

International trade and institutional change: Medieval Venice's response to globalization

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Quarterly Journal of Economics, May 2014.



Great Council in Session at the Doge's Palace



Motivation

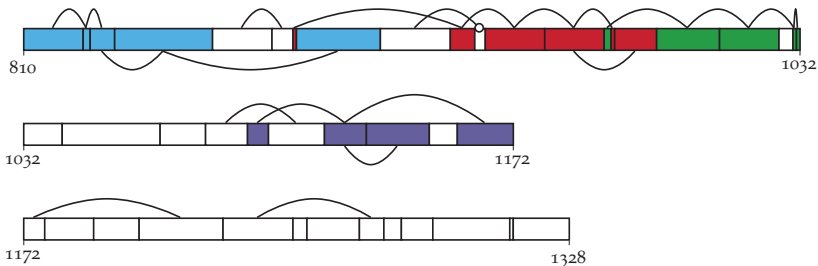
- **International trade is a catalyst for institutional change:**
 - ? and ?.
 - (1) Institutions constraining the executive (Doge)
 - (2) Contract-enhancing institutions.
- **Changes can be positive, negative, or, as in the case of medieval Venice, first one and then the other:**
 - 800–1300: Political openness, economic competition, and social mobility.
 - 1300–1600: Oligarchy, monopoly, and social stratification.

Newfound economic and political mobility after 960

- Trade allowed a relatively large number of Venetian merchants to become rich and demand civic recognition.
- Evidence: Endorsers of ducal documents in 960, 971 and 982;
 - 273 endorsers.
 - 59% are new families.

1032: First Constraints on the Executive

- 1032: Reform to put an end to hereditary Doges.
- Election of a wealthy silk merchant (Domenico Flabanico).
- Doges were banned from appointing their successor.



1172: Second Constraints on the Executive

- 1171 hostage crisis and murder of Doge.
- Formation of the Great Council, an elected parliament.



Growth of Contracting Institutions

International trade places unique demands on capital markets.

- **Business forms and contracts:**

- Limited liability, joint stock company invented.
- Early banks

- **Financial markets:**

- New financial instruments for insurance and credit e.g., bills of exchange.
- Thick primary and secondary markets for commercial paper.

- **Legal system:**

- Law Merchant
- 'Re-introduction' of Roman Law (1087)
- Development of a court system — magistrates; hierarchical courts; specialized courts.
- Bankruptcy law.

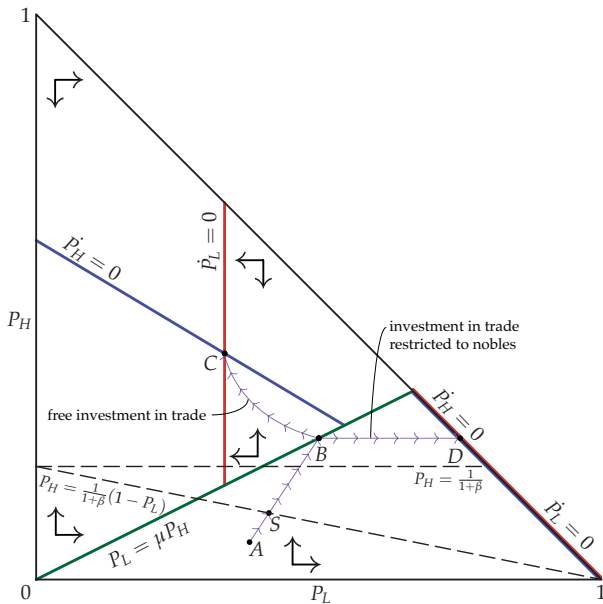
The Colleganza

- Joint-stock, limited liability partnership.
- Two Partners: investor and (junior) travelling merchant.
- Junior merchant makes **no investment, but earns share of profits (typically 25%)**
- **Promoted income mobility.**
 - “In a great many cases, the *tractores* [travelling merchants] were ambitious young men who were willing to take heavy risks in order to accumulate sufficient capital to join eventually the ranks of the *stantes* [investors].” (? , page 51).
 - Newly rich merchants flowed into political power throughout this period. In Madden’s (? , page 3) words, **“the membrane of Venetian nobility was permeable. Indeed, nobility in the sense of a group of families with a hereditary claim to political authority did not exist at all. In Venice, wealth, not land, defined nobility; commercial skill, not military prowess.”**

The puzzle

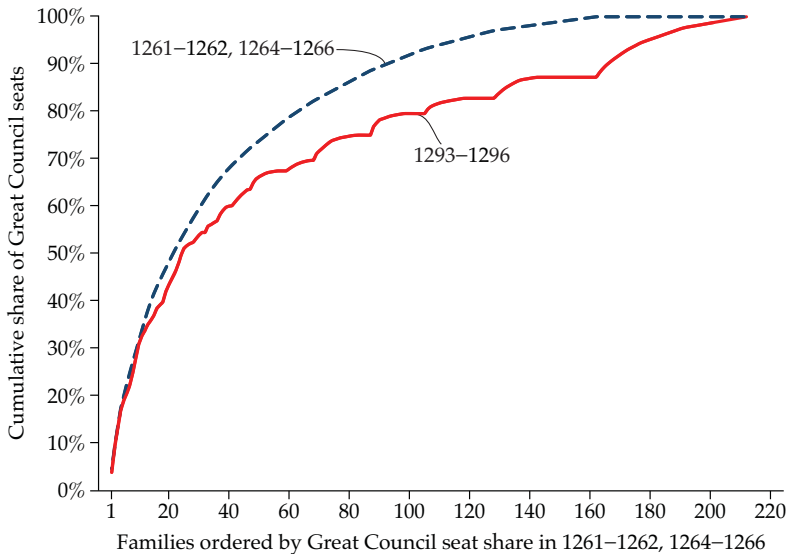
- After 1323, Venice moved away from political openness, economic competition, and social mobility towards political closure (oligarchization), economic monopoly, inequality, and social stratification.
- **Question:** How did this happen?
- **Answer:** Trade-induced wealth dynamics shifted the political and economic balance:
- **Evidence:**
 - The *Serrata* of 1297–1323 ended political competition.
 - Reorganization of the galley trade (1329) resulted in monopoly.
 - ‘Marriage financing’ eroded capital markets and created social stratification.

The Details of the Hypothesis



The rising pressure for political entry barriers: Evidence from voting data

- We have constructed a database on Venetian elections to the Great Council.
- Data for 30 years in 1261–1295.
- Over 8,000 names of Great Council members.
- Venice is clan-based, so must group members by family.



1. **Entry:** 13% of seats; 50 new families; 4 in top 50.
2. **Exit:** 47 families; some in top 50.
3. **Lost seat shares:** top 50 challenged.

The Serrata: Entry barriers into politics

- During 1297–1323 a series of laws were passed which culminated in a hereditary parliament. Great Council membership was thus closed in 1323.
 - Law in 1310 defined a 'noble' as a member of the Great Council.
 - Law in 1323 explicitly made membership in the Great Council hereditary.
- Why did this happen when it did: The post-1204 'colonial' environment made a few families spectacularly rich.
- Public Response: 1300–1355 is the most internally violent period of Venetian history.
- Oligarch's response: Council of 10 (1310)

The economic closure: Entry barriers into long-distance trade

- Re-Organization of the Galley trade (1325).
 - All of the merchant galleys were to be owned by the Commune.
 - Operation of each galley was to be auctioned off for the season to a private individual or consortium.
 - In these galley auctions the successful bidders were among the richest in the Commune.
- Long-distance trade becomes the preserve of the Nobility.

Consequences

- The political and economic *Serrata* had very significant long-run implications for
 - extreme economic inequality,
 - social stratification,

The costs of Galley Trade

- The capital requirements of the galley trade were huge: e.g., early 1400s it was equivalent to half a ton of gold per galley.
- Pre-*Serrata*, these huge up-front fixed costs would have been shared by many merchants, both noble and commoner, and financed with a large number of *colleganza*.
- Post-*Serrata*, we initially see broad-based noble participation in the galley trade.
- However, over the next 150 years an ever-narrower group of nobles came to monopolize the galley trade.

The Galley Trade: 1380–1450

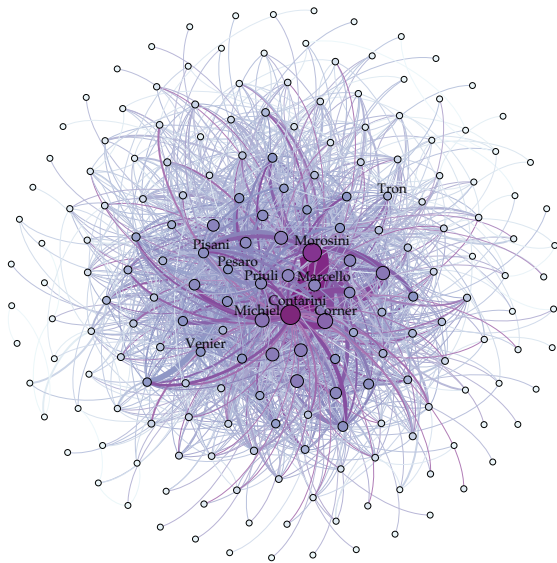
- Each galley in its entirety was auctioned off to a single noble bidder (the *patrono*).
- He in turn divided the galley into 24 shares and up to 24 shareholders.
- The mid-1300s were a difficult time for trade. After 1380, however, Venice's trade expanded again.
- At the start of the recovery participation was still widespread: Two-thirds of noble families participated in the galley trade and more than a one-third provided *patroni*.
- By the mid-1400s, evidence of increasing concentration in the galley trade was inescapable:
 - During 1445–1452, the *patrono*'s family held 56% of the shares.
 - And the *patrono* more and more often was from a particularly prominent family.

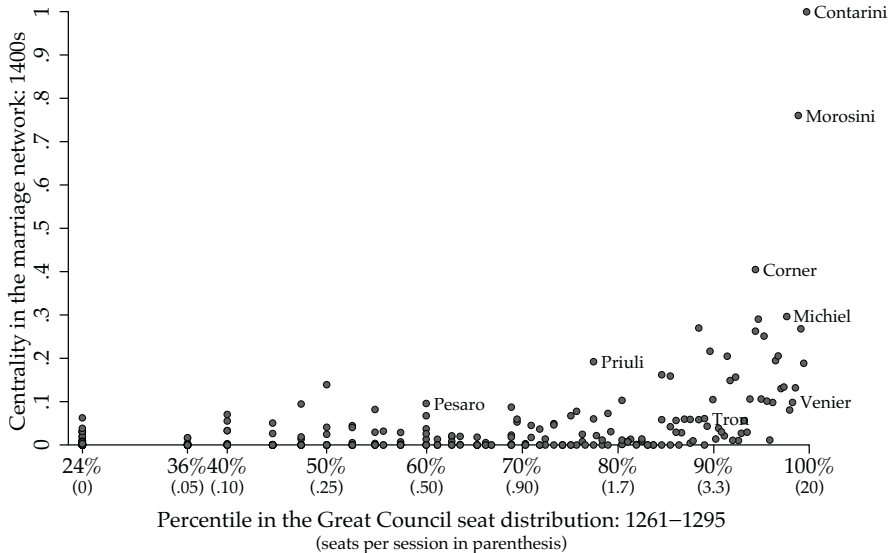
Cartelization of the Galley Trade

- By 1500 it was common for a single family to hold all of the shares in a galley.
- One even begins to see instances where all galleys in a *muda* are controlled by a family or small group of families.

Family alliances

- Controlling an entire *muda* required vast financial resources.
- Family members, typically brothers, raised capital within a family.
- Since this was rarely enough to control one or several galleys, marriage alliances were established with other powerful families and additional capital was raised within the alliance.
- The use of marriage alliances had a profound impact on financing and hence on concentration in the galley trade: the 46 galleys sent in the *muda* to the Levant between 1519 and 1528 had an average of just 2 shareholders.
- In 1495–1529, 30 individuals from just 17 noble families owned 38% of all shares in the galleys of the different *muda*.
- In almost every single galley the families of the shareholders were linked by marriage.
- We have digitized all 6,959 marriages in 1400–1599 involving a noble husband recorded in a handwritten list kept at the Archivio di Stato di Venezia.





Eigenvector centrality as a measure of economic status

- High-centrality families controlled over one half of the galley trade in 1475–1529.
- The correlation between centrality and (1379) wealth is 0.74.
- The most powerful families in the Great Council in the period leading up to the *Serrata* strategically used marriage alliances to monopolize the galley trade.
- The result was a tremendous strengthening of the economic and social position of those families who held the most seats in the Great Council in 1261–95 and who stood to gain the most from the *Serrata*.

Two Consequences

1. Extreme Inequality

2. Extreme Social Stratification:

- Marriage alliances in galley trade contributed to an increased formalization of social status e.g., state records of noble marriages.
- “The values of the early fourteenth century gradually gave way in the last quarter of the fourteenth century and the early fifteenth century to a new emphasis on rank and hierarchy.” (?, xv)
- Further, these changes “signalled a major transformation of the social foundations of the Venetian Renaissance state” (?, 38).

Contributions:

International Trade and Domestic Institutional Change

1. International trade as a catalyst for endogenous institutional change.
2. **Can international trade be bad? Changes can be positive, negative, or, as in the case of medieval Venice, first one and then the other:**
 - 800–1300: Political openness, economic competition, and social mobility.
 - 1300-1600: Oligarchy, monopoly, and social stratification.
 - We described the economic, political and social coalitions through which this happened: **Trade impacts wealth distribution and this affects the decisions of coalitions to promote or retard institutional change.**
3. Biggest Surprise: Impacts of international trade on social stratification.