.

Protestantism, a product of the sixteenth century, did not anticipate Adam Smith's economic doctrines of the eighteenth century. It was, of course, not an economic doctrine at all. But it supplied the merchant class with both a highly individualized moral responsibility outside the control of its clergy and with moral dogmas that emphasized exactly the thrift, industry, honesty, and promise keeping needed for capitalist institutions. The emerging merchant class and its autonomous economic sector, like any other large and autonomous social system, needed a suitable moral and ethical system. To the degree that Protestantism was more suited to the need than Catholicism, it contributed to the rise of capitalism.

One other probable consequence of the Reformation should be mentioned. It has been argued that a reduction in expenditures for religion, like reductions in expenditures for war, is favorable to industrial expansion. Such a reduction followed, in England, Henry VIII's conversion to Protestantism, and it may have followed in other Protestant countries. A closely related point is that, in Catholic countries, a substantial portion of the land was owned by ecclesiastical foundations and so was not available for purchase in the usual course of trade. The dispossession of these foundations, in the countries that became Protestant, added appreciably to the land and mineral resources available for exploitation by the merchant class. John U. Nef put the point as follows:

> Henry VIII's break with Rome (followed soon by dissolution of the monasteries and other religious guilds) and the resulting reduction in the number and wealth of the clergy, provided conditions which were favorable to industrial expansion on the eve of the Elizabethan age, long before the constitutional struggle became acute. The proportion of the national income required to maintain ecclesiastical foundations was much smaller in England after the dissolutions of 1536 and 1539 than it had been for some eight hundred years. This was by no means true of the countries which remained Roman Catholic. In France the clergy retained their hold over property and remained as numerous as ever. In Spain and the Spanish Netherlands the combined number of priests, monks, and nuns increased.
>
> The partial dispossession of the clergy in England (and in other Protestant countries—Sweden, Denmark, Scotland, and Holland in particular) made it easier than during the Middle Ages for private businessmen to get possession of land and mineral resources on advantageous terms.[20]

Apart from dispossession of religious foundations, the Reformation had implications for the long-term growth of the respective wealth of the capitalist class and the Church, for Calvin's doctrines of predestination and sanctification of work implied that capitalists might just as well keep their property in the family instead of donating or willing it to the Church.

The Mercantilist Partnership

Here we take up an institutional invention which was important in smoothing the politics of the transition from feudalism to capitalism and in pointing the way toward modern capitalism: partnership or alliance between governments and their merchant classes. The partnerships were eventually rationalized in the collection of policies embraced under the rubric of mercantilism.[21] Historically, they were particularly significant in effecting an expansion of trade in circumvention of the established medieval traditions and institutions.

In the Europe of the emerging monarchies, governments were first of all military power centers, and the perceived economic prerequisite of military power was gold to buy arms (often abroad) and to pay the troops. Spain had a supply of gold from the New World. In the other countries, domestic supplies of gold were difficult to expropriate from the subject and, once expropriated and spent, were exhausted. The mercantilist solution was for the country to sell more goods abroad than it imported, taking the difference in gold. Raw materials capable of conversion into manufactured goods which could then be exported at a profit were desirable, even though mercantilists did not relish importing anything. If the raw materials could be obtained from colonial possessions with no outlay of gold to foreigners, so much the better.

To get the highest possible revenue from the export of any particular product, mercantilist theory implied that export of the product should be handled by a suitable monopoly, so that, for example, one French merchant would not end up bidding against another and thus lower the price of a French manufacture to a foreign buyer. Similarly, establishing a monopoly of the import of a product avoided the risk that domestic buyers might bid against each other, unnecessarily raising the price of imports. Grants of such monopolies made business partners of monarchs, their more influential courtiers, and merchants. The political authorities thus became substantial personal participants in the profits of the mercantile and manufacturing enterprises. The theory may sound odd and the practice corrupt, but mercantilism was strong enough, and widespread enough, to account for the decline of the Italian cities and the Hanseatic League from the commercial preeminence they had enjoyed since the twelfth century.

The practice is more understandable not as a product of the adoption of mercantilist principles (which were developed after the practice), but rather as a holdover from feudalism and an aspect of the battle over the power of the Crown to levy taxes without the consent of a parliament. In feudal society, trading rights were regularly granted by charter of the appropriate feudal lord. Fairs were held by grace of the lord's charter and the guilds gained their authority over their respective crafts in the same way. These charters were sold to provide revenues in situations where the power to tax was hotly contested. The revenue might be a lump sum, continuing payments of taxes for the privileges granted, or both. Taxes from the wool trade, administered by the Merchants of the Staple, were a principal source of revenue for the British Crown for a long time. But however strange the new nation-states' twin practices of restricting imports and granting exclusive trading privileges to their own nationals, these practices played a significant role in building a merchant class free to trade, within the scope of its numerous charters, on its own terms, because sufficiently influential members of the political class shared the profits.

One other observation should be made about the grants of monopolies. Many of them were designed to encourage the introduction of new industries. England, particularly, owed its conversion from an exporter of raw materials to a manufacturing economy in good part to monopolies granted to induce Flemish and other immigrants to bring their skills to England. Monopolies were granted to foreign weavers as early as 1331 and subsequently extended to many other trades. According to North and Thomas, fifty-five monopolies were granted under Elizabeth, and of these twenty-one were issued to foreigners or naturalized subjects.[22]

At the distance of centuries, it is not easy to evaluate the factors that entered into the grants of trading monopolies. They put the royal governments on the side of expansion of trade, not necessarily as a matter of principle, and perhaps wholly to enhance revenues. In a way, the trading monopolies served as a teaching device, as if they had been invented to supply the royal governments with a concrete, short-term demonstration that they shared with the rising merchant class an interest in the expansion of trade. By Adam Smith's day, the lesson had been taught, and he urged that the device be discarded. But partnerships between government and capitalists persist in forms ranging from patents to the peculiar institutions of military procurement, and they are a device not forgotten in today's Third World.

Europe's Political Division as a Source of Growth

In the light of the mercantilist practices discussed in the last section, it seems certain that the development of capitalism in the West owed a good deal to the fragmentation of Europe into a multitude of states and principalities. There was not one "Empire, Inc.," but a number of competing "Monarchies, Inc.," "Princes, Inc.," and "City-States, Inc." Competition among the political leaders of the newly emerging nation-states, each anxious to retain the revenues and credits available from a merchant class and each aware of the political danger of allowing neighboring states to increase their capacity to finance military power, was an important factor in overcoming the inherited distaste of the rural military aristocracy for the new merchant class. Had the merchants been dealing with a political monopoly, they might not have been able to purchase the required freedom of action at a price compatible with the development of trade.

Numerous empires have governed regions of economic and cultural diversity comparable to the West without relaxing their political control over trade. In these empires, characterized by fully consolidated political authority and less internal competition for mercantile patronage, there was no similar impairment of political control. One must also add that there was no similar development of trade.

In chapter 3, we referred to the Chinese empire, whose technology was superior to the West's and which had a highly developed civil service based on merit. One possible reason that its superior technology was not translated into economic growth of the sort achieved in the West is that the very rationality of the Chinese merit system led to a centralization of power, whereas in Europe power was diffused among the landed aristocracy.

In technology, the Chinese had a tendency to reach and hold plateaus. Once a good way of doing something was discovered and established, it seemed to harden into a custom immune to change. It is not correct to think of Chinese technology as limited to inventions designed to give pleasure or to satisfy the curiosity of the imperial court. Chinese junks, waterwheels, and the compass were practical tools widely applied. And in both China and the West, there were always those whose economic interests were adversely affected by technological innovation, and who from time to time bitterly resisted its intrusions. In China, however, they had the implicit support of a mandarinate satisfied with the status quo, unwilling for technological change to disturb anyone and with nothing to gain itself from troublesome innovations. Despite this conservatism, Chinese technology and the Chinese economy reached a level more advanced than the West of, say, the fifteenth century. But a policy of making only such changes as do not appreciably disturb anyone is a formula for glacially slow advance, both in technology and in economic growth.

In the West, the individual centers of competing political power had a great deal to gain from introducing technological changes that promised commercial or industrial advantage and, hence, greater government revenues, and much to lose from allowing others to introduce them first. Once it was clear that one or another of these competing centers would always let the genie out of the bottle, the possibility of aligning political power with the economic status quo and against technological change more or less disappeared from the Western mind. Thus, it may not be wholly a coincidence that modern Japan, which led in adapting Western institutions to its own economy, also grew out of a politically decentralized feudal society.

The Chinese experience allows us to conjecture that, in Europe, the late development of a civil service, the counterpart of the mandarinate, helped hold open the way to the rise of capitalism. The differences in values observed by Needham between merchants and mandarins are very much like the later differences of values between merchants and Prussian, French, or English civil servants. For the European civil servants, the timing was wrong; they came to power too late to prevent the rise of capitalism, and their only recourse for expressing mandarin values was a gradual, Fabian exertion of authority over the aspects of capitalism not too mercurial to elude their grasp.

The puzzle of the Chinese combination of advanced technology and lack of economic growth is an aspect of a larger question about the relation between imperial political structures and economic growth. The Chinese empire was only one of a number which failed to find the road from poverty to wealth. Unable to generate sustained growth, these empires always declined. Rostow sees in the declines a hubris which leads empires to undertake wars beyond their resources and to burden their economies to the point where growth turns to decline:

> The central fact about these traditional empires is that they were not capable of generating sustained growth. Their periods of expansion gave way to periods of decline. The most typical proximate cause of decline was war. While the possibility of war and, sometimes, limited military engagement encouraged policies which tended to modernize the society, large and protracted wars led rulers to grasp for more resources than the society could generate, and self-reinforcing processes of economic, social, and political decline ensued. The rapid decline of Athens in the fifth century B.C. and the slow grinding decline of the Roman Empire in the West are, of course, classic examples of this process. It can be seen also at work in the fall of some of the Chinese dynasties and elsewhere.[23]

It may be that a prerequisite to sustained economic growth is an economy trading across a geographical area divided among a number of rival states, each too small to dream of imperial wars and too fearful of the economic competition of other states to impose massive exactions on its own economic sphere. The United States had a federal system in the nineteenth and early twentieth centuries in which political intervention by the national government was narrowly restricted by political tradition and constitutional interpretation, while political intervention by the state governments was restricted by the fear of economic competition from other states. Whether the constitutional reconstruction of the United States as a classic empire is compatible with indefinitely sustained economic growth is, of course, a topical and controversial question. The same question can be asked about the Soviet Union, where the exactions required to support imperial ambitions have been a heavy drag on economic progress.

Conclusion

In assessing the sources of the West's economic development, the inventions of technology spring more readily to mind than the inventions of institutions. Yet the contribution of new institutions to Western economic growth was unmistakable, and in some cases essential. As an economic domain emerged in Western Europe, it had to devise its own institutions, sometimes alone and sometimes by interaction with the political realm.

A striking fact about the institutions that emerged as Western mercantile capitalism developed is the degree to which they were bound to the cities as their origin and context. The close linkage between trade and urbanization shows up again and again in the development of trading institutions which were urban as well. In an age when communications were slow, the development of enterprises based on ties other than kinship was inherently urban, presupposing a community of numerous individuals with the knowledge and skills needed to form and staff mercantile enterprises. Insurance is a striking example of an urban-centered development, for the spreading of risks among many merchants presupposes many merchants gathered in one urban market, whether Florence, London, or Amsterdam. Even the legal enforcement of mercantile contracts requires a community where the volume of such contracts and the volume of conflicts about them is large enough to support a specialized corpus of law, judges, lawyers, or arbitrators. The move from bills of exchange to deposit banking could hardly have occurred had not the deposit bankers enjoyed the confidence of the merchants in their own city before they gained credit elsewhere. The division of Europe into national states was not intrinsically an urban phenomenon, but the hospitality of the Italian city-states, and later of Amsterdam and London to trading not yet welcomed elsewhere, encouraged economic development.

The sixteenth-century changes in religious belief were not specifically urban, and their role in the emergence of mercantile capitalism has been much argued. Market institutions placed almost everyone in the dual position of debtor and creditor, and they required a moral system woven of obligation and responsibility in the fulfillment of one's commitments and of industry in the performance of one's work. The Protestant Reformation probably supplied a moral system somewhat better suited to economic growth than the older Catholic teaching. In the end, one may say that the merchants of London and Amsterdam eventually gained a degree of credit with merchants in other cities, and hence a scale of operations, never attained in Venice, Genoa, Florence, or Milan. But too many factors entered into the differences in achievement to enable us to attribute them solely, or even in great part, to a moral superiority not everyone would concede. The important point is that the economic sphere did acquire a moral system that, whatever its merits or shortcomings, allowed that sphere to function as an autonomous social group and furnished the merchant group with the morale it needed to be able to ignore, without awkward feelings of guilt, the preachments of outsiders. Each sphere of activity in a plural society requires its own moral system, similarly subject, and yet almost impervious, to outside criticism, informed and uninformed.

NOTES

1. Max Weber, *General Economic History* (New York: First Collier Books Ed., 1961), p. 252. Weber attributes to Judaism the fact that Christianity was free from the influence of magic:

> Since Judaism made Christianity possible and gave it the character of a religion essentially free from magic, it rendered an important service from the point of view of economic history. For the dominance of magic outside the sphere in which Christianity has prevailed is one of the most serious obstructions to the rationalization of economic life. Magic involves a *stereotyping of technology and economic relations.*

Ibid., p. 265.

2.

> The capitalist form of industrial organization, if it is to operate rationally, must be able to depend upon calculable adjudication and administration. Neither in the age of the Greek city-state (polis) nor in the patrimonial state of Asia nor in western countries down to the Stuarts was this condition fulfilled. The royal "cheap justice" with its

> remissions by royal grace introduced continual disturbances into the calculations of economic life. The proposition that the Bank of England was suited only to a republic, not to a monarch, . . . was related in this way to the conditions of the time.

Ibid., p. 208.

3. David Landes, *The Unbound Prometheus* (Cambridge: Cambridge University Press, 1969), pp. 16–17.

4. William H. McNeill, *The Pursuit of Power* (Chicago: University of Chicago Press, 1982), p. 114.

5. John U. Nef, *War and Human Progress* (Cambridge: Harvard University Press, 1950), p. 15. The "early English industrial revolution" refers to Nef's claim that England had experienced such a revolution in the century after 1540.

6. Douglass C. North and Robert Paul Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973), p. 7:

> The creation and enforcement of property rights are a prerogative of the government as the source of coercion. The locus of governmental coercion and decision-making shifted from local to larger political units. This movement was slow and halting, for everywhere it was circumscribed by conflicting authority. So even when the short-run fiscal interests of government coincided with the development of more efficient property rights (as in the protection of long-distance trade, which provided a new source of crown revenue) because of conflicts with rivals it could produce only imperfect enforcement. The most important factor in the development of new property rights is that the government created them only when it had a fiscal interest. As we saw above, the granting of the alienability of land (a key step in the development of fee-simple absolute ownership) was accomplished in England, France, Anjou, Poitiers and other areas to ensure that the Crown would not lose existing feudal revenues. Protection of property rights of alien merchants had a similar origin, as did the Burgundian establishment of fairs at Autun and Chalon. For identical reasons counter-productive actions, such as the multiplication of tolls, arbitrary confiscation, forced loans and many other similar devices, were taken, which made for greater uncertainty with respect to property rights. The direction the government took depended upon its fiscal interest.

7.

> Overall Burgundian and Hapsburg policy was to promote unification and trade, which redounded to the prosperity of the economy and hence of the Crown. Throughout the wars of Charles V in the sixteenth century, the seventeen provinces remained loyal and provided increasing revenue for the conquest of the growing empire. The Low Countries had because of their prosperity become the jewels of the Hapsburg Empire, furnishing the Crown with the bulk of its revenues . . . Although the Low Countries had tolerated Charles V, they were no longer willing to put up with the more exacting demands of his successor Philip II. Accepting the leadership of the House of Orange, the Low Countries revolted and a long struggle, complicated by religious controversy, ensued.

Ibid., p. 134.

8. Frederic C. Lane describes the Venetian family partnership in the context of the associated forms of enterprise organization in "Family Partnerships and Joint Ventures in the Venetian Republic," in Frederic C. Lane and Jelle C. Riemersma, eds., *Enterprise and Secular Change* (Homewood, Ill.: Richard D. Irwin, 1953), pp. 86–101. As a device for keeping a family fortune in one unit, the Venetian partnership of heirs bears comparison to the English land policy of primogeniture.

9. Werner Sombart, "Medieval and Modern Commercial Enterprise," in Lane and Riemersma, eds., *Enterprise and Secular Change*, p. 36. The chapter is an extract, in translation, from Sombart's major work, *Der moderne Kapitalismus*.

10. Speaking of developments in Italy, Weber stated:

> Originally there was no separation between the household and the business. Such separation gradually became established on the basis of the medieval money accounting

while . . . it remained unknown in India and China. In the great Florentine commercial families such as the Medici, household expenditures and capital transactions were entered on the books indiscriminately; closing of the accounts was carried out first with reference to the outside commenda business while internally everything remained in the "family kettle" of the household community.

General Economic History, p. 172.

11. Sombart, "Medieval and Commercial Enterprise," in Lane and Riemersma, *Enterprise and Secular Change,* p. 38. For a critique of Sombart's evaluation of double-entry bookkeeping, see Braudel, *The Wheels of Commerce* (New York: Harper & Row, 1982), pp. 573–75.

12. Max Weber, *Protestant Ethic and the Spirit of Capitalism,* trans. Talcott Parsons (New York: Scribner & Sons, 1930). The essay first appeared in 1904–1905 under the title, "Die protestantische Ethik und der Geist des Kapitalismus" (Tubingen u. Leipzig, J. C. B. Mohr [Paul Siebeck]).

13. David Landes (ed.), *The Rise of Capitalism* (New York: Macmillan, 1966), p. 7.

14. Calvin's views on predestination are in chapters 21–24 of book 3 of *Institutes of the Christian Religion* (Geneva: 1559; trans. John Allen, London, 1813), Seventh American edition (Philadelphia: Presbyterian Board of Christian Education, 1936), vol. 2, pp. 170–241.

15. Ibid., vol. 1, pp. 761–62.

16. See, for example, H. M. Robertson, *Aspects of the Rise of Economic Individualism* (Cambridge: Harvard University Press, 1933).

17. While the debate has raged over the connections between Protestantism and capitalism, a much more radical view has been expressed by Lynn White, who has contrasted Christianity generally with other religions. White argues that Christianity has cultivated a more active and manipulative attitude toward the natural world than any other major religion. In fact, White even attributes what he calls an "ecologic crisis" to Christianity:

> Especially in its Western form, Christianity is the most anthropocentric religion the world has seen . . . Christianity, in absolute contrast to ancient paganism and Asia's religions (except, perhaps, Zoroastrianism), not only established a dualism of man and nature but also insisted that it is God's will that man exploit nature for his proper ends.
>
> At the level of the common people this worked out in an interesting way. In Antiquity every tree, every spring, every stream, every hill had its own *genius loci,* its guardian spirit. These spirits were accessible to men, but were very unlike men; centaurs, fauns, and mermaids show their ambivalence. Before one cut a tree, mined a mountain, or dammed a brook, it was important to placate the spirit in charge of that particular situation, and to keep it placated. By destroying pagan animism, Christianity made it possible to exploit nature in a mood of indifference to the feelings of the natural objects.
>
> It is often said that for animism the Church substituted the cult of saints. True; but the cult of saints is functionally different from animism. The saint is not *in* natural objects; he may have special shrines, but his citizenship is in heaven. Moreover, a saint is entirely a man; he can be approached in human terms. In addition to saints, Christianity of course also had angels and demons inherited from Judaism and perhaps, at one remove, from Zoroastrianism. But these were all as mobile as the saints themselves. The spirits *in* natural objects, which formerly had protected nature from man, evaporated. Man's effective monopoly on spirit in this world was confirmed, and the old inhibitions on the exploitation of nature crumbled.

Lynn White, Jr., "The Historical Roots of our Ecologic Crisis," *Science* 155 (10 March 1967): 1205.

18. John Hicks, *A Theory of Economic History* (New York: Oxford University Press, 1969), pp. 78–79. For a brief account of the measures taken by merchants to avoid the prohibition of interest, see Braudel, *Wheels of Commerce,* pp. 559–66. Braudel also discusses Calvin's acceptance of interest, about 1545, pp. 568–69.

19.

> "The capitalist spirit" is as old as history, and was not, as has sometimes been said, the offspring of Puritanism. But it found in certain aspects of later Puritanism a tonic which

braced its energies and fortified its already vigorous temper. At first sight, no contrast could be more violent than that between the iron collectivism, the almost military discipline, the remorseless and violent rigors practiced in Calvin's Geneva, and preached elsewhere, if in a milder form, by his disciples, and the impatient rejection of all traditional restrictions on economic enterprise which was the temper of the English business world after the Civil War. In reality, the same ingredients were present throughout, but they were mixed in changing proportions, and exposed to different temperatures at different times. Like traits of individual character which are suppressed till the approach of maturity releases them, the tendencies of Puritanism, which were to make it later a potent ally of the movement against the control of economic relations in the name either of social morality or of the public interest, did not reveal themselves till political and economic changes had prepared a congenial environment for their growth. Nor, once these conditions were created, was it only England which witnessed the transformation. In all countries alike, in Holland, in America, in Scotland, in Geneva itself, the social theory of Calvinism went through the same process of development. It had begun by being the very soul of authoritarian regimentation. It ended by being the vehicle for an almost Utilitarian individualism. While social reformers in the sixteenth century could praise Calvin for his economic rigor, their successors in Restoration England, if of one persuasion, denounced him as the parent of economic license, if of another, applauded Calvinist communities for their commercial enterprise and for their freedom from antiquated prejudices on the subject of economic morality. So little do those who shoot the arrows of the spirit know where they will light.

R. H. Tawney, *Religion and the Rise of Capitalism* (New York: Harcourt, Brace & Co., 1926), pp. 188–89. Braudel attributes the same view to Sombart in *Wheels of Commerce*, p. 568.

20. Nef, *War and Human Progress*, pp. 15–16.

21. For a fuller account of mercantilism, see Eli F. Heckscher, *Mercantilism*, 2 vols., 2d rev. ed. (London: George Allen & Unwin, 1955); and Charles H. Wilson, "Trade, Society and the Staple," in *The Cambridge Economic History of Europe*, E. E. Rich and C. H. Wilson, eds., vol. 4, *The Economy of Expanding Europe in the Sixteenth and Seventeenth Centuries*, chap. 8.

22. North and Thomas, *Rise of the Western World*, pp. 152–53.

23. W. W. Rostow, "The Beginnings of Modern Growth in Europe: An Essay in Synthesis," *Journal of Economic History* 33 (September 1973): pp. 548–49.