
UNIT 7 **COMMERCIAL REVOLUTION IN EUROPE**

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7.0 OBJECTIVES

After reading this unit, you should be able to:

- understand the term ‘Commercial Revolution’ in the context of the early modern Europe;
- understand how different scholars have viewed the coming of this commercial revolution;
- understand the broad trends of this revolution;
- understand how different institutional changes came about with this revolution; and.
- understand how different instruments of commerce such as bills of exchange developed in the context of this revolution.

7.1 INTRODUCTION

Early Modern centuries in Europe have been marked by great transition from an age of political chaos, dominant religiosity, localized exchange and internecine warfare, characterizing the 'Middle Ages' to one marked by political consolidation under the nation states, reforming religious traditions, new knowledge, emergence of scientific temper and Renaissance spirit, geographical discoveries and travels, long distance trade and emergence of great commercial companies. Depending upon the vantage point of analysis, the transitions have been deemed revolutionary by some scholars, such as those who adhere to Marxist thought or as transitory and long evolution from one dominant material phase to another by those from the Annales school. Although, both groups do acknowledge the occurrence of 'material and cultural' transition during the early modern centuries, i.e. a period roughly from the middle decades of the 15th century to the middle decade of the 18th century.

Scholars have over time attempted to understand the heart of this transition. For some this lay in the rekindling of 'new scientific temper' and an attitude to explore, brought on by new social and political structures shaped by the 'renaissance spirit'. For others the withdrawing of the religious institutions under the influence of reformist tendencies and movement leading to the emergence of protestant churches, which promoted undertaking of commercial and economic activities, without the taboos attached to them as was the case with the Catholicism, was at the heart of far reaching changes which shaped and structured the ensuing modern world.

Scholars of economic history have located the heart of this transition to 'modernity' in the discoveries and explorations of the 'new world' and the new routes to the 'old world'. These discoveries opened connections of exchange and interchange of commodities, for the first time in centuries, free from the control of the 'west Asian', 'Islamic' powers. The resultant opening of new markets, emergence of new urban centers and new commercial networks and institutions for facilitating the exchange — both international and local — led to the rise of the Western world. Such was the scale of economic shift that scholars have termed the period as one which saw the emergence of a 'European World Economy.' Here in this new world, the political boundaries mattered little, and the various regions were inter-connected by networks of commerce and exchange, leading to the emergence of a unified 'world economy', with its core centered on the great commercial nations of western Europe.

The term 'Commercial Revolution' has been used to make sense of the scale of economic growth and changes witnessed within the functioning and evolution of economic and commercial institutions, in the Early Modern centuries, particularly the sixteenth and the seventeenth. These changes are said to have laid the foundations for the development of capitalism and its institutions in the subsequent centuries.

It's difficult to locate one particular period in history of Early modern Europe, which marks a 'revolutionary phase' in development of commerce. As the term 'revolution' signifies a far-reaching upheaval and change in the manner of conducting commerce and in institutions and economic structures facilitating trade transactions, various scholars have located this apparent revolutionary shift

across various centuries in Medieval and Early Modern Europe. Broadly there are two divergent views regarding the ‘conceptualization’ of commercial revolution:

- 1) Scholars who have focused exclusively on the sixteenth century as the core period of ‘revolutionary’ change in the commercial life of Early Modern Europe.
- 2) Those who have feels that the shifts in European commercial life have been slow and progressive and the beginnings can be traced back to the middle decades of the 13th century, when the new instruments of commerce, exchange and advent of bi-metallic currency can be traced to.

7.2 LOCATING COMMERCIAL REVOLUTION

For some scholars, the end of the ‘Middle Ages’ in Europe was brought on by the opening of the commerce and trade, facilitated by the Arab invasion resulting in breakdown of the political barriers to trade between West and the ‘prosperous’ East.

Robert S. Lopez locates the beginning of the commercial revolution in Europe to the dominance achieved by the Jewish merchants and the institutions evolved by them to facilitate and control long distance control between European markets and those in Africa and Asia. In his words, at the beginning of the tenth century:

The tenth century and the early eleventh marked the high point of Jewish prominence in long distance trade, not only in Christian countries, but also in the larger part of the Muslim world. The absolute volume of their transactions was of course restricted by the limited opportunities of that age, but their share of the total was so considerable that Frankish and Byzantine regulations of foreign trade often referred to “the Jews and the other merchants,” as if Gentiles were a nondescript minority. (Lopez, 1976)

The dominance of the Italian mercantile classes and the institutional structures they evolved to ensure dominance over the eastern trade in spices and other essential commodities, from the 13th century onwards, is the starting point for many analyses of the European economic structures. Over years, scholars have focused on the changes and shifts in European commercial exchange patterns and the resultant impact on the regional economy within the continent. From the emergence of the Iberian economies, to the establishment of trans-continental trading establishments, to the emergence of North Atlantic and Baltic seaboard as the hub of European trade, to the establishment of colonies in the New World and in the Old, along the African coast and in the Indian Ocean zone, the impact of these developments on the commercial structures on Europe has been analyzed. The impact has been said to be ‘revolutionary’, particularly on the way commerce and commercial transactions were conducted.

The treatment of history in ‘Cambridge economic history of Europe’, also placed the advent of new systems of monetary transactions and evolution of banking and insurance sectors to the beginning of the fourteenth century. However, it also recognizes the massive shifts in the scale of penetrations and use of these new forms and mechanisms of trade and exchange in the 16th century. The sixteenth century over the last few decades have come to be treated as the core

century which witnessed the commercial transformation and the developers therein have been seen as laying the foundation of new capitalist Europe of later centuries. Immanuel Wallerstein, in his work on emergence of economic world system treated the sixteenth century as the foundational period. Fernand Braudel in his 'civilization and capitalism' also followed the same pattern, where the commercial growth of 16th century was seen as truly transformative, where in the new attitude towards commerce came to impact every aspect of social and cultural life of Europe. Similar assessment and treatment of the 16th century has followed in later writings on the economy of early modern Europe. It's only in the last few decades that a wholesome picture has been attempted where in the focus on economic transformation has considerably broadened to include not only matters of commercial and economic importance such as issues around coinage and evolution of banking and insurance sector, but also on the transition in political and social support structures which facilitated the broader acceptance of the elements of new commercial age.

7.3 ESTABLISHING COMMERCIAL REVOLUTION

The breakdown of the feudal blocks of the Middle Ages due to plague, wars and famine in the centuries before the 16th created conditions which enabled peasant mobility and shifts in land ownership structures, thereby enabling a social and political environment which promoted growth and expansion of trade and commerce. With the breakdown of control of feudal lords and church over the social and economic life of medieval Europe, there occurred a simultaneous churning in the political atmosphere across Europe. The increasing desire on part of medieval state to attempt to control more resources, required to fight wars and maintain influence over vast and diverse territories; to provide for public in times of distress and famines; and also to satisfy the increasing desire on part of members of nobility to access the novelties and luxuries of the east, which are now being made accessible with the Ottoman conquest of Eastern Europe and Anatolia; brought the participants of the political order in direct conflict with the clergy, which was the source of the restrictive, shackling social ethics of the medieval ages. The desire for money, through promotion of long-distance trade, support for banking families and providers of credit, required states to undertake policies which ran counter to catholic church's opinion around acts of usury and notions of profit through trade and exchange. The end of crusades towards the end of the 14th century, also opened channels of commerce to Asiatic spaces, especially the 'Holy Land' on Eastern Mediterranean coast, bringing in much commerce and connection, in form of new demands of the pilgrimage traffic as well a steady in flow of Ottoman and Egyptian riches into European spaces. Along with the luxury products, spices and textiles from Asia also began to find market in Europe.

Emergence of markets and fairs which facilitated exchange of essential and luxury commodities, brought the realities of newly evolving commercial life of Southern Europe into the interiors. As the wars and political conditions as well as geography created hinderance for overland transport of commodities, coastal trade gained importance, leading to emergence of strong port centric urban spaces across western and northwestern Europe, evolving into the Hanseatic league in the 15th century. The league was a commercial and defensive confederation of towns,

ports and dominant merchant guilds in the region of Northern Europe centered around the town of Hansa. Similarly, Italian cities and their merchant class, led by Jewish communities, came to dominate the networks of exchange and markets in Southern Europe. Engagement with distant Asiatic markets and coming face to face with the difficulties and dangers in managing commerce at such long distance, they borrowed innovations and techniques from Asiatic markets, such as of 'bills of exchange', and molded them to suit the European political and economic environment. The centuries also began to see the emergence of a new form of organization of labour, especially in newly emergent industrious towns and cities, in form of guilds. A specialized body constituting a homogenous group of artisans and works engaged in a particular craft or trade in particular commodities, the guilds began to dominate the social, cultural and political landscape of European cities and urban spaces from 15th century onwards.

7.4 PRICE RISE AND EMERGENCE OF METALLIC CURRENCY

In the sixteenth century, Europe witnessed a phenomenal rise in prices of essential commodities. The price rise appears significant when analyzed and compared to the prices in vogue in the earlier centuries. Although the fluctuation in prices remained within 2% or 3% of the earlier prices, it was significant enough to cause ruptures and break in the existing social-political and economic structures of early modern Europe. The impact of the price rise or inflation in cost of commodities has been considered by some scholars to be so transformative as it laid the foundations for the capitalist society and economic system of the later period. The term 'price revolution' has been used to signify the same.

The rise in cost of living due to rising cost of commodities was first noticed in English and French sources. The commodities involved were primarily food-grains, especially cereals. The increase was minimal in case of manufactured items as textiles and metal products. In southern Netherlands, the prices of cereals escalated much faster and steeper, as compared to fish and cheese and other marine and dairy products. In Sweden, between 1460 and 1559, the prices of barley and rye went much higher compared to butter, cloves, and other manufactures. In England between 1550 and 1650, there occurred a fourfold increase in prices, when compared to those of meat, cattle and metal products, which only about doubled during the same period. In Germany, between 1620 and 1621, in some places, affected by local conditions, the prices increased in case of commodities as rye by about 14 to 16%. In France, there was a about 10-fold increase in grain prices over the course of 16th century, whereas during the same period, those of dairy products increased by about 8 times. The rise in grain prices has been recorded to be steepest in Spain, where, according to Hamilton, the price levels went up by about 3.4 times between 1601-1610, compared to the century before. According to Brown and Hopkins, the index point increase in the prices of food grains was highest in France, followed by England.

Scholars have generally disagreed on the beginning of the price increase. Some of the scholars consider this to be an essentially 16th century phenomenon, while others tend to trace it back to some developments of the 15th century. The Cambridge economic histories trace a steady increase or an upward trend in prices of commodities, especially agrarian from the mid-15th century, stating

that notwithstanding the sudden surge in prices in the 16th century, there was always an upward trend. Similarly, on the duration of this inflation in prices, there is a general disagreement. While some finds a beginning of a general recession by 1580s in Spain, others find similar trend in Italy in the last decade of the 16th century. In Germany, the recession started around 1620s, whereas there are indications of slowdown in Northern Europe, however, no record of declining prices.

Scholars generally are of the opinion that the price fluctuation in Europe had been a cyclical phenomenon. The twelfth and thirteenth century saw rise in prices, followed by a fall in prices in subsequent centuries until about latter half of the fifteenth century. From 1480s to 1620s the prices remained high, followed by another period of recession for almost a century, again followed by an increase in the eighteenth century. Pierre Chaunu suggests that the period from 1504 to 1550 experienced a steady increase in prices, followed by a relatively minor recession from 1550 to 1562-3. The next fifty years was again a period of remarkably high prices, followed by a period of recession.

7.5 RURAL BASE FOR COMMERCIAL REVOLUTION

The entire infrastructural development of what came to be recognized as 'commercial revolution' in sphere of commerce, trade and related institutional growth, happened against the backdrop of rapid shifts in 'agrarian economy.' The introduction of three-cropping system, new implements and tools of cultivation, reclamation of land from the sea by building dykes in north, draining of marshes in England and in France, along with the introduction of new crops from the new world, revolutionized the way agriculture was organized and practiced in various regions of Europe.

Although the above-mentioned changes and many others in field of agriculture and its management, were slow to come about. Until about the beginning of the 14th century, the organization and techniques continued to remain stagnant. The feudal tenant-ship and control of the lords over the production, labour, as well as share of the peasantry remained dominant and controlling. Backed by the laws and the strictures from the church, the social and political organization remained essentially feudal. The economic conditions and patterns of commerce remained subservient and at the periphery of the European socio-political consciousness.

The demographic shifts of the 14th century, primarily due to large scale depopulation because of plague and other epidemics, as well as due to continuous wars and sufferings and deaths due to them, caused the feudal organization to collapse due to internal ruptures. These events and occurrences led to the shrinking of agrarian spaces as well as markets in commodities related to agriculture though large part of the 14th century. It was not until the end of the 15th century that we come across a renewed population rise across various regions of Europe. This rise on population created pressures on the land due to increasing demand. Low productivity and high demand led to rise in food prices, which formed the basis of what came to be known as the 'price revolution' of the 15th century.

Slowly the changes began to be discerned in the patterns of crops sown and the demand for agrarian products across European markets. Beginning in the south

and southeast, the changes on organization of agriculture as well as labour engaged within the sector began to spread and steadily absorbed and innovated upon in the regions of western and Northern Europe as well. Rising prices in agricultural commodities also pushed in innovation and investment. New areas began to be explored and exploited for agriculture. Rising population also pushed up demand for essential commodities as clothing and other dependent agrarian industries as in oil and wine. Fishing and dairy also emerged as important supplementary industries in order to meet the rising requirements for food and essentials. All this also required a facilitation of supply of commodities from one region of Europe to another. For e.g. food grains from Eastern Europe began to be supplied to west, or commodities as spices received in southern Mediterranean ports or Hansa ports in north began to be supplied inland towards the interiors. New markets and fairs began being organized along the navigable waterways which connected these ports to inland distribution points.

Due to significant proliferation of the agrarian shifts across Europe, there occurred a significant change in the organization of land and agrarian economy in the 16th century. At many places the *demesne lands* belonging to the feudal lord and cultivated by peasant labour, were broken up and leased in small tenancies and labour dues were commuted for a rent in money or kind. Such tenures became widespread in France and Italy. One of the major reason for this was also that the merchant classes due to increased demand of agricultural and Agri-based products, began to acquire land on lease and organize labour geared for a factory output production, providing wages instead of asking for share in production. This entrepreneurial attitude towards land and agriculture was prominent discernible in England from 16th century onwards. A class of rich peasant – yeoman – began to emerge. In some areas, land near the towns and cities began to be obtained by individual merchants, entrepreneurs, newly emerging urban bourgeoisie or at times by members of guilds, in order to enter the ranks of rural landed gentry, so as to gain on social prestige, which still was attached to land and not commerce.

Many books on agriculture began to appear. Much of these were subsequently printed and mass circulated with the advent of printing press. Martin Grosser, Johann Coler, and Conrad Heresbach in Germany; Oliver de Serres and Jean Libault in France, and Anthony Fitzherbert and Thomas Tusser in England, wrote major work on agriculture and animal husbandry.

In Netherlands, three different types of crop rotation evolved in the 16th century. One form was the rotation of multiple crops, which ended the practice of keeping the land fallow to the fourth, fifth and even the sixth year. The second form was of grain cultivation for two years, followed by one fallow year. Many of these methods also were adopted in the Eastern Europe, where social structures were still predominantly feudal. In England, the practice of land enclosures began to be followed, which gained even more momentum in the course of the 16th century. This was in response to spread of livestock farming due to increasing demand of woollen textiles in finished and raw form across European and markets.

According to Bowden, there was a sudden forward leap between 1570 and 1640, in the volume, organization and impact of agriculture trading in English economy. There occurred large scale colonization of common land and waste land during the period. Large scale migration of surplus labour took place from villages and countryside to new settlements in forests and other reclaimed areas.

It is estimated that between 1485 and 1607, about 21% of the cultivated area in Midland was enclosed. However, with the rise in prices of corn and new markets in the Agri-products emerging in continental Europe, the English shifted back to the agriculture. After the mid-16th century, rents on arable land rose more rapidly as compared to those on meadows and pasture areas. Due to the shift on trend, cattle breeding shifted northwards towards Ireland.

The period from 14th to the mid-16th century also saw rapid increase in the growth of cottage industry, especially into the countryside, away from the cities and towns. The rising demand of textile and expansion of agriculture demanded new implements and new sources of energy to be utilized. This led many to diversify into production of agrarian implements and textile weaving closer to the production spaces of raw material. This was also enabled by better availability of labour in the countryside. The cottage industries which came up included foundries, oil, stone, grain and sawmills, paper manufacturing, refineries and mining activities.

7.6 INDUSTRIAL PRODUCTION

The growth of industry and agriculture in the sixteenth century was intimately linked. The developments in one sector aided and assisted corresponding and related developments in the other. Although the centuries before the 16th did not see much change in the technology of production, there was much penetration of industrial production in the rural areas. J. F. Neff, gave arguments to consider the sixteenth century as one of industrial revolution:

- 1) Coal production increased 14 times, from 17,000 tons annually in the 1550s to 25,00,000 tons by the 1680s, which facilitated the growth of towns and shipbuilding.
- 2) There was a corresponding growth in the iron industry and metallurgy workshops, which began to employ many labors from rural areas.
- 3) With the growth of new industries and increasing employment in these, led to adoption of new technologies and organization of production processes.

However, the view has been rejected, especially the use of the term ‘revolution’. No fundamental change had been discerned in technology as well as organization of production. There was a phase of vigorous growth from the mid sixteenth century in certain parts of Europe, particularly in the production of metals and minerals iron production expanded enormously with the introduction of blast furnace and it promoted a number of other industries such as armament, brass and cooper ware and glass. Textile production also increased and with it products like alum and dyestuffs.

The textile industries, apart from agriculture, employed the largest number of people throughout the 16th century. It also produced goods of greater total value than any other sector of the industry. During this period, the industry witnessed some significant trends in organization. As an urban craft, it continued to depend on skilled artisans working in their own homes or in workshops. It was kept under the regulations of traditional guilds and as such there was hardly any possibility of such workshops adopting new technology or carrying out innovations. Another trend was in the direction of the transfer of textile production

to the rural countryside. This organization provided part-time employment to the rural workers. Spinning, thus became virtually a rural occupation even for the urban weavers, who began to depend on its supply from the neighboring villages. It provided an additional income to the rural population particularly, England, Germany and the Netherlands. It helped in bringing about agricultural prosperity. The textile industries of Europe were producing different varieties of cloths such as woolens, linen, cotton, mixed material and some luxury fabrics.

There was an expansion of manufacturing and mining activities throughout the 16th century but these did not result in the factory system of production. Although the volume of trade had grown, there was a rise in population and a steady increase in prices; Europe lacked the mass demand for manufactured goods as most of the Europe was still under the grip of feudalism. There was a shortage of capital for investment and the concept of management remained imperfect.

The state structures in most of the states had grown within feudal parameters and at many places, including England and France, the governments had placed restrictions on new forms of technology and organization. Capital-intensive methods were rejected, and the state laws favored the constitution of guilds. Despite, such restrictions, the manufacturing sector tried to escape these regulations by shifting their industrial activities to rural areas, leading to the emergence of rural cottage industry in those parts where capitalist elements began to dominate production.

16th century in Europe is considered important by economic historians because it marked the rise of Atlantic economy caused by the shift in the trade belt and trade routes because of the colonial empires. The long-established trade routes from Asia to Europe through Constantinople via Genoa or Venice lost their importance with the discovery of new oceanic trade routes thereby favoring the economies of the states bordering the Atlantic coast. The first sign of this change can be observed in the rise of Antwerp in the low countries.

There were several contributing factors to the rise of Antwerp, which indirectly signified the rise of the Atlantic economy. During the 16th century, the city came to be described as the 'commercial capital of the world.' The boom for Antwerp began towards the end of the fifteenth century, when the Venetian merchants lost their monopoly over the spice trade of Asia to the Portuguese. The Portuguese began to use Antwerp as a port of clearance and established close commercial relations with the German traders and mercantile communities in the area, for e.g. the Fuggers. The German merchants supplied the much-needed capital to Portuguese to fund their trade with the Indies, in return of the spices which Portuguese supplied. Antwerp also benefitted by the close trading association which the city merchants came to forge with the wool traders of England. 'The English Company of Merchant Adventurers' established a clearance house in the city for wool, from where the commodity was stored and supplied all over the Baltic coast and northern Europe.

The advance of such commercial centers as Antwerp which came to dominate the commercial life of much of the region of northern Europe, was symptomatic of the developments of the period. Urban centers as Antwerp in Northern Europe, along with later Amsterdam and London, came to signify and represent the typical urban mart of the age. A city of multiple markets, controlled by guilds of merchants and producers, employing large number of migrant rural population in certain

crafts and techniques. The Guilds dominated the economic decision making of the city and at times of the empires. The emergence of colonial control over distant spaces, had already unleashed a rush to control and manage colonies and its resources as well as markets for European goods. The mercantilist policies of the age, came to defend the protectionist interests of the merchant guilds, bankers, stake holders and state officials and emperors, who all came to participate and shape the commercial world of the sixteenth century.

7.7 EVOLUTION OF BANKING INSTITUTIONS AND AVAILABILITY OF CAPITAL IN EUROPEAN MARKETS

With the expansion of commerce and deep penetration of money economy in the European country side, there arose a need and desire to regulate and control the flow of bullion and maintain a tab on the exchange rates of commodities in different markets across vast geographical space, from Americas to the Asiatic colonies. The inflow of large bullion across seas from American silver mines and on land created its own problems of facilitating exchange and regulating commerce. Private merchant families involved in long distance trade, especially those with deep investments in European markets since the fifteenth century, innovated and introduced banking facilities in their rudimentary form in European markets. These early merchant-bankers became the backbone of the emerging commerce driven early modern European economy, with their support for voyages of discovery as well as funding the investment of nobility in commerce.

The Italian bankers innovated and developed the technique of ‘double entry book-keeping’ to better manage the finances and by the end of the 16th century, these merchant bankers emerged in various markets across Europe, in a manner determining the demand and controlling production and distribution of commodities, as they emerge as primary investors and suppliers of bullion for industrial and agrarian operations. As the operation of trade became more complex and the risk factors increased due to wars, conflicts as well as establishment of colonies across vast oceanic spaces, so did the importance of these merchant bankers. Many cities in England, France, Holland, Flanders, Italy and Germany saw the emergence of these merchant-bankers. However, the establishment of banks in a modern sense, with a fairly large scale of operations remains a seventeenth century phenomenon. Some of the important merchant families who supported these early endeavors by Iberian states, were merchant houses from Genoa, Venice, and Florence in Italy. The Medici at Florence are one of the most prominent Italian banking houses. Germanic states as Augsburg had also seen emergence of merchant networks and local banking families in the late 15th and 16th centuries, the most prominent being the Fugger.

7.7.1 Early Banking Institutions

The history of the modern banking dates all the way back to the 12th century, with the establishment of such merchant banks in the Italian cities, with the aid and support of Jewish communities as well as town nobility of the region. The earliest recorded bank was established in Venice, with the state guarantee, in the year 1157 CE. It was the sole bank in operation in the region, until the opening of the Bank of Genoa in 1407. The most powerful of the banking family to emerge

in the subsequent period in Italy were the Medici, the banking family from Florence, who began operation in 1392 and continued to operate until 1494. One of the primary factors behind establishment of these early banks was to fund the early crusades as well as to supply bullion to travelers to the holy land and to merchants in the markets of west Asia. In 1401, based on the Venetian model, a *Taula de Canvi* – Table of Exchange, the first public bank in Europe, opened in Barcelona, Spain. The proliferation of banking operations in Europe occurred on the back of Jewish migration from one region to another.

As the exchange operations became increasingly complex over the century, due to rising demands in new commodities as well as deepening monetization of European countryside and towns, the need for larger banks began to be felt. There also began a gradual demarcation between the operations and scope of private and public banks. Early Public banks were established in Genoa and Barcelona. In 1587, the Venetian government established the *Bank of Rialto*, which basically accepted deposits and transferred money. Similar bank was established in Milan (1593), Amsterdam (1609), Hamburg (1619) and Nuremberg (1621). Northern Europe and German areas remained central to the newly developing commercial markets requiring such sophisticated instruments of exchange. However, many of these ‘public banks’ only involved themselves with the task of depositing and transferring of bullion from one point to another, thereby facilitating exchange. This was primarily due to still dominant influence of church injunctions against profiteering from credit and other activities, at the start of the 17th century.

7.7.2 The Medici of Florence

The Medici family of Florence came to exercise considerable influence and control over the commerce of the city of Florence and considerably over that of the Southern and Eastern Italy. Hailing originally from Mugello region in Tuscany, the family prospered by diversifying its interests in commerce and banking. The early wealth was generated from participation in textile trade and interaction with the ‘wool guild’ of Florence. By the end of the 15th century, they had already emerged as bankers and suppliers of bullion to kings, princes, merchants and even to the Roman catholic church and affiliated institutions.

They were considerably involved in Florentine politics, and later established relations with the leading courts of Europe. Such was the influence and reach of the family, that four of the family members, went on to hold the office of the Pope [Leo X (1513-1521), and Clement VII (1523-1534), Pius IV (1559-1565) and Leo XI (1604)]. They also established matrimonial relationships with the French sovereigns, and two of the queens of France were from the Medici family - Catherine de’ Medici (1547–1589) and Marie de’ Medici (1600–1630). In 1532, they acquired the hereditary title of the Duke of Florence, which by 1569, was elevated to the Grand Duchy of Tuscany as a result of the territorial expansion.

They were also great patrons of art and supported the evolution of musical instruments as piano and performative acts as opera. They funded the construction of Saint Peter Basilica and Santa Maria del Fiore, and patronized Leonardo, Michelangelo, Machiavelli and Galileo. They were also protagonists of the counter-reformation, from the beginning of the reformation through the Council of Trent and the French wars of religion.

7.7.3 The Fuggers of Augsburg

The Fuggers, started as a family of peasant weavers in Augsburg, slowly expanding their interests into mining of silver, copper, and mercury. As leading money lenders of the age, they emerged as principal bankers for Spanish overseas empire, as well as exercising a sense of control over Spain's overseas customs. The influence of their operations stretched from Rome to Budapest, from Lisbon to Danzig, from Moscow to Chile. As bankers they offered millions of ducats to Kings, cardinals, Holy Roman Emperors, financing wars, campaigns, colonization attempts undertaken by various European sovereigns. In 1514, Holy Roman Emperor Maximilian I, acknowledged the role of Jakob Fugger II, as his chief financial officer, and made him the hereditary knight of the Holy Roman Empire. In 1516, by negotiating a complex loan, he made the Henry VIII of England, a Fugger ally. In fact, it was primarily due to the influence of the Fuggers on the affairs of the Holy Roman Empire and the Vatican court, that the restrictions on usury were lifted by a papal edict in 1517.

Check Your Progress 1

- 1) How do you locate the commercial revolution?

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- 2) What are the aspects of industrial production in this period?

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7.8 METHODS OF FINANCIAL TRANSACTIONS

The increased volume of commercial transaction over a larger area of continental Europe, now facilitated by increasing demand from the local centers, on account of rising population as well as a due to emergence of commercial farming in many regions of Europe, necessitated large scale fund transfer over the various markets and amongst the multitude of financial players. The situation was also made complex by the increasing political instability and wars fueled by religious conflicts and increasingly assertive nation states fighting over regions which exhibited agricultural prosperity or mineral deposits, especially silver and gold.

New forms of credit instruments and facilities, which had already emerged and in use in Italian states, now found getting adopted and localized in the other regions as well. The increasing familiarity of the European business classes with

these instruments of exchange, laid the foundation for the emergence of capitalist structures in the 18th and 19th centuries.

The study of medieval credit instruments is not without its own difficulties. For one the nomenclature of the credit instruments may be the same as modern times, but their nature and manner of operation differed considerably. One type, the *lettres de faire*, has no modern relative, and there are no words that describe it with even approximate accuracy. The other instruments of the time may be compared to promissory notes or letters of credit, but the resemblance is not very precise. Transfers of money were not confined to fair—towns or to fair-periods: consumptive expenditure, mercantile expenditures in towns that had no fairs, both required other instruments, and as this necessity was quite as pressing as the needs of interchange between the fairs, special instruments were developed. Indeed, it is not too much to say that in the transfers of specie the fairs of the twelfth, thirteenth, and fourteenth centuries by no means played a commanding part. It is fairly certain that many of the transfers of money by credit in this period were affected by devices other than *lettres de faire*.

An important form of credit transfer was a promissory note stipulating payment in a distant place, at some subsequent date indicated. Ordinarily, there were only two parties, the debtor and the creditor, and both were obliged to appear at the second place or send agents to complete the transaction.

7.9 BILLS OF EXCHANGE

A bill of exchange usually is a document guaranteeing the payment of a specific amount of money, either on demand, or at a set time. More specifically, it is a document contemplated by or consisting of a contract, which promises the payment of money without condition, which may be paid either on demand or at a future date. The term can have different meanings, depending on what law is being applied and what country and context it is used in.

These were commonly employed in trade transactions in both internal and external trade. These facilitated the payments over long distance, without one having to carry the quantities of money from one place to another. Moreover, bills had the advantage of being passed on amongst multiple merchants and traders, before being finally deposited. Most of the bills were based on the practice of endorsement by the banks where the bill was presented.

The earliest use of the Bills has been attributed to the Knights Templars, who issued notes to the pilgrims, who deposited their valuables with the Templars, before embarking on a hazardous journey to the Holy Land. The pilgrims were able to retrieve their funds in an amount of equal measure after arriving at the destined place. Such documents had already been use in Asiatic markets from around the 9th century onwards. Such prototypes came to be used later by the Iberian and Italian merchants in the 12th century. The earliest form such bills came to be used by the merchants of Genoa.

In Italy in the 13–15th centuries, bills of exchange and promissory notes obtained their main features, while further phases of their development have been associated with France (16–18th centuries, where the endorsement had appeared) and Germany (19th century, formalization of Exchange Law). The first mention of

the use of bills of exchange in English statutes dates from 1381, under Richard II; the statute mandates the use of such instruments in England, and prohibits the future export of gold and silver specie, in any form, to settle foreign commercial transactions.

By the 17th century, the bills as an instrument were used by Dutch traders to transfer money to Asiatic markets as Batavia, in Ceylon, or in Bengal. In words of F. S. Gastra:

Company-servants or others who wished to transmit their money to the Netherlands deposited their funds in the treasuries of the VOC in Batavia, Ceylon, or Bengal. They received bills of exchange for this money, and these bills were sent with the return fleets to Europe and were consequently cashed in Amsterdam or one of the other chamber cities. Many officials transferred large amounts of money when repatriating and thus could cash these bills themselves, but in other cases this money was received in the Netherlands by bankers, agents, or relatives.

7.10 PROMISSORY NOTES

Considered to be the precursor of modern currency notes, the promissory notes as instrument of credit transfer and exchange were used, particularly in Holland, Antwerp and France. A promissory note, sometimes referred to as a note payable, is a legal instrument (more particularly, a financial instrument and a debt instrument), in which one party (the maker or issuer) promises in writing to pay a determinate sum of money to the other (the payee), either at a fixed or determinable future time or on demand of the payee, under specific terms. The terms of a note usually include the principal amount, the interest rate if any, the parties, the date, the terms of repayment (which could include interest) and the maturity date. Sometimes, provisions are included concerning the payee's rights in the event of a default, which may include foreclosure of the maker's assets.

Primarily, the practice of issuing notes was introduced in Europe by Venetian merchants trading with the East. Marco Polo has been credited by some scholars to introduce a variety of Chinese promissory note, in Europe. The first recorded instance of promissory note has been traced to Milan in 1325 C.E. There is evidence of promissory notes being issued in 1384 between Genoa and Barcelona, although the letters themselves are lost. The same happens for the ones issued in Valencia in 1371 by Bernat de Codinachs for Manuel d'Entença, a merchant from Huesca (then part of the Crown of Aragon), amounting a total of 100 florins. In all these cases, the promissory notes were used as a rudimentary system of paper money, for the amounts issued could not be easily transported in metal coins between the cities involved. Ginaldo Giovanni Battista Strozzi issued an early form of promissory note in Medina del Campo (Spain), against the city of Besançon in 1553. However, there exists notice of promissory notes being in used in Mediterranean commerce well before that date.

The relative amounts of mercantile and non-mercantile transfers of money cannot be ascertained, but the life of the mediaeval community required much transference of money that could hardly be called mercantile. The most considerable items in such transfers were occasioned by pilgrimages, crusades, movements of clerical funds, and the transfers of money to meet the expenses of students studying in distant towns. The crusaders frequently negotiated loans in Northern Italy, promising repayment at the fair of *Bar sur Aube*, or at another of

the fairs of *Champagne*. Similar documents appear at Venice. This form of note was used very frequently by students to avoid the danger of carrying their funds on their persons.

7.11 DISCOUNTING ON BILLS OR NOTES

A certain percentage was deducted from the face value of the bills of exchange or promissory notes, whenever it changed hands as product or as a service charge. This deduction gave merchant his money ahead of time as well as ensured income to the banker.

An important feature of the above-mentioned instruments of exchange, especially in their initial stages of acceptance and circulation, was their 'negotiability'; i.e. the transfer of bill from one person to another and its conversion to cash. The legal issues regarding the aforesaid conversion and the responsibilities of endorsement and acceptance were slowly overcome towards the end of the seventeenth century.

Thus, in the overall assessment of the impact of the usage of bills of exchanges, promissory notes and other instruments of credit transfer, was profound and far reaching, as they acted as great substitutes for currency and enabled the credit resource of the banking and business firms to be increased and projected far beyond the actual amount in possession.

7.12 INSURANCE

As commerce grew diverse and exchange began to be organized over longer distances, there also arose a need to protect the merchants against the dangers of transferring commodities over such long distances. Maritime insurance emerged as a commercial practice against the risks of oceanic trade and was managed by brokers and merchants. By 1504, the practice of providing insurance had developed fairly well to the extent that there were around 600 people subsisting in the city of Antwerp alone. Over centuries, various forms of insurance were introduced as safeguard against the damages to commodities due to war, conflicts, and loots on the highway; or against damages due to fire in the storage facilities, amongst other facilities.

Sea loans or *foenus nauticum* were common before the traditional marine insurance in the medieval times, in which an investor lent his money to a traveling merchant, and the merchant would be liable to pay it back if the ship returned safely. In this way, credit and sea insurance were provided at the same time. The rate of interest for sea loans was high to compensate for the high risks involved. Merchants taking sea loans had to pay the high interest charges to the lenders for having borne the sea risk as opposed to sharing the profits, which is how things were done when merchants carried goods by land.

Since sea loans involved paying for risk, the Pope Gregory IX condemned the practice as usury in his decretal *Naviganti* of 1236. The *commenda* contracts were introduced when Pope Gregory IX condemned the sea loans. Under *commenda* contracts, capitalists provided funds to an entrepreneur to carry out a trade as partners in the enterprise, sharing the profit but both sea and commercial

risk belong to capitalist. In the fourteenth century, Italian merchants introduced cambium contracts where borrowers had to buy the bills of exchange from the lenders (merchant bankers). Since the bills of exchange were payable no matter what, they did not cover any sea risk at all. To hedge against the sea risks they now bore, merchants invented insurance loans that were very close to today's marine insurance, i.e. "the insured or borrower remained on the land, the insured goods are sent unaccompanied, and the loan is due not upon the safe arrival of ship but upon the safe arrival of goods".

In the thirteenth and early fourteenth centuries, the European traders traveled to sell their goods across the globe and to hedge the risk of theft or fraud by the Captain or crew also known as *Risicum Gentium*. However, they realized that selling this way, involves not only the risk of loss (i.e. damaged, theft or life of trader as well) but also, they cannot cover the wider market. Therefore, the trend of hiring commissioned base agents across different markets emerged. The traders sent (export) their goods to the agents who on the behalf of traders sold them. Sending goods to the agents by road or sea involves different risks i.e. sea storms, pirate attack; goods may be damaged due to poor handling while loading and unloading, etc. Traders exploited different measures to hedge the risk involved in the exporting. Instead of sending all the goods on one ship/truck, they used to send their goods over number of vessels to avoid the total loss of shipment if the vessel was caught in a sea storm, fire, pirate, or came under enemy attacks but this was not good practice due to prolonged time and efforts involved. Insurance is the oldest method of transferring risk, which was developed to mitigate trade/business risk.

Some of the earliest written insurance contracts dates all the way back to 1340s in the Italian cities, such as Pisa and Genoa. From Italy, the knowledge and usage of insurance contracts spread to the other markets of Europe. By 16th century, the practice became fairly common in England, France and Netherlands. The rules and regulations of insurance were adopted from Italian merchants known as "Law Merchant" and initially these rules governed the marine insurance across the globe. In case of dispute, policy writer and holder choose one arbitrator each and these two arbitrators choose a third impartial arbitrator and parties were bound to accept the decision made by the majority. Because of the inability of this informal court (arbitrator) to enforce their decisions, in the sixteenth century, traders turned to formal courts to resolve their disputes. Special courts were set up to solve the disputes of marine insurance like in Genoa, insurance regulation passed to impose fine, on who did not obey the Church's prohibitions of usury (Sea loans, Commenda) in 1369. In 1435, Barcelona ordinance issued, making it mandatory for traders to turn to formal courts in case of insurance disputes. In Venice, "*Consoli dei Mercanti*", specialized court to deal with marine insurance were set up in 1436. In 1520, the mercantile court of Genoa was replaced by more specialized court "Rota" which not only followed the merchant's customs but also incorporated the legal laws in it.

These new insurance contracts allowed insurance to be separated from investment, a separation of roles that first proved useful in marine insurance. The first printed book on insurance was the 'Legal treatise On Insurance and Merchants' Bets' by Pedro de Santarém (Santerna), written in 1488 and published in 1552.

7.13 ORGANISING TRADE AND EXCHANGE: GUILDS AND MERCHANT COMPANIES

By the sixteenth century, the small fairs and markets in the European countryside has given way to the towns and markets, which evolved as a permanent center of exchange. Merchant guilds which evolved over the course of 14th and 15th century came to regulate the production and distribution of commodities and exchange rate of the same in various urban centers. The proliferation of urban centers across Europe was another mark of growing commercial penetration in European landscape. Guilds along with merchant bankers came to dominate the economic as well as political life of the cities and towns. The Hanseatic league which dominated the trade in Northern Europe as well as merchant banking families of Italian and German cities are the case in point.

Export trade underwent significant changes between the fifteenth and the seventeenth centuries. In this period, wool and food grains played a larger role in English exports but from mid-sixteenth century, textiles began to replace agricultural products. The result of this shift was the major trade depression which affected European markets in the fifteenth century. The demographic crisis coupled with frequent wars created trouble for individual merchants to engage in long distance trade. As a result of these developments, one come across developments of guild based as well as mercantile organization created to facilitate trade and exchange. The 'Fellowship of Merchant Adventurers of London' was created in 1486, which monopolized textile export to Antwerp and other North European markets, primarily by removing the middlemen merchants of Italian and Dutch origin. An important factor in the growth of trade, especially in England, was the emergence of a new form of chartered companies. Various companies were created and favored by the state with grants of monopolies. These included the Muscovy Company, the Levant Company, the Hudson Bay Company and the East India Company These were either regulated or joint stock companies and they played a crucial role not only in the expansion of trade but also in the creation of English colonial empires.

However, the most important development during the sixteenth century in the sphere of trade was the rise of new group of peddling traders and middlemen, who not only carried consumer goods from town markets to the outlying regions but also supplied artisans with raw materials. These activities, mostly unregulated, came to be detested by traditional regulators of the markets as well as the state officials. The shift to textile trade England reflects a close integration of English agriculture with the manufacturing sector that manifested itself in the growth of trade with in as well as outside England.

Check Your Progress 2

1) What are the methods of financial transactions in this period?

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2) How was trade and exchange organised in this period?

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7.14 REGULATED COMPANIES

The 16th century was a period of transition from a subsistence economy to an exchange economy moving towards early capitalist phase. Commercial expansion on an international scale required changes in the nature of business organization. In the late medieval period, trade was organized either by the individuals or in the form of family partnership. Short term organizations had come up in Italy around 12th and 13th centuries – known as *Commendas or societas*.

The expansion of trade began to change the scale of organizations as well as the form of arrangement. The earlier forms of partnerships were subjected to the disadvantage of unlimited liability for its members concerning debts or losses. These were not capable of facing heavy risks or making huge capital investments. The opening up of overseas territories and the expansion of trade of bulk items created new problems. As the Dutch expanded their trading activities in the Baltic zone, it became quite common for the Dutch firms to appoint a partner at a Baltic port and place him there permanently to handle their business. Similarly, the Spanish firms sometimes placed one of its partners in Seville and another in the American colony as a factor or an agent. Thereby the Dutch, the French, and the English merchants through secret partnership agreements with the Spanish merchants were in a position to evade the regulations of the Spanish government, which prohibited foreigners from participating in the American trade. Gradually attempts were made to form a more suitable form of business organisation. One such form was the regulated company.

The origin of a regulated company can be located in the Middle Ages, particularly in England, where the Merchant staplers were created, but not in a fully developed form. The regulated company was partly like a partnership and partly like guild. In some ways it was also like a joint stock company that emerged later. It was an association of merchants to monopolize, exploit and control a specific branch of trade like a common venture. The members agreed to abide by certain specific regulations, but they did not pool their resources together. Rather, they agreed only to cooperate for mutual benefit. These companies were chartered and given monopoly by their respective governments. They were regulated companies because they followed the rules laid down for the conduct of their business. They maintained common trade center abroad and enjoyed monopoly rights. Their respective governments protected them against the ‘interlopers (those who attempted to break into the monopoly). There were many such companies in England like the Merchant Adventurers, the Eastland Company, the Muscovy Company and the Levant Company.

7.15 JOINT STOCK COMPANIES

The increasing volume of trade and expansion of commercial economy led to changes in the form of organisations of commerce. The regulated company evolved into a new organisation – The Joint Stock Company. The precedent of such an organisation can be traced to coal mining organisations in Germany, as heavy investments in the mining operations prevented individual participation. Shares were purchased by several individuals and the running of the company operations was entrusted to the board of directors. The joint stock company worked as a permanent organisation, not subject to dissolution in case of death or withdrawal of its huddling members. The company of the size could command greater resources, as was the case with the early seventeenth century English and Dutch joint stock enterprises for trade with the Asiatic markets. A larger capital could be secured for initial investment as well as for ensuring the commodities to be traded.

The early joint stock companies were slow to evolve and many of the merchants were hesitant to participate or invest in the shares of the companies. It was only after the initial voyages to the east showed enough promise that capital and investment was easier to come by. Early English and Dutch companies followed the practice of dividing capital and profit at the end of each voyage, which created confusion amongst the early shareholders.

The Dutch East India Company, which was formed in 1602, expected to pay its investors by the end of the ten year period, as it was unable to do so, it requested its shareholders to sell stocks and shares at the Amsterdam stock exchange, initiating the practice of stock sale in an open market. The joint stock companies, enabled the individuals and not just the merchants to invest their savings into permanent corporations with the hope to increase their earnings, by both rise in profits from the eastern trade or rise in prices of the shares of the company in open stock markets.

Joint stock companies also came to organise industrial enterprises, as they began to organise production of commodities in demand in the eastern and overseas markets, according to specific demands. They also served as agencies of remittance of bullion across long distances and finally they emerged as instruments to exercise monopolies over commodities and routes by the governments, vying with each other in mercantilist pursuit, to maximise profit and trade. Most of the trading companies were also chartered companies as they received charters from the government concerning their privileges, monopoly and assignment of specific territories where they could operate. In England, two joint-stock companies were organized in 1568 for an entirely different purpose — the Mineral and Battery Works Company to carry out brass founding for manufacturing copper or brass wires, and the Mines Royal Company to carry out silver and copper mining.

7.16 STOCK EXCHANGES

An interesting aspect of the commercial revolution was the formation of a stock exchange in the commercial cities of Europe. The stock exchange centers were also called bourse, which originated in Bruges. According to Braudel, a stock exchange was the meeting place of bankers, merchants, and businessmen, dealers

and banker's agents, brokers and investors. Although there is no clear evidence of the origin of such exchanges, in Amsterdam, the new exchange was founded in 1609, while the old one probably dates to 1530s. The Bruges exchange was created in 1409, Antwerp in 1460, Lyons in 1462, London in 1554, Paris in 1563, Bordeaux in 1564 and the number continued to increase throughout the 17th century.

The stock exchange at Amsterdam made significant advances not only in terms of scale but also in terms of organization. In 1631, a new building was constructed for it where speculation was carried out in a totally modern fashion. The new elements of the Amsterdam stock market were the volume, the liquidity of the market and the publicity received and the speculative freedom of transactions. The chief contribution of the stock exchange was to promote large-scale capitalist ventures by means of sale and purchase of shares and public investments.

7.17 LET US SUM UP

In the end one gets a picture of an economy slowly transforming from a localized inward center to a more global connections, forged on the back of a slowly evolving agrarian and industrial structures and labour relations within the economic systems. The emergence of nation states and national economies led to a much closer engagement of economic structures with the political systems in the region. The aspiration of various social classes found way to harness and grow with the breakdown of societal and economic barriers of the middle ages. The penetration of liquid money/bullion into European society and its consequent commercialization had far reaching consequences on the European political and social landscape. With the initiation of mercantile monetary policies, centered on the idea of prosperity of nation and wealth of national economies, there began a conquest and race for acquiring colonies to supplement market, labour and raw material sources of home economies. At the same time, a growing realization of the importance of money in rationalizing of social status and political standing, the institutions of marriage and structures of inheritance and property control began to evolve and take shape. These evolving laws emerge as foundational structures on which the 'modern western law and legal structures' took shape and evolved. Thus, in many ways, the 'commercial revolution' of the late middle ages/early modern period laid the foundations and structures for the emergence of modern economies as well as evolution of societies and polities based on modern law and legal structures.

7.18 KEYWORDS

Localized exchange: Exchange and trade confined to local areas and not as yet integrated in the wider or global structure of trade and exchange.

Annales School: School of history writing in France which in contrast to the Marxist school's emphasis on hierarchy of causation emphasised equal weightage to all aspects of causation and investigated them as such.

7.19 ANSWERS TO CHECK YOUR PROGRESS EXERCISES

Check Your Progress 1

- 1) See Section 7.2
- 2) See Section 7.6

Check Your Progress 2

- 1) See Section 7.8 to 7.12
- 2) See Section 7.13

7.20 SUGGESTED READINGS

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