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A TALE OF TWO THEORIES: MONOPOLIES AND CRAFT GUILDS IN MEDIEVAL ENGLAND AND MODERN IMAGINATION

BY

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I. INTRODUCTION

Popular texts typically assert that guilds of craftsmen "monopolized" markets in medieval England. Norman Cantor's *Medieval Reader* declares "craft guilds' ... main purpose and activity was narrow regulation of industrial productivity in order to restrain competition" (Cantor 1994, p. 278). Douglass North's *Structure and Change in Economic History* asserts "... guilds organized to protect local artisans ... [and their strength] in preserving local monopolies against encroachment from outside competition was frequently reinforced by the coercive power of kings and great lords" (North 1981, p. 134). Henry Pirenne's *Economic and Social History of Medieval Europe* proclaims:

> craft guilds, under a diversity of names, *officium* or *ministerium* in Latin, *metier* or *jurande* in French, *arte* in Italian, *ambacht* or *neering* in the Netherlands, *amt*, *innung*, *aunft*, or *handwerk*, in German, *craft-gild* or *mistery* in English, ... fulfilled the need of economic protection. The pressing necessity to stand by one another, so as to resist competition from newcomers (Pirenne 1937, pp. 177–79).

George Holmes' *Later Middle Ages* succinctly states that in England, "guilds were monopolies" (Holmes 1962, p. 36).

The supposed sources of "monopoly" power were charters of guilds and towns, parliamentary statutes, and precedents established by common-law courts, which gave guilds the right to restrict access to markets, or so say scores of scholars (including those cited in the first paragraph). In *How the West Grew Rich*, Birdzell and Rosenberg assert "in England ... guilds' charters gave them

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authority over entry into particular lines of trade or manufacture within a town or borough" (Birdzell and Rosenberg 1986 p. 24). In *Gilds: Their Origin, Constitution, Objects, and Later History*, Cornelius Walford declares:

> The object of the Craft-Gild was to protect [members] against the competition of persons who were not members . . . one object of the Gild recognized in the earliest charters was to secure collectively as great a monopoly as possible for the particular town in which it was established (Walford 1888, p. 36).

In *The Guild Merchant*, Charles Gross alleges that English law gave guilds powers with which they:

> shackled free commercial intercourse . . . blindly aimed to reduce free competition to a minimum, regarded what we now consider legitimate speculation as a crime, deflected from the town every powerful current of trade, mercilessly obliterated the spirit of mercantile enterprise, and crushed out every stimulus to extensive production. The municipal atmosphere was surcharged with the spirit of rigid protection . . . (Gross 1890, pp. 50–51).

In *British Borough Charters*, Adolphus Ballard concludes, " . . . in all three countries (Britain, France, Germany), charters were granted to craft guilds securing monopolies of these crafts to members of the guilds . . . (Ballard 1913, p. cxxxv).

Citiations to the writings of Gross and Ballard justify the maxim of monopolization. Credibility is the foremost reason. Gross pioneered the analysis of *guilda mercatoria*, the associations that managed medieval English towns, defended merchants' rights, and regulated retail trade. His collection of documents from over one hundred mercantile associations remains the principal primary source for serious students of the subject. Ballard pioneered the analysis of borough charters, the legal documents underlying the regulation of commerce and industry in medieval British towns. His database now forms the foundation of scholarly analysis of municipal law.

Scrutiny of Gross and Ballard, however, suggests citations of their work are often misplaced. Their definitions of "monopoly" differed dramatically from those of modern economists. According to Gross, "monopolists" seldom regulated wholesale trade, often allowed other "monopolists" to enter their markets, frequently sold merchandise similar to, in the same market as, and competing for customers' attention with merchandise of other "monopolists," and never possessed authority over venues outside of their hometowns where they sold most of their merchandise. "Monopolistic" municipal regulations included bans on forestalling (i.e., the buying up of merchandise before it reached the market), engrossing (i.e., the stockpiling of merchandise in order to raise prices), and regrating (i.e., the buying and reselling of merchandise in the same or neighboring markets after prices rose).

In contrast, modern scholars believe monopolists are sole sellers of products with no close substitutes. Raising prices by restricting supply is the *sine qua non* of monopolistic behavior. Prohibitions on such machinations are the basis of anti-trust economics. Prosecutions of forestallers and regrators encourage competition and deter harmful manipulations of product markets. The contrast

between the modern and the Gross cannot be greater. The modern term *monopoly* and the archaic version of the term are homonyms, words spelled and pronounced identically but with different meanings. Markets for manufactured merchandise may have been monopolistic in the nineteenth century sense of the word but they were far from monopolistic in the modern sense. This lexical confusion explains why scholars who cited Gross and Ballard thought medieval guilds monopolized markets for manufactured goods in medieval England when in fact those markets were far from monopolistic in the modern sense of the word.

Recent research shows that during the Middle Ages manufacturers never received rights to be sole sellers in certain markets. Vendors could not legally manipulate quantities and prices. Laws forbade the erection of barriers to entry and exchange. Burgesses—the residents of chartered towns whose populations contained almost all merchants and manufacturers—had the right to sell merchandise anywhere in the realm free from tax and toll. Hanseatic, Italian, and Flemish entrepreneurs possessed similar privileges. Consumers often bought manufactured merchandise from itinerant traders who sold products made in many places. Consumers also lived within walking distance of multiple markets operated by independent municipal, aristocratic, and ecclesiastic authorities. The 3,000 markets and fairs in England competed to attract buyers and sellers. Most venues attracted merchants from miles around. Many attracted traders from the farthest corners of the continent. In all markets and fairs, items for sale included similar products made by numerous guilds from different towns (Richardson 2000). Chancery records, for example, reveal the royal wardrobe purchasing in a short span of time and at a small number of fairs wool fabric made in nineteen different towns (seven continental, twelve English). Markets in towns with cloth-making industries contained the most varieties of cloths. For example, when the royal wardrobe purchased Stamford-style woolens in Stamford, it also bought cloth produced in Lincoln, Douai, and Ypres. When the royal wardrobe purchased local cloth in Bury St. Edmunds, it also purchased cloth woven in Beverley, Lincoln, Stamford, Arras, Douai, Poperinghe, and Ypres (Moore 1985, pp. 26–27). Similar evidence from towns throughout Europe suggests few municipalities built impermeable barriers around local markets, and even if they had, this behavior would have had little impact on the structure and performance of industry, since most manufacturers exported the bulk of their merchandise to the hinterland where the preponderance of the population lived and where municipalities and guilds lacked legal and political power.

Despite recent research, our profession defers to precedent, and prevailing opinions maintain that craft guilds monopolized markets. Popular texts still cite Gross and Ballard and incessantly state that guilds were monopolists. These citations are, of course, a source of confusion. The meaning of the eight letters m–o–n–o–p–o–l–y changed during the last 100 years, but modern authors neglect the evolution of the word and incorrectly place present definitions in the mouths of past scholars.

This essay clarifies this confusion by reinterpreting the writings of nineteenth century historians, translating old prose into modern terms and exploring the parallel evolution of theories about monopolies and guilds. Section 2 reviews the meandering during the last two centuries of monopoly's definition. This section

is brief because the story was once well known and appeared in the writings of eminent authorities such as Joseph Schumpeter, Paul Samuelson, E. H. Chamberlain, and J. R. Hicks. Section 3 discusses theories about guilds during the last 100 years. Focus falls on the most influential authors in four waves of scholarship: the collectors, interpreters, synthesizers, and revisionists, and their perceptions of their predecessors' writings. Section 4 investigates five factors that contributed to the divergence of fact and theory. Passion-laden terms possess rhetorical value. The replacement of a prevailing paradigm by an incompatible new one requires a critical mass of inexplicable observations. Definitions of key terms often vary over time and across academic disciplines. Deficient data hinders social scientific methods from overturning incorrect hypotheses. And, professional interest drifted among periods and professions, while guilds varied greatly across time and space, so that the definition of the term *craft guild* was often as befuddled as the meaning of monopoly. Section 5 solves the last problem by categorizing occupational guilds by economic function. This novel taxonomy facilitates the translation of nineteenth-century scholarship into the lexicon of modern economics and clarifies the role of craft guilds in the medieval economy.

Guilds were local labor-market monopsonists with limited regulatory powers. Guilds that sold victuals and services, which could not be traded over long distances, often used their powers to advance their own interests at their neighbors' expense. Their monopolist machinations distorted the distribution of wealth but detracted little from economic efficiency, since demand for foodstuffs was inelastic and therefore prices diverged far more than quantities from competitive levels. Guilds that manufactured merchandise, however, exported most of their wares from their hometowns to regional, national, and international markets where their products competed against similar products made by guilds in other towns. This differentiated competition probably enhanced economic efficiency, since it kept prices and quantities near competitive levels and provided artisans with incentives for innovation. In other words, from an accurate interpretation of the 150-year-old literature on the medieval urban economy, a novel conclusion arises. Guilds distorted the distribution of wealth without impeding and perhaps even while enhancing economic efficiency. This essay justifies that conclusion by first investigating the evolution of the language scholars used to discuss monopoly and other forms of industrial organization and, second, examining the confusion that the evolution of this language sowed among scholars who used it to describe the behavior of guilds.

II. THE MEANDERING MEANING OF MONOPOLY

The language of industrial organization expanded exponentially during the last two hundred years. Generations ago, social scientists applied the term monopoly to a wide variety of situations outside its present parameters to encompass almost any situation now described in a glossary of microeconomics. The meaning of monopoly meandered down many paths during the last two centuries. The ideas now contained within the concept of monopoly are a small subset of those once encapsulated by it. In the year of our Lord 1776, the term monopoly

looked little like its modern descendant. The great-grandfather of academic economists, Adam Smith, "employed the term most often to refer to multi-firm industries enjoying statutory protection" and included in his definition a tree full of political, legal, and economic restrictions (West 1987, p. 538). Smith's tree had many branches. Monopolies existed of "one kind or another," "different sort(s)," and the "first (and) second kind" (Smith 1776, p. 595). The first was an exclusive trading relationship between colony and mother country. Monopolies of this kind were established by most European nations "against all other European nations." The second was the assignment to a single corporation of home markets for colonial goods (Smith 1776, pp. 574 and 592–95):

> Both these kinds of monopolies derange more or less the natural distribution of the stock of the society: but they do not always derange it in the same way. Monopolies of the first kind always attract to the particular trade in which they are established, a greater proportion of the stock of the society than what would go to that trade of its own accord. Monopolies of the second kind may sometime attract stock towards a particular trade in which they are established, and sometimes repel it from that trade according to different circumstances (Smith 1776, p. 595).

Another branch included "exclusive privileges of corporations, statutes of apprenticeship, and all those laws which restrain, in particular employments, the competition to a smaller number than might otherwise go into them." These "enlarged monopolies ... keep up the market price of particular commodities above the natural price ... as long as the regulations of police which give occasion to them" (Smith 1776, pp. 61–62). Additional boughs corresponded to exclusive rights granted by the government to individuals and trading companies, secrets of trade or manufacture, and remote market towns that possessed monopolies "of the country in its neighborhood" (Smith 1776, pp. 61 and 147).

Smith's thick foliage contained as many consequences as causes. Monopolists under-stocked the market and, "by never fully supplying the effectual demand, sell their commodities much above the natural price, and raise their emoluments ... The price of monopoly is upon every occasion the highest which can be got ... the highest that can be squeezed out of the buyers" (Smith 1776, pp. 61–62).

"Extraordinary fraud," "abuse," and mismanagement arose because "good management ... can never be universally established but in consequence of that free and universal competition which forces everybody to have recourse to it [best practice] for the sake of self defense" (Smith 1776, pp. 595 and 74). Unemployment persisted because legal restrictions that in one case protected individuals' occupations from entrants in other cases excluded them from employment in other industries (Smith 1776, p. 62). The allocation of resources diverged from optimal, and perhaps worst of all, mutually advantageous trades that would have taken place in the absence of restrictions did not take place (Smith 1776, p. 597).

Yet, monopolies could have beneficial effects. Some enabled "the workman to raise his wages a good deal above their natural rate" (Smith 1776, p. 62). Others, including patents and copyrights, encouraged innovation. A temporary monopoly of trade had similar effects and could "be vindicated upon the same principles

upon which alike monopoly of a new machine is granted to its inventor, and that of a new book to its author"':

> When a company of merchants undertake, at their own risk and expense, to establish a new trade with some remote and barbarous nation, it may not be unreasonable to incorporate them into a joint stock company, and to grant them, in case of their success, a monopoly of trade for a certain number of years. It is the easiest and most natural way in which the state can recompense them for hazarding a dangerous and expensive experiment, of which the public is afterwards to reap the benefit (Smith 1776, p. 712).

In similar situations, monopolies of many types had potential benefits. One of the few that did not was the monopoly of land, which obviously existed, according to Smith, because taxes upon some types of produce were born entirely by producers (Smith 1776, pp. 834–35).

David Ricardo, John Stuart Mill, and Nassau William Senior, too, were "concerned with general restrictions, and especially with the fixed supply of land" (West 1987, p. 538).

> Senior spoke of a "monopoly in land." But in this case nothing more was involved than misleading terminology: he did not mean more than scarcity of land and did not actually try to explain rent by a nonexistent monopoly in it. Others did, however, and it is not always easy to tell whether a given author only used phraseology in order to denote operation of scarcity in the case of a "costless" factor of production or actually meant to assert what would be true only if landowners acted like a single seller . . . [John Stuart] Mill even wrote of a "monopolized" thing among the holders of which there is competition (Schumpeter 1954, p. 602n).

Little more can be added about the Ricardian concept of monopoly. Ricardo and his contemporaries seldom defined the term and never used it consistently (Chamberlin 1933, Hicks 1935, Knight 1935).[1]

The same can be said of most pre-Marshallian monopolists. Even Menger's *Principles of Economics* used the term as a catch-all phrase for single sellers, single buyers, trade restrictions, price discriminators, cartels, institutions enabling the exploitation of social classes, and various additional undefined phenomena (Menger 1950, pp. 104–105, 213, 215–17, 221–25). Schumpeter summarized this state of affairs with particularly clear prose:

> So firmly were [pre-Marshallian economists] convinced that the competitive case was the obvious thing, familiar to all, that they did not bother to analyze its logical content. In fact, the concept was usually not even defined. It just meant the absence of monopoly, which was considered abnormal and vigorously condemned, but was not properly defined either . . . A most instructive example of a type of specious reasoning by which we often delude ourselves when defending a proposition that, from habit, we have come to believe needs no defense at all (Schumpeter 1954, p. 673).

[1] Knight states, "The views of classical writers, including Ricardo, on monopoly value or price were absurdly confused (and they have no discussion of monopoly in connection with distribution); and of the authors under consideration here, only Ricardo failed to explicitly treat land as a monopoly" (Knight 1935).

The two exceptions are Petro Verri and Augustin Cournot, who substantially advanced thought in the field, although few knew of their work. Verri's contribution was "forgotten," and Cournot's classic theory of monopoly "passed unnoticed" until "Marshall published his masterly version of Cournot's theory," beginning Cournot's "posthumous rise from almost complete oblivion to his present place in our hall of fame" (Schumpeter 1954, pp. 602, 961).

Marshall introduced monopoly's modern definition. Monopolists are sole sellers of products with few close substitutes. Combining this definition with concepts of supply and demand created a model with clear implications. Monopolists sell products for which demand was independent of their actions and the actions of other sellers. Monopolists reduce quantities, raise prices, and profit from these selfish acts. For Marshall, focus was the key to clear thinking. The only cases that he considered were those "in which a single person or association of persons has the power of fixing either the amount of a commodity that is for sale or the price at which it is offered" (Marshall 1890, p. 395). An example was the now-prototypical case of a public utility supplying gas through pipelines to residents of a town.

As classical confusion matured into Marshall's streamlined syntax, another species of the word monopoly evolved among revolutionary theorists. Marx used the string of eight letters as shorthand for "an inevitable and natural consequence" of competition, control of the means of production by the ruling social class, a stage of economic development, and a means of exploiting the working class which forced laborers to "add to the working-time necessary for [their] own maintenance an extra working time in order to produce the means of subsistence for the owners of the means of production" (Marx 1987, pp. 36, 146). Lenin extended Marx's notions in many ways. Monopolies—gigantic industrial enterprises—destroyed "small scale production" and furthered the interests of "big capitalists" (Lenin 1987, p. 44). Monopolists arose as a result of free competition and the ensuing and inevitable concentration of production. Competition reduced the number of competing enterprises to "a couple of dozen or so." Financial capital and tariffs accelerated the formation of manufacturers' combines, cartels, syndicates, and trusts. Conglomerates in the iron, steel, electric, engineering, and transport industries were the most durable monopolists "owing to their very complicated technique, far-reaching organization, and magnitude of capital" (Lenin 1975, p. 30). These cabals agreed on conditions of sale, terms of payments, and divisions of markets, fixed quantities and prices, divided the profits amongst themselves, and hewed paths "without scruples as to means, from paying a modest sum to buy off competitors to the American device of employing dynamite against them" (Lenin 1975, pp. 16–20, 28). Thus, the word monopoly indicated "a general and fundamental law of the present stage of capitalism," "the latest phase and imperial stage of capitalism," and "the transition from capitalism to a higher system" (Lenin 1975, p. 18).

Marshall acknowledged the "Protean shapes of modern trade combinations" described by the Marxists, but segregated discussion of them to a lesser-known work, *Industry and Trade* (Marshall 1890, p. 395). Marshall's disciples, taking their teachers' cue, studied models of pure monopoly and perfect competition, but little between those polar cases. Nuances of modern industrial organization

such as monopsony and monopolistic competition were ignored or "treated under the heading of monopoly" (Hicks 1935, p. 12). This ad-hoc treatment concealed the vast realm where market power was a matter of degree, most sellers had short-run monopoly positions, and the consequences of downward-sloping demand curves could be good or bad, depending on various factors. Frank Knight decried this situation during the 1930s, 1940s, and 1950s. The public misconceived the "nature and grossly exaggerates the extent and power of business monopolies" (Knight 1951, p. 270). Monopolies were:

> badly misunderstood and grossly exaggerated in the popular mind. Much monopoly in the technical meaning is not only inevitable in a free and progressive economy; it must be called positively good. The principle is illustrated by the deliberate granting of monopoly power in the patenting of inventions, and a great deal of other monopoly is essentially of the same nature, a stimulus to devising and introduction of useful innovations. But much is not, and it is a serious problem to differentiate the good and the bad (both features are present in the patent system itself) and to make and enforce regulations to secure the best possible balance (Knight 1948, p. 294).

The public alone was not at fault. Knight, like most other economists of his time (and of today), frequently switched between academic and vernacular definitions, sometimes in the same text.

One reason for his vacillation was lack of words describing nuances of anti-competitive activities. Writers seeking sleek prose lacked shorthand free from hackneyed phrases. Few specialized terms existed before the publication of Chamberlain's *Theory of Monopolistic Competition* and Robinson's *Economics of Imperfect Competition*. Chamberlain and Joan Robinson's work formed the foundation of the modern lexicon of market power. They coined idioms including monopsony, monopolistic competition, and imperfect markets. Subsequent generations fleshed out the syntactic skeleton born during the Chamberlain-Robinson Revolution.

Today, dozens of terms describe behaviors that once fell under the rubric of monopoly. These include monopoly, monopsony, monopolistic competition, imperfect competition, oligopoly, collusion, cartels, price discrimination, predatory behavior, price supports, vertical integration, barriers to entry, intra-brand-competition reducing restraints, upstream and downstream foreclosures, and countless kinds of government intervention. All of these activities generate market power and permit price manipulation, and all fell within the pre-Marshallian notion of monopoly, but in recent decades have been recognized as distinct phenomena with different causes and consequences. Three of the phenomena are particularly pertinent to the issue at hand because they can be used to characterize the behavior of craft guilds and the confusion caused by the evolution of economic terms. Monopolists are sole sellers of products without close substitutes who earn economic rents because their own actions and the actions of their customers do not influence demand for their merchandise. Monopsonists are sole buyers whose actions affect input rather than output markets. Monopolistic competitors sell imperfect substitutes and have the ability to profitably raise prices above marginal cost but do not earn economic rents,

because competition among the sellers of substitutes reduces excess profits to zero.

In sum, during the nineteenth century, monopoly meant many things to many people. Marshall's *Principles* began the term's transformation from ubiquitous slur of indefinite implication to precise reference to specific circumstances. The distinction percolated through the profession slowly from the 1890s through the 1930s, when Chamberlain and Robinson's work convinced economists to develop techniques and terminology to study of the spectrum of market power lying between pure monopoly and perfect competition. This syntactic transformation did not pass beyond the economic annex of the ivory tower until the 1950s when scholars in other social sciences began to adopt the new economic dialect. The diffusion of economic-speak is far from complete. Historians, sociologists, and scholars in other subjects have their own style of speaking, and their version of the word monopoly lies between the economic and the vernacular. Ignorance of these differences confuses many scholars, and in this case, such confusion appears to be the root of the problem. Twentieth-century scholars who studied guilds placed modern definitions in the mouths of nineteenth-century authors.

III. THEORIES REGARDING GUILDS

Scholarship on guilds formed four waves that overlapped chronologically. During the late nineteenth and early twentieth centuries, the first wave collected and published primary sources. At the turn of the twentieth century and for fifty years thereafter, the second interpreted the evidence collected by their predecessors. Beginning during the depression and continuing until today, the third synthesized their predecessors' interpretations into broad historical hypotheses. Throughout the twentieth century, the fourth fought a futile battle against the tide flowing in this field of thought. Each wave formed on the foundation established by its predecessors. Knowledge did not accumulate, as one would expect, however, because the evolving lexicon of industrial organization confused scholars who misread the words of earlier authors. Therefore, each wave of scholarship obscured the ideas of its predecessors, like waves washing over a castle in the sand.

The collectors included Toulmin Smith, Charles Gross, Adolphus Ballard, and H. F. Westlake, who published collections of documents that formed the foundation of this field for the generations of scholars to come. Smith's *English Gilds*, posthumously published by his daughter, Lucy, contained the "original ordinances of more than one hundred early English gilds" (Smith 1892). Most of the material came from the Census of 1388, which Smith discovered stuffed in a bag in the basement of the Chancery. The census inquired about guilds' goals, rules, structure, income, and assets as well as any grants that they had received from the royal government. It was the single largest source of information about a cross section of guilds from the Middle Ages. Gross's *The Gild Merchant* analyzed *guilda mercatoria* from 102 English, 30 Welsh, and 38 Irish towns. Its supplementary volume of "proofs and illustrations" contained documents from 112 English towns and guilds (Gross 1890). Ballard's *British Borough Charters* was an "analytical digest of the charters granted to the burgesses of the boroughs

of the British Isles before the day of the death of King John, 19 October 1216" (Ballard 1913, p. xvi). Its database detailed the powers and privileges enshrined in the constitutional documents of 225 English towns and the ways in which guilds fit within the urban environment. Westlake's *Parish Gilds* examined relationships between guilds and God over a long period of time. Earliest evidence came from the Anglo-Saxon age. Latest information came from early Tudor times. Westlake's work contains an appendix summarizing portions of more than 500 returns from the census of 1388 (Westlake 1919).

The collectors developed different opinions about the nature of guilds. Smith believed the essence of these organizations was mutual help and brotherly love. The risks of everyday life were the antecedents underlying guild associations. Friendly societies and mutual-insurance corporations were their direct descendants. Westlake believed guilds formed primarily to hire priests, finance parishes, and organize at the local level management of the church. All mercantile and craft associations contained religious elements. Organizations that were purely religious outnumbered by thousands those that had any commercial or manufacturing objectives. Gross believed greed was the motive underlying guilds, and that monopoly was their objective—and Ballard agreed with Gross. What they meant, however, is far from clear. Neither defined the term monopoly, and the descriptions they gave do not fit the modern definition. Their "monopolists" regulated retail trade in a limited way and often enforced rules established by municipal governments. Their "monopolists" lacked authority to exclude from hometown markets merchandise made by competitors, seldom regulated wholesale trade, never possessed authority over the venues outside of their hometowns where they sold most of their merchandise, and frequently sold merchandise similar to, in the same market as, and competed for customers attention with merchandise of other "monopolists." The modern term describing this behavior is monopolistic competition.

Seminal scholars such as Brentano, Cunningham, Lipson, Pirenne, and Salzman formed the second wave of scholars, the interpreters, whose models of the medieval world rested on interpretations of the evidence collected by their predecessors, some of whom had more influence than the others (Brentano 1870, Cunningham 1885, Lipson 1929, Pirenne 1925 and 1937, and Salzman 1923). Gross and Ballard's work won great followings, particularly their deduction that guilds monopolized markets, which inspired a common conclusion.

> The period in which craft guilds dominated or influenced the economic regime of the towns is also that in which urban protectionism reached its height. However divergent their professional interests might be, all industrial groups were united in their determination to enforce to the utmost the monopoly which each enjoyed and to crush all scope for individual initiative and all possibility of competition (Pirenne 1937, p. 206).

Statements such as this seem clear enough, until one realizes the author never defined *monopoly* or even the terms *craft guild* or *competition*. The modern lexicon of market power did not exist at the time. Chamberlain and Robinson's innovations had not yet spread through the profession. Marshall's models were far from universally accepted and had little influence outside of the ivory tower.

Marxian analysis was in vogue. So, the quote above—which seems clear when one assumes current definitions—could mean many things, almost anything, in fact, depending on the definitions the author had in mind. What those were is far from clear. The author seemed familiar with both Marshall and Marx's work, and since there is no way to read his mind, only vague conclusions can be drawn. The tone seems disparaging. Organizations called craft guilds, which may have been manufacturers, victuallers, builders, or the providers of services—it is not clear—"crushed individual initiative," which would worry most economists, although Marxist-Leninists fomenting class struggle might be pleased, and "crushed all possibility of competition," which, once again, might worry mainstream economists, while pleasing social scientists of many stripes, particularly when these words were written during the Great Depression. "All industrial groups were united," but whether literally or figuratively is not clear. Did they jointly maximize profits, act as a social class, or share an outlook on life? In other words, was the writer using Marshallian, Smithian, Ricardian, Marxist, or some other definition of monopoly?

These questions cannot be answered conclusively, even through the most careful construal of the texts. So summing up the second-generation scholarship is difficult. Precise statements cannot be accurate, and accurate statements cannot be precise. Various opinions about monopolies existed. Authors never indicated the meaning they had in mind. Mainstream economists favored Marshallian models, and radical economists and social historians favored Marxian analyses, although definitions were not perfectly correlated with profession and politics. Many authors flip-flopped between various viewpoints within the same work. In sum, second-generation scholars believed associations of craftsmen helped themselves at the public expense. More than that we will never know, since they did not record the definitions of key terms. The meanings in their minds have been lost in time and, therefore, so have their arguments and conclusions.

Understanding the third wave of scholarship is simpler because the synthesizers agreed on key concepts and common themes (or at least disagreed far less often than their predecessors did and occasionally defined important terms). Guilds monopolized markets in the Marshallian sense in some if not all times and places. Monopolies were Marshallian and maintained through the legal system. Monopolistic guilds inhibited the expansion of commerce, evolution of industry, and development of technology, forcing innovative manufacturers from towns into the countryside (Cameron 1993, p. 76; Cipolla 1976; Hatcher and Miller 1995, pp. 361–75; Lopez 1976; McNeill 1969, pp. 272–73; Mokyr 1990, pp. 77, 191; North 1981, 1990; North and Thomas 1973, pp. 57, 123, 126; Olson 1982, pp. 124–25, 147–52; Postan 1952, 1972, 1973, and 1987; Rorig 1967, pp. 150–60; Birdzell and Rosenberg 1986; Swanson 1983; Zacour 1976, pp. 55–57). Consensus arose because the Chamberlain-Robinson revolution standardized the lexicon of market power, and monopoly's narrow, modern meaning had become common knowledge. Standardization had obvious advantages—it simplified communication and permitted more scholars to participate in and be influenced by academic debates—and subtle costs. Monopolies' past definitions faded from memory, and without reminders of the terms' evolution, scholars began to

misinterpret writings from the past. The eight letters, m-o-n-o-p-o-l-y, looked the same no matter when they were written, and scholars began to assume they meant the same as well.[2]

An example of this lexicographic lock-in comes from the series of books written by Ballard, Tait, and Weinbaum on *British Borough Charters*. Ballard's book contained all extant town charters up until 1216. Tait's continuation carried the series forward until 1307. Weinbaum's work extended the series until 1660 (Ballard 1913, Ballard and Tait 1923, Weinbaum 1943). The foci of these tomes were tables summarizing municipal institutions. A principal source was Pollock and Maitland's *History of English Law*, published in 1895. The chapter on municipalities contained "an analysis of the usual burgensic privileges of the thirteenth century arranged under nine sections" (Ballard 1913, p. xiv)." Ballard used that categorization as the framework for his analysis. Tait continued Ballard's "general scheme of arrangement, borrowed as it was from Maitland's chapter on the English borough in the thirteenth century," only adding additional subsections to Ballard's code when necessary to keep pace with legislative developments (Ballard and Tait 1923, p. xxii). Weinbaum followed Tait's example, modeled his tables on the previous volumes and, in addition, printed a key labeling in a few words each of the symbols in the table. Weinbaum did not, however, explain the meanings of the labels or hint that their original definitions differed from the definitions then in common use.

A warning would have been useful, for it might have encouraged readers who cited the tables to investigate the issue, rather than presuming the labels should be taken literally according to current definitions. Recent scholars presumed, for example, that the labels *Monopoly of Trade to Guild* (V. B. 3.) and *Monopoly of Trade to Burgess* (V. B. 4.) meant guilds received monopolies in the modern, Marshallian sense, that guilds had legal rights to be the sole sellers in regional and international venues, or that guilds could bar merchandise made elsewhere from hometown markets. The original authors, however, intended to tell a very different tale. Individuals who manufactured merchandise similar to those of a chartered guilds operating in their town had to pay dues to the organization. Anyone residing in a town and working as a merchant had to pay dues to the merchants' guild. No one could reside in a town and retail merchandise unless they were one of its citizens, paid taxes to the governing body, be it municipal government or *guilda mercatoria*, or had permission of municipal authorities to stay indefinitely and set up shop. Discovering the truth should not have been difficult. Ballard's appendices contained extracts from original charters that illustrated these points. One came from the relevant portion of a royal charter granted to the leather-workers of Oxford in 1175:

> Know ye that I have granted and confirmed to the corvesars of Oxford all the liberties and customs which they had in the time of King Henry my grandfather, and that they may have their guild, so that none carry on their trade in the town of Oxford, except he be of that guild. I grant also that the cordwainers

[2] Possibly, perhaps even probably, the second generation of scholars also made this mistake. Though proving that appears to be impossible, because determining their definition of monopoly beyond reasonable doubt is, for all practical purposes, impossible.

> who afterwards may come into the town of Oxford shall be of the same guild and shall have the same liberties and customs which the corvesars have and ought to have. For this grant and confirmation, however, the corvesars and cordwainers ought to pay me every year an ounce of gold (Ballard 1913, p. 208).

Another came from a charter Henry II granted the merchants of Wallingford:

> I forbid also and order that there shall be . . . no merchant except he be in the guild of Merchants. And if any go out of the borough of Wallingford, and live of his traffic in the same Wallingford, I command that he shall pay his due to the same burgesses of the guild of Merchants, wherever he may be within or without the borough (Ballard 213, p. 210).

And from a charter Henry II granted the burgesses of Lincoln:

> I order that no merchant who is a stranger and out of the liberties shall be resident in Lincoln for the purpose of dyeing his cloths or selling them by retail, save only they who are in the guild and liable to all the customs of the town, and who pay my gelds with them, as there were wont in the time of King Henry (Ballard 1913, p. 210).

And from a charter that Henry II granted to the town of Bristol, "And that no foreign merchant sojourn in the town with his merchandise for the sake of selling his merchandise except for forty days" (Ballard 1913, p. 213).

These quotes show guilds possessed monopolies according to the nineteenth-century definition but not the twentieth-century denotation. Guilds possessed minor regulatory powers and could collect small fees on those within their jurisdictions. Anyone who has dealt with homeowners' associations (or department colleagues) knows even limited political powers can generate large deviations from efficient outcomes. But, guilds' powers did not constitute monopolies in the modern sense. Guilds were inclusive, not exclusive. Royal charters required them to admit all applicants. Barriers to trade and power over product markets did not appear in their bag of tricks. Yet, the preponderance of the historical profession today believes guilds possessed exclusionary power. Facts regarding guilds have diverged far from theory regarding monopoly.

A handful of scholars noted the divergence of fact and theory during the twentieth century, and fought a losing battle against the onrushing tide. Jonathan Scott argued that guilds possessed "monopolies of manufacture" but not "monopolies of trade" and criticized the conjecture "that these two types of monopoly necessarily went together." Support for his claims came from a series of observations. The right of buying and selling freely existed everywhere in England. Towns were awash with merchandise imported from neighboring towns and industrial centers overseas. Members of one craft often intermeddled in the trade of another (Scott 1917).[3]

Sylvia Thrupp attacked the maxim from another angle. Grouping guilds from diverse occupations under the hybrid term "craft guilds" obscured differences among organizations. Reclassifying guilds according to the nature of the industry, size of the association, and wealth of the members revealed dramatic differences

[3] Scott's "monopoly of manufacture" corresponds to the modern concept "monopsony." His "monopoly of trade" corresponds with the modern concept "monopoly."

in behavior, "in all victualling trades monopolistic tendencies were chronic ... In industry, ... it is highly improbable that craftsmen could ever have succeeded in attaining a monopoly within an exclusive guild" (Thrupp 1942, p. 169).

Eric Hirshler arrived at a similar conclusion. Competition among manufacturers was "generally underestimated." Guilds from different towns fought for customers in the rural villages, market towns, and periodic fairs where they sold most of their merchandise.[4] Some guilds possessed monopsony power in local labor markets, but barriers to entry were porous and controls over input markets could be circumvented easily. So power over the price of workers and resources was limited (Hirshler 1954, pp. 52, 56–57).

John Munro advanced this argument further by showing guilds of manufacturers acted as monopolistic competitors. Manufacturing guilds in many towns sold similar versions of popular products. Consumers chose among the alternatives. When the choices were homogenous and markets large, as with the coarse woolen cloths sold by hundreds of European producers, guilds could not influence the market price. When products were heterogeneous and markets were small, as with luxury fabric manufactured by the foremost Flemish draperies, guilds possessed limited price-setting power. Munro's study of trading regulations corroborated this conclusion. The protectionist policies followed by the English and Flemish operated at a national rather than municipal level. These barriers did not reduce competition among guilds within a nation (Munro 1977, pp. 229–67 and Munro 1990, pp. 41–50).

Charles Hickson and Earl Thompson argued, "there is little evidence that guilds implemented anything like rational monopoly policy." Regulations created essentially competitive short-run behavior. The traditional monopoly theory of guilds "clearly fails in its central predictions regarding" the principal issues: the "particular policies" of guilds, the incidence of guilds across time and regions, and "the effects on economic prosperity of both the rise and decline of guilds" (Hickson and Thompson 1991, pp. 127–31).

Stephen Epstein observed, "competitive markets were ubiquitous and hard to avoid. Powerful competitive pressures [existed] in manufacturing." The view that craft guilds were primarily rent-seeking institutions takes their regulations at face value. "In fact, the powers of craft guilds were most frequently illusionary" (Epstein 1999, pp. 2–4).

Richard Britnell argued that many trading regulations could be regarded as valid responses to the needs of the consumer. Statutes against forestalling, regrating, and engrossing protected the public from illicit efforts to restrict quantities and raise prices. The regulation of quality occurred where fraud was difficult to detect. Urban governments monitored the behavior of craft guilds and ensured the latter acted in the general interest (Britnell 1993, pp. 170–77).

The critics of the maxim of monopolization, however, have not convinced the preponderance of the profession. Secondary sources, journal articles, and audiences at professional meetings still argue that guilds monopolized markets for manufactures. Quantitative evidence of this exists in the social science and

[4] Here the word *foreign* has its medieval-English meaning "outside one's hometown" rather than the modern sense of "outside one's nation or state."

arts and humanities citation indices. Since 1975, twenty-five academic articles have cited Gross's *Gild Merchant* and 33 have cited Ballard, Tait, and Weinbaum's *British Borough Charters* while none have cited Scott, Thrupp, or Hirschler's articles, three have cited Britnell, and seven have cited Hickson and Thompson.

IV. CAUSES OF THE CURRENT CONFUSION

Why has the profession preferred erroneous interpretations of old work to correct conclusions of current research? Five explanations appear plausible.

First, as Schumpeter stressed in his *History of Economic Analysis*, passion-laden terms possess rhetorical value, and during the nineteenth century, the word monopoly became:

> loaded with emotion, a bugbear for all time to come, that was in the mind of the average Englishman associated with royal prerogative, favoritism, and oppression; and Monopolist became a term of opprobrium. But once a word has acquired an emotional value, positive or negative, that guarantees automatic reaction from almost anyone who hears or reads it, speakers and writers will try to exploit this psychic mechanism by applying the word as extensively as possible. And so monopoly came to denote almost anything that a man disliked about capitalist practice (Schumpeter 1954, p. 155).

This transmogrification caused Schumpeter to wonder whether any nineteenth-century scholar possessed "a monopoly theory of rent that was more than an agitatorial phrase" and to conclude that "however objectionable to the man in the street most of the restrictive practices and legislative measures may have been, they did not create monopolists in the [modern] sense of single sellers" who faced demand schedules given to them independent of their own actions and of the actions of sellers of other goods (Schumpeter 1986 pp. 960, 672, 602n, and 154 respectively. The aside is Schumpeter's).

Second, as Kuhn observed in his *Structure of Scientific Revolutions*, the replacement of an older paradigm by an incompatible new one is a non-cumulative process. Sufficient numbers of observations at odds with the old framework must come to light at the same time. Only then will the scholarly community perceive the inadequacy of the existing paradigm. If the observations dribble out over many decades, as those undercutting the maxim of monopolization did, then each will be eclipsed by the conventional wisdom before the next springs forth, and critical mass will never be attained (Kuhn 1970).

Third, definitions diffuse slowly. When new definitions arise, words acquire multiple meanings, and readers who do not know the history of the literature cannot comprehend it. They do not realize a string of letters in one text may not have the same meaning as an identical string in a text written at a different place or time. Marshall's definition of monopoly spread particularly slowly outside the confines of classical economics. Its diffusion dragged due to a depression, a revolution, two world wars, a schism of the social sciences into ideological factions, the gulf between historical and economic methodologies, the chasm within economics between makers and users of models, and the incessant discussion of monopoly in the vernacular. The later factors continue

to confuse the issue today. Historians define monopoly more broadly than economists and use it as a label for forms of market power arising when firms sell differentiated products, operate in imperfect markets, or act monopsonistically. Historians also qualify the term with prefixes such as semi, quasi, and partial without defining those modifiers. These practices confuse careless readers who often assume the term monopoly means Marshallian monopoly, since Marshall's definition is the standard among economists, and they fail to realize the historical definition of monopoly encompasses phenomena far removed from the Marshallian model.

Fourth, revisionist scholarship focused on observable evidence of market outcomes, and revisionists often employed the rhetoric and methods of social scientists. Sylvia Thrupp eloquently advocated the use of modern methods to analyze prices, costs, and quantities and to determine the degree of monopolization in medieval markets. But the dearth of data impedes this line of attack. The limited amount available is far from the minimum required for accurate econometrics, and the fragmentary extant figures on flows of trade, prices of goods, and profits of producers are always open to interpretation. Skeptics can construct convoluted counterfactuals to reconcile any pattern observed in the data with the belief that manufacturing guilds possessed a set of legal privileges, which according to the argument, just happened to generate the patterns appearing in the data. Strong priors regarding the maxim of monopolization, therefore, cannot be overturned by the arguments advanced by most critics. The tyranny of the null hypothesis stands in the way. Classical statistics and scientific methods require proof beyond a reasonable doubt to refute prevailing beliefs. When data are scarce, poor in quality, and difficult to collect, small standard errors, large t-statistics, and precise estimates are seldom possible.

Fifth, guilds varied greatly across time and space, and scholarly interest drifted among periods and professions. The collectors and interpreters focused on the centuries surrounding the Black Death. The synthesizers often examined longer time periods and ignored differences between late-medieval and early modern organizations. Legal monopolies (in the sense of protected output markets) originated during the Tudor and Stuart regimes. Occupational associations and trading companies often acquired these commercial privileges. Before Elizabeth's reign, monopolies, patents, copyrights, and trademarks did not exist. Thus, inferences drawn from the behavior of guilds during the modern era should not be projected back to medieval times. In addition, the interpreters often studied the victualling sector of the economy and the ways that victuallers advanced their own interests at societies' expense. Synthesizers frequently focused on the manufacturing sector of the economy and the ways institutional arrangements influenced industrial development. Differences between victualling and manufacturing mean that the interpreters' conclusions should not have been the starting point for the synthesizers' scholarship. Conclusions valid for victualling were not necessarily valid for manufacturing. Victuals were necessities that could not be stored for long periods of time or shipped long distances. Demand for victuals was inelastic. Victuallers had captive customers. Residents of towns had to purchase food and drink from local bakers, butchers, and brewers. Thus, markets for victuals could be manipulated with ease and for great profit. In

contrast, markets for manufactured merchandise were difficult to manipulate. Manufactures were luxuries. Demand for durable goods was elastic. Durables could be shipped from one corner of the continent to another. Consumers could delay purchases of durables when prices were high and search for a lower price. Thus, markets for manufactures could not be manipulated readily or lucratively.

Changing perspectives on the nature of guilds suggests the term should be defined before concluding this essay. The prevalent partition places guilds in two categories—craft and merchant—which neither coincided with economic reality nor existed in medieval times. During the Middle Ages, laws and customs divided associations of urban residents into four groups: boroughs, *guilda mercatoria*, occupational associations, and all other cooperatives. A borough consisted of a town, its citizens, and the rights they received via charters from national or local governments. A *guilda mercatoria* managed the mercantile privileges of its members, usually merchants who resided in a single town and received rights via the towns' charters. In many towns, the *guilda mercatoria* evolved into or was always the same as the municipal government. Occupational guilds operated in several sectors of the economy. They needed no permission to form, although the possession of charters provided valuable legal privileges such as the right to hold land or monitor the quality of merchandise. Modern historians label as merchant guilds those involved in retailing, wholesaling, and long-distance trade. And they label as craft guilds those involved in manufacturing, victualling, construction, and the provision of services. Manufacturing guilds produced durable goods such as textiles, tools, and tableware made from leather, metal, wood, wool and similar materials and exported most of their wares from their hometowns to distant markets and rural villages. Victualling guilds sold perishable foods and beverages invariably consumed in the immediate neighborhood. Servicing guilds consisted of minstrels, innkeepers, clerks, carriage drivers, and other individuals who sold effort, experience, talent, and skill. The service industry differed from victualling and manufacturing as much as the latter differed from each other.

In sum, the prevailing taxonomy conceals great variation among medieval guilds in economic activity and legal status, which, like the imprecise and ever-changing definition of the word monopoly, obscures important issues. Since monopolies are product market phenomena, a new taxonomy that categorizes craft guilds according to the nature of their products—manufacturing, victualling, and services—will facilitate the translation of old conclusions into modern terminology.

V. CLARITY AND CONCLUSIONS

The translation begins by summarizing in non-technical terms the nineteenth-century conclusions concerning the three types of craft guilds. The first, manufacturing guilds, produced common consumer goods according to standard plans. Standardization facilitated quality control and distinguished merchandise made by one guild from that made by others. Guilds from different towns sold similar goods with small differences. Cloth made in one town, for example, had

a particular style and color. Cloth from other towns differed in dye and texture. Dozens of clothmaking guilds operated in England and hundreds throughout Europe. These guilds competed against each other in regional, national, and international markets. Successful guilds sold most of their merchandise to merchants who resold it in rural villages, distant towns, and foreign markets. In those places, manufacturers lacked legal, political, and economic power. Consumers could choose among merchandise made by many manufacturers. All towns imported large percentages of the consumer durables sold in their markets. No town forced its residents to purchase merchandise from particular guilds. Laws prohibited the erection of impermeable barriers to trade and guaranteed burgesses the right to sell goods anywhere in the realm free from unreasonable taxes and tolls. Laws never permitted guilds to bar merchandise made elsewhere from local markets. Laws allowed guilds to monitor the quality of merchandise, but quality control extended to products of competitors only when the products could be confused with those made by the guild and the guild received special charters permitting them to perform inspections. In those cases, authority was neither arbitrary nor absolute. Guilds had to purchase charters permitting the inspection of non-members' merchandise, and guilds had to judge non-members by the same standards as members. Standards had to be clearly stated and approved by the government. A craftsman accused of violating the standards retained his rights to due process, including a fair trial, an impartial judge, and appeals in royal courts.

The second type of craft guild, providers of services such as innkeepers, teamsters, and minstrels, operated under different conditions. Services could not be sold over long distances to anonymous consumers in international markets. Markets for services were local. So trade among towns did not impose competitive conditions within municipalities. In addition, the principal input in service industries (skilled labor) was identical to the principle output (skilled labor). So the wage-setting power provided by labor-market monopsonies extended into product markets, enabling service-providing guilds to restrict quantities and raise prices. This price-setting power, however, was inchoate and limited because services were luxuries. Individuals could survive without carriage rides, tavern meals, or live music, and they could always substitute their own efforts for those of specialists. Demand for services, in other words, was highly elastic, and this elasticity prevented service-providing guilds from earning substantial economic rents by manipulating markets.

The third type of craft guild converted commodities into consumables. These victualling associations operated in conditions conducive to monopolistic machinations. Demand for foodstuffs was inelastic. Townsmen who could not acquire the necessities of life perished. Imports of ready-to-eat food and drink were small fractions of total sales. Perishable foodstuffs could not be sold easily over long distances. Milk spoiled. Bread rotted. Maggots devoured beef butchered in London on the road to York. Lack of long-distance trade generated local monopolies. Thus, victualling guilds had the opportunity to earn economic rents by reducing quantities and raising prices. Laws prohibited such behavior, of course, but discretion existed in enforcement, and victualling guilds tried to control municipal politics and use their privileged positions to facilitate illicit

activity. Frequent court cases, public protests, and political investigations suggest that victuallers did at least on some occasions manipulate the system to their own advantage. For this reason, nineteenth-century scholars concluded that victualling guilds tried, and at times succeeded, in setting prices in municipal markets.

This price-setting potential, however, had limits. Families frequently possessed chickens, pigs, cows, hand mills, and brewing vats. Households could turn animals and grain into meat, eggs, milk, butter, beer, bread, and porridge. Recent migrants from rural regions, perhaps one quarter of the urban population, had relatives with farms in the countryside. Food was for sale in nearby villages, periodic fairs, the suburbs just outside of town walls, and the ecclesiastic and seigniorial areas within town walls but outside of municipal jurisdiction. Most municipalities hosted weekly markets where cultivators from miles around sold their wares to townsmen and bypassed the victualling guilds that facilitated such transactions during the rest of the week. These markets and consumers' other options limited victualling guilds' ability to raise prices above normal levels. Guilds could increase prices only until the point where consumers turned towards other sources for foodstuffs. Since numerous alternatives existed, guilds could not have raised prices much, particularly during the months after the harvest and years of bumper crops when food was widely available.

The limits on the ability of guilds to manipulate markets during good times explain why most complaints against them focused on their behavior during periods when they benefited from the bad luck of others. Prices of grain and other commodities fluctuated wildly according to the season of the year and state of the harvest. Victuallers accumulated stocks of foodstuffs during times of plenty when prices were low and sold those stocks during times of scarcity when prices were high. Victuallers also shipped foodstuffs from regions of surplus to those of shortage. To many medieval men and women, this opportunistic behavior seemed immoral and avaricious. It violated church doctrine and the spirit of usury laws, which condemned the fortunate who gouged the unfortunate during downturns.

While output markets for victuals, services, and manufacturers differed on many dimensions, input markets for those industries had similar structures. Laws guaranteed all townsmen opportunities to purchase raw materials. Regulations required residents of most towns to share scarce resources, and the rules of the game ensured that they did so. Municipal codes allowed individuals to purchase small quantities of commodities in the morning, prohibited bulk purchases before noon, required persons with stockpiles to sell the excess to others at reasonable prices, and compelled those who bought up recently arrived shipments to divide their purchases among all interested parties.

Regulations in resource markets resembled institutions in labor markets. Laws permitted citizens of towns to practice any profession they preferred. Silversmiths could weave cloth. Weavers of wool could work with linen. Members of one municipal guild could dabble in the industries of others. Acquiring citizenship was simple but could be costly. Children of citizens automatically received citizenship upon reaching the age of patrimony. Apprentices became citizens after completing years of training and service. Other individuals purchased

citizenship by paying significant sums to municipal guilds and governments. While guilds could not stop citizens from practicing the craft of their choice, guilds could prevent people from joining their organization.

Guilds were voluntary cooperatives. No one was forced to join, and no one had to be admitted. Guilds admitted sons of members as a matter of course, while requiring other applicants to serve apprenticeships, pay entry fees, and demonstrate the skills necessary for the profession. These practices limited entry into occupations because individuals seldom entered industries without joining the relevant guilds. Guild membership had advantages. Master craftsmen accumulated knowledge and taught it to journeymen and apprentices. Reputations regarding the quality of merchandise mitigated the adverse selection that inhibited long-distance trade. Business contacts and ongoing relationships with suppliers, distributors, and consumers simplified the tasks of purchasing inputs and distributing outputs. The sharing of risk and fixed costs encouraged investment, innovation, and entrepreneurship. These advantages gave individuals an incentive to join guilds and discouraged outsiders from entering lines of work before becoming guild members.[5]

The preceding paragraphs describe behavior that fits the nineteenth-century definition of the word "monopoly" but not its twentieth-century descendant. The modern meaning of the term corresponds to few, if any, activities of medieval guilds. In the modern lexicon of industrial organization, new terms identify the activities that social scientists once lumped under the umbrella of monopoly. Monopolistic competition describes the behavior of manufacturing guilds in product markets. Local market power describes the influence of victualling and service-providing guilds in output markets. Monopsony existed in urban labor markets. Competition existed in markets for raw materials. None of these markets were perfectly competitive or purely monopolistic. Conditions in all were matters of degree. Price-setting power was always local, limited, and contingent upon forces that guilds did not control. In markets for manufactured merchandise, for example, power over price arose when the loyalty of consumers permitted manufacturers to raise prices without losing customers. Guilds had little influence over price when consumers had little loyalty to particular products and considered merchandise made by one manufacturer to be close substitutes of merchandise made by others.

These new translations retain the intuition of the seminal turn-of-the-century scholarship, but they update the labels, allowing the writings of the collectors and interpreters to be understood by scholars who speak the modern language of microeconomics and analyzed with modern tools of industrial organization. Such analysis should be enlightening because monopsony, monopolistic competition, and regulated competition have implications far removed from the Marshallian model. The latter alters the allocation of resources, distorts the

[5] Small numbers of guilds involved with precious metals and clothmaking operated in a different manner. Charters granted them the authority to regulate industry in a wide region, to prohibit production in certain places, and to force individuals join their organization so that taxes could be collected and quality assessed. While guilds of this type had to accept all acceptable applicants, they could impede entry into their organizations (and therefore their occupations) by raising the costs of entry and forcing applicants to bear these costs or operate outside the law.

distribution of wealth, and reduces economic efficiency in most cases. The former may also have undesirable consequences. For example, monopsony can reduce wages and employment. Monopolistic competition can waste resources in advertising arms races. Regulation can distort the operation of the invisible hand. But, monopsony, monopolistic competition, and regulation may also have constructive consequences, and the characteristics of medieval markets suggest that they did, in fact, have salutary effects.

Monopsony encourages employers such as master craftsmen to educate employees such as journeymen and apprentices. The incentive arises because monopsonists recover the costs of training workers by paying wages below the marginal product of labor. The inducement exists for knowledge and skills that only have value in one craft and those that can be transferred to all industries and occupations. The incentive increases when employers and employees can commit to long-term deals and when courts interpret these agreements in ways that benefit both parties (as in medieval England). Society benefits tremendously from employers' educational efforts when elementary education is not widely available. Higher education is limited to the elite. Written texts are rare and expensive. Individuals cannot teach themselves the secret skills needed to succeed in a craft. Innovations spread only when passed directly from one individual to another. People begin working as young adolescents. The only place to acquire an education is on the job. And the social return to education exceeds the private return by a wide margin. Since these features characterized medieval labor markets, monopsony must have accelerated the accumulation of human capital and provided a large share of the public good now provided by universal elementary and secondary education.

Monopolistic competition has similar salutary effects. Competitive forces keep prices near market-clearing levels and ensure the quantity supplied approaches the quantity demanded. The "monopolistic" wedge between price and marginal cost transfers profits from the owners of capital to the developers of ideas. These transfers encourage entrepreneurs to invest in innovation, create new technology, and establish reputations for quality to mitigate the adverse selection that inhibits long-distance trade and anonymous exchange. The rewards are greatest when inchoate capital markets, low rates of savings, and the small size of businesses—all characteristics of medieval England—inhibit research and development and force firms to finance innovation with retained earnings.

Regulation of economic activity also facilitates trade. Customary law and mercantile legislation establish the rules of the game. Common knowledge of commercial conventions reduces the uncertainty that deters merchants and craftsmen from making long-run plans. Property rights provide incentives to work diligently and amass wealth. Vigorous enforcement of anti-trust laws prevents avaricious individuals from advancing their own interests at everyone else's expense.

In medieval England, judicial authorities prohibited the manipulation of markets and vigorously enforced laws against forestalling, engrossing, and regrating, which were the legal ancestors of the anti-trust legislation that exists today. These activities kindled the burst of product innovation and mercantile expansion now known as the Commercial Revolution of the Middle Ages.

In sum, from an accurate interpretation of the 150-year-old literature on the medieval urban economy, a novel conclusion arises. Guilds did many good things. Guilds often enhanced economic efficiency and encouraged economic development. Comparing the benefits of guilds (revealed by this essay's new translations of old texts) and the costs (that can now be correctly calculated) may overturn much of the conventional wisdom regarding the role of institutions in the rise of the western world.

This exercise teaches three additional lessons. The first is a warning. Scholars should cite carefully. Confusion reigned for decades in this field of thought because adolescent scholars failed to understand the intuition of their forefathers. Young Turks with more mathematics, novel vocabularies, and less humility forgot the history of economic thought, failed to realize the definitions of terms change over time, and presumed everyone discussed the world with the lexicon that they used.

The second lesson is a proposition drawn from the analysis in this paper. Studying the history of thought complements contemporary research for several reasons. Researchers read, ponder, and cite predecessors as well as investigators working in related fields where methodology advances rapidly. Definitions of terms differ across disciplines and evolve over time. So scholars who only know the current vocabulary in their own field cannot understand and draw incorrect inferences from past and present literature in the others.

The final lesson is a corollary to the proposition of the preceding paragraph. In cases such as this—dynamic, interdisciplinary, and long-studied fields—poor data makes textual analysis an indispensable component of the social science toolkit. The empirical approach to the social sciences begins with an accepted belief called the null hypothesis. Only when the null is refuted beyond a reasonable doubt will alternative hypotheses be accepted. Data that is limited in quantity, poor in quality, and costly to collect makes refuting the null an impractical or impossible task. Nulls arise from common consensus about the truths revealed in previous literature. When investigators misinterpret the literature, the null becomes erroneous. Deficient data prevents the error from being overturned, and falsehood receives the aura of conventional wisdom. Textual analysis protects the profession from such mistakes. It ensures that scholars interpret the literature accurately and form the null correctly.

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