

## Chapter 4

# Bridging Distances and Filling Gaps – Strategies to Handle Heterogeneous Commercial Environments

The merchants of the Hanse traded in heterogeneous mercantile environments. So far in this book, we have advocated a New Institutional Economics' perspective on the medieval Hanse and we looked in particular at the specific institutions that helped Hanseatic merchants to organise their commercial exchange without really taking into account the respective context in which they traded their goods.<sup>175</sup> Our aim with the present chapter is to slightly shift the common scope of analysis away from an in-depth look at the context of commercial activities in a particular mercantile city, to a focus on the late medieval Hanseatic merchants as a group, who in fact had to cope with several of such contexts, which even differed vastly from one another.

### Extension of European Trade to the Baltic Sea – Merchants and Cities

Trade in North Europe from the thirteenth to the fifteenth century, and even partly in the sixteenth century, was dominated by the merchants of the Hanse.<sup>176</sup> With their trade they geographically covered the wide area spanning between London and Bruges in the West, Bergen in the North and Novgorod in the far Northeast, a total area with an approximate diameter of 3,500 km between its western and eastern poles.<sup>177</sup> Hanseatic merchants functioned as commercial mediators by transporting furs, wax, timber and grains from the East to the West, cloth and luxury goods from the West to the North and to the East, and dried cod and herring from the

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175 See on that especially the Chapters 2 and 3 above. Cf. also SELZER / EWERT 2001; 2005; 2010; EWERT / SELZER 2007; 2010.

176 Cf. DOLLINGER <sup>4</sup>1989; HAMMEL-KIESOW 2000.

177 Cf. SEIBT / BORS DORF / GRÜTTER (eds.) 1997.

North to the West and to the South.<sup>178</sup> The rise of Hanseatic long-distance trade was stimulated by various factors:<sup>179</sup> in the twelfth and thirteenth centuries migrants from Lower Germany settled in the coastal areas of the South and East Baltic, transferring their urban culture north- and eastwards, which had already been developed to a fairly high degree.<sup>180</sup> This in turn stimulated a rapid population growth along the coastlines of the Baltic Sea.<sup>181</sup> Furthermore, the sustained population growth in Northwest Europe generated a huge demand for products originating from the North and the Northeast of Europe in western markets. Moreover, merchants from Lower Germany obtained trade privileges in London, Bruges, Bergen and Novgorod, which enabled them to link the distinct centres of production and consumption in the Northwest and the Northeast via the Baltic Sea. From these times onwards, the Baltic became a part of the (then) much more expanded trade system in Northwest Europe.<sup>182</sup>

Cities and towns played an important role within this trade system because they were of course the very centres of commerce. It was in Bruges, London, Bergen and Novgorod where the German Hanse possessed commercial outlets, the so-called *Kontore*.<sup>183</sup> Hanseatic trade centres were located there because of the liberties of the Hanse, and because these places also offered opportunities to make contact with other trade systems and with merchants of other geographic origins. Besides this, the big Hanse cities of Cologne, Lübeck, Hamburg and Danzig / Gdańsk and many other smaller towns served as a base for merchant families from which they could operate their businesses.<sup>184</sup> In the Hanseatic period some of these cities, like Lübeck for instance, saw an unprecedented economic take-off that was only seen again during the nineteenth century era of industrialisation.<sup>185</sup> Moreover, Hanseatic cities and towns were not only needed as points of exchange to maintain the chain-like trade of goods along the west-eastern line stretch-

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178 Cf. PARAVICINI 1992, p. 99; JAHNKE 2000.

179 Cf. HAMMEL-KIESOW 2000, pp. 21–26.

180 Cf. FRITZE 1986.

181 Cf. BORGOLTE 2002, p. 236.

182 Cf. MAĆZAK / SAMSONOWICZ 1965.

183 Cf. BRACKER 1989, pp. 143–176.

184 Cf. BRACKER 1989, pp. 177–300.

185 Cf. RANFT 1995.

ing from Bruges and London via Lübeck and Hamburg to Novgorod<sup>186</sup>, they were also pivotal elements in coupling this long-distance trade with the regional and local systems of distribution.

Although Hanseatic merchants and their enterprises were present everywhere in the Baltic Sea and the North Sea, and although they were able to dominate the trade there to a certain extent, the regions they covered commercially with this trade were far from homogeneous.<sup>187</sup> In the following sections we will analyse two aspects of the heterogeneity that this trade was exposed to. Firstly, we shall distinguish several dimensions of the diversity and the variability the merchants in general were confronted with. From which sources did heterogeneity stem inside the Hanseatic system of trade? And in which respects did particular commercial settings differ? Secondly, we will attempt to explain how the merchants were able to cope with the immense degree of heterogeneity they usually had to handle. Which strategies did they choose to balance the differing commercial environments in which they were active? What sorts of institutions emerged in order to consolidate the merchants' commercial activities?

## **Unequal Hanseatic Commercial Settings – Sources of Heterogeneity**

When talking about variability and diversity as important contextual factors which affected the trading operations of Hanseatic merchants, several sources of this heterogeneity have to be distinguished that in general caused the environmental conditions for traders to differ, and even changed these conditions over time. Geographic diversity in consumer preferences as well as in the availability of resources and in production is commonly considered as the driving force of inter-regional trade. By arbitrage between markets, opportunities are created for merchants to pocket profits from trade. Paradoxically enough, dissimilarities of several mercantile environments can nevertheless turn into a hindrance to trade because of the transaction costs arising from diversity. One such example within the trade system of the Hanse was the huge dissimilarity of the mercantile environments the

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186 Cf. HAMMEL-KIESOW 2000, p. 90.

187 Cf. MORAW 1987.

merchants were faced with at the Hanseatic outposts. Namely with Bruges on the one hand and Novgorod on the other, differences in mercantile settings were most pronounced. The massive gap that existed between the Northeast and the West in commercial as well as in cultural matters, a gap that was visible in the marked differences between the westernmost and the easternmost trading posts, was probably the most important reason for diversity inside the Hanse. However, the merchants' way of handling a variety of goods on the individual level as well as the embeddedness of their commercial exchange in the multiple organisational levels of the Hanse also contributed to the ever-present heterogeneity.

### The Dissimilarity of Mercantile Environments

Given the vast spatial extent of the Hanse's catchment area in the late Middle Ages, it presumably comes as no surprise that within this particular area various commercial environments existed. As a result, Hanseatic merchants made contact with very different mercantile habits on a regular basis. Cultural and economic differences between the western and north-eastern regions were tremendous indeed, although it was this divergence which for Hanseatic merchants had initially opened up opportunities to link these distinct environments through trade.<sup>188</sup> The gradual diversity of trade institutions in many Hanse towns and in the *Kontore* of London and Bergen notwithstanding, this enormous contrast could possibly be best illustrated by comparing the commercial settings which obviously differed the most – the market organisation at the western pole of the Hanseatic realm in Bruges and that in Novgorod at its north-eastern pole. These two cities where Hanseatic merchants shared trade privileges which they had obtained in the twelfth and thirteenth centuries and where they had established, like in London (and later on in Bergen), the guild-like organisation of a *Kontor*, seem at first glance to be fairly equal in terms of their size, location and commercial function. Both cities could only be reached by the maritime long-distance trade via rivers, an element that was in general quite typical of Hanseatic trading places, and obviously both cities were very important commercial centres within their respective regions. Although Bruges was

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188 Cf. HAMMEL-KIESOW 2000, p. 22 f.

a lot bigger than Novgorod – the former had an estimated population of between 40,000 and 45,000 inhabitants by the middle of the fourteenth century and the latter had approximately 30,000 inhabitants around the year 1400 –, this difference in size was certainly not the decisive reason for the cities' overall differences.<sup>189</sup> These differences can be better illustrated by the unequal degree of urbanisation. Whereas Bruges was located in the densely populated and highly urbanised region of Flanders and was therefore embedded in a very close network of cities and towns<sup>190</sup>, Novgorod was virtually the only city in a fully rural region, and its sparsely populated hinterland stretched up to the Ural. To further highlight the extreme differences that existed between Bruges and Novgorod, the two cities can be compared with respect to the specific characteristics of how trade was handled there – the organisational design chosen for the *Kontor*, the trading practice on the local market and the financial and institutional framework for commercial exchanges on that particular market.

From the late thirteenth century onwards, Hanseatic merchants usually no longer accompanied their goods to overseas market places. Instead they had established an office (*scrivecammere*) in their home town and in general operated their business from there. Commodities were shipped to distant market places by shipping agencies and could be sold there with the help of relatives or friends.<sup>191</sup> This sustained change in business style to promote an overall growth in trade developed very much in parallel to developments elsewhere in Europe, Italy or Flanders for instance.<sup>192</sup> Nevertheless, the more old-fashioned type of caravan or convoy trade still remained in action within parts of the catchment area of the Hanse. For their trade in Novgorod, Hansards still had to travel there via the Baltic Sea, carrying their goods along with them. Although the Hanse established a *Kontor* in Novgorod with the *St. Petershof*, a location which was used for trade and as a traders' residence, the permanent settlement of merchants there was strictly forbidden. In addition, the merchants were only allowed to go to Novgorod once a year, which meant that they had to choose to travel there

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189 Cf. FRIEDLAND (ed.) 1990; ANGERMANN / FRIEDLAND (eds.) 2002.

190 Cf. STABEL 1997.

191 Cf. RÖRIG 1929; HAMMEL-KIESOW 2000, p. 53.

192 Cf. LOPEZ 1971.

for either the summer or the winter. All these regulations were established in the so-called *Schra*, the written ordinances of the *St. Petershof*, and they remained effective until this *Kontor* was temporarily closed in 1494.<sup>193</sup>

As a consequence, the *St. Petershof* was predominantly frequented during the two trading seasons of either summer or winter, and opportunities for merchants to assimilate or eventually to integrate into the Russian host society were severely undermined and virtually non-existent.<sup>194</sup> In principle, the *Kontore* in Bergen (*Brygge*) and in London (*Stablfhof*) were organised similarly to the *St. Petershof*, but regulations there were nowhere near as strict as they were in Novgorod.<sup>195</sup> In Bergen and London the Hanseatic merchants possessed a well-defined location where they were requested to live and to operate while staying in the town, but in both cities merchants were not required to handle their trade personally, and the trade in London at least was not really a seasonal business. To some extent, seasonalities in trade always arose from the fact that shipping was closed during the winter months, which of course meant that travelling to and from London or Bergen was not possible within this particular period of the year. Nevertheless, merchants could send goods to their partners in London and Bergen or visit these cities as many times as they wanted during the rest of the year when the sea ways were open.<sup>196</sup>

In contrast to Novgorod, mercantile organisation was completely different in Bruges.<sup>197</sup> In the Flemish city, the Hanse ran a *Kontor* as well, but while the term *Kontor* described a well-defined trading outlet for London, for Bergen and especially for Novgorod, in Bruges it was more or less only a label for the group of Hanseatic merchants who operated on the Bruges market. Hanseatic merchants organised themselves as a group, with their own regulations and their own jurisdiction, and of course each merchant belonging to this group had to respect these rules. However, the presence of merchants was permitted throughout the whole year and for as long as desired, and neither residence nor trade of Hanseatic merchants were bound

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193 Cf. SCHLÜTER 1911; HAMMEL-KIESOW 2000, p. 103 f.

194 Cf. ANGERMANN / FRIEDLAND (eds.) 2002.

195 Cf. BRACKER 1989, pp. 149–159; pp. 165–171.

196 Cf. HAMMEL-KIESOW 2000.

197 Cf. MURRAY 2000; 2005; STABEL 2001; GREVE 2011.

to a fixed location in the city.<sup>198</sup> Instead, as did traders of other origins, Hanseatic merchants lived all around the city in hostellers' houses. These hostellers helped to mediate the commercial exchange between Hanseatic merchants and foreign traders, and they were to some extent also responsible for the behaviour of their Hanseatic guests, including a possible standing surety for their guests' debts.<sup>199</sup> Thus, Hanseatic merchants very often stayed in Bruges for many years before returning home.<sup>200</sup> There is a great deal of evidence to suggest that some of them even owned houses in the city. Countless donations from Hanseatic merchants to hospitals, parish churches and monasteries in Bruges show how deeply they had integrated into the host society.<sup>201</sup> A very good example of this behaviour is that of a group of Prussian merchants originating from the cities of Danzig / Gdańsk, Elbing / Elbląg, Königsberg / Kaliningrad and Thorn / Toruń – *Radeke Vrowendorp, Johann vom Howe, Albrecht Keyser, Heinrich Schonhals, Jacob von der Kemenate, Johann von der Winde, Heinrich Hoet, Tidemann Rebber, Heinrich Simon*. During the second half of the fourteenth century each of them had stayed in Bruges for many years on a permanent basis, and their presence there and their integration into the economic life of the city can be proved by entries in the Bruges tax list and by entries in the account books of exchange agents from Bruges. The members of this group of merchants obviously took over key functions as representatives of the *Kontor* in Bruges, and they acted as financial agents for other Hanseatic merchants from Prussia as well.<sup>202</sup>

For a comparison of the trading practices and commercial habits that can be traced on the markets in Bruges and Novgorod, one also has to consider the differences in market structure between these two extremes. Commodities to trade, productivity and the degree of market integration were obviously extremely different to their counterparts at the western and north-eastern borders of the Hanse's realm. The goods mainly bought by Hanseatic merchants in Novgorod were furs and wax. A fur was a non-

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198 Cf. FRIEDLAND (ed.) 1990; JÖRN / PARAVICINI / WERNICKE (eds.) 2000.

199 Cf. STARK 2000; GREVE 2001; 2002; 2011.

200 Cf. SELZER 2003a.

201 Cf. RÖSSNER 2001.

202 Cf. DIERCK / RÖSSNER (eds.) 1999.

standardised product of course, so that merchants had to spend time and money for both product assessment and quality control.<sup>203</sup> The market supply came from many small producers, because Hanseatic merchants were not allowed to operate outside the *St. Petershof*, and therefore they were not able to organise a market supply that could be handled by them more efficiently. Business was conducted in person with the Russian sellers of goods, usually with the assistance of an interpreter and that of a second Hanseatic merchant, with the latter having to witness the trade. Moreover, the purchasing volume of a single merchant was regulated to a certain maximum. In contrast, Hanseatic merchants in Bruges purchased goods such as cloth that in general were highly standardised products with a producer-guaranteed quality. Due to their market power they were also able to more or less take over the cloth production in some smaller Flemish towns, which then exclusively produced for the Hanse.<sup>204</sup> Purchase on the Bruges market was often executed via local brokers, which guaranteed a high degree of legal certainty. Regulations of the Hanse's *Kontor* regarding the volume of goods purchased or sold by Hanseatic merchants cannot be found. Similar to merchants of other geographic origins, Hanseatic merchants could very much profit from the commercial infrastructure that was provided on the late medieval 'world market' of Bruges and from the high degree of integration this market already had reached.<sup>205</sup>

The markets in Bruges and Novgorod are also very good examples of how differently the financial institutions that framed commercial exchange were developed in the late Middle Ages. More or less as a corollary of the Hanseatic convoy trade to the *St. Petershof*, financial institutions at the Novgorod market remained severely underdeveloped way into the fifteenth century. Commercial exchange with the Russians usually was done in a barter trade or by paying for the Russian furs and wax in silver which had to be brought overseas to Novgorod by the Hanseatic merchants themselves. This silver, reaching the Novgorod market on a regular basis, also affected the local economic structure as it was used as a raw material for the silver craft that had been established in the city of Novgorod.

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203 See on the fur-trade DELORT 1978.

204 Cf. HOLBACH 1994.

205 Cf. VERMEERSCH (ed.) 1992; STABEL 2001; MURRAY 2005.



As there was no possibility to buy on credit and given that banks were virtually unknown in this part of the Hanse's commercial world, the almost complete lack of financial institutions fully developed by the standards of the time is crystal clear. These standards were set at the western border in Flanders, namely in Bruges. There, the Hanseatic merchants commonly traded on credit for either their purchases or sales. Usually, they stuck to cash purchases and cash payments in case a cash discount was granted to them. Moreover, the Hanseatic merchants kept an account with brokers, exchange agents or merchant bankers, and payments of commercial exchanges in general could be executed via these financial mediators. Thus, via the Bruges market, Hanseatic trade was not only financially integrated, to a certain extent at least, into the late medieval European financial system, but the financial techniques that were in use in Bruges could also be adopted by Hanseatic merchants for their internal businesses in the western parts of their trade system. Cashless monetary transactions became the standard for their commercial exchanges between Bruges and Cologne, and these techniques could be easily used for transactions between Lübeck and Bruges as well.<sup>206</sup>

Putting together these pieces of evidence, one can conclude that the area covered by Hanseatic trade in economic terms was extremely heterogeneous indeed. Regulations exercised by the *Kontore* to constrain the merchants' personal freedom were much more relaxed in the West. The reverse is also true; the extent to which the markets' economic and financial institutions were developed decreased significantly the further northeast the markets were located.

## Handling a Variety of Goods

In most cases, Hanseatic commercial businesses were self-employed merchants or small-scale firms with a small number of employees.<sup>207</sup> An important feature of these enterprises was that they usually did not specialise in trading particular products or goods. In contrast, Hanseatic merchants typically traded with a variety of commodities. The persistence of this lack

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206 Cf. SPRANDEL 1975; JENKS 1982; NORTH 1999.

207 Cf. CORDES 1998.

of specialisation can be seen as late as the middle of the sixteenth century: the merchants *Bertram Bene* from Oslo and *Bernt Kron* from Rostock, who were involved in a long-term reciprocal commercial relationship, mutually exchanged almost 30 different types of goods.<sup>208</sup> Of course, since a specific knowledge of product quality and market conditions was necessary for trading goods, one can easily imagine that handling such a big number of products must have been far from an easy and straightforward task for the merchants. Knowledge of the trade of different goods such as furs, hats, belts, horses, apples, salmon or beer, as it was the case with *Bertram Bene* and *Bernt Kron* for example, had to be acquired by the merchants. They also had to keep their know-how up-to-date in order to remain competitive in the various markets at which they operated. Thus, at the individual level of the Hanseatic trade system, variability due to non-specialisation surely added to the degree of overall heterogeneity that already resulted from the existence of multiple and differing mercantile environments.

### **Bridging and Filling the Gap – Strategies to Balance the Effects of Heterogeneity**

Heterogeneity in general has both positive and negative economic impacts on trade. On the one hand it creates opportunities for profit, which attract those merchants who are able to link distinct mercantile environments, and in turn further stimulates economic development. On the other hand, heterogeneity definitely increases the cost of transaction in terms of information and agency costs, since it would obviously be much easier for all parties involved to trade in a homogeneous environment. Hanseatic merchants had to deal with vastly different mercantile environments and multiple organisational levels, and therefore had to find ways to balance the possible impacts of this heterogeneity on their economic enterprises. However, it was not only a question of deploying sophisticated strategies in order to cope with such differences and to overcome the huge dissimilarities in economic development that existed inside the Hanse between the West and the Northeast. First of all, Hanseatic merchants had to bridge the vast geographic distances in the Baltic. Hanseatic trade was mainly seaborne,

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208 Cf. THIERFELDER 1958, pp. 194–207; SELZER / EWERT 2001.

and after the merchants in the western areas had substituted a settled and office-based system of trade for the older form of active convoy trade, in the Northeast, especially in Novgorod, this older practice remained the dominant form of trade which meant that merchants still had to accompany their goods to market.<sup>209</sup> For other destinations difficulties were not automatically eliminated with the transition to a settled and office-based system. Although the merchants in general no longer accompanied their goods to market, it was still necessary for them to transmit information between home town offices and overseas market places where commodities were purchased or sold. Given that in the fifteenth century a letter between Lübeck and Bruges took around 20 days to be transferred<sup>210</sup>, one can imagine that apart from being confronted with heterogeneous mercantile environments, doing business with only little information at hand, was a rather demanding task, especially when one considers that the information was probably already outdated at the time of receipt.

Hence, this section discusses four strategies that presumably helped Hanseatic merchants to overcome the problems arising from trade in a vast and heterogeneously structured environment with only little information available. In the discussion a particular emphasis is placed on whether these solutions were self-enforcing or whether their enforcement necessitated formal institutions that would then need to be created. Following the institutional economics' approach to the history of trade and economic growth, the design of enforcement mechanisms plays a key role in whether economic development is either promoted or undermined. Institutions which unfold their effects in a self-enforcing manner usually reduce transaction costs more so than a third-party enforcement would. Self-enforcing institutions are also often viable solutions to problems of commitment, because incentives are structured in such a way that all parties concerned have a keen interest in keeping such an institutional arrangement.<sup>211</sup>

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209 Cf. BRACKER 1989, pp. 564–566.

210 Cf. SAMSONOWICZ 1999; see also LINDEMANN 1978 and von SEGGERN 2001.

211 Cf. NORTH 1981; 1991; 1993; GREIF 1992; 1993; 2000.

## Hedging Against the Risks of Transportation

Although in the Middle Ages maritime trade was not that much faster than overland transportation, it was usually fairly unpredictable due to weather conditions and the threat of piracy, and therefore involved a lot of risk. For their trade in the Mediterranean, Venetian and Genoese merchants developed contractual forms like the *commenda* or the *collegantia* which not only clearly regulated the responsibilities for such an enterprise and the costs of risk, but also made it more likely for merchants to find risk capital for potential commercial enterprises.<sup>212</sup> A similar problem was solved by Hanseatic merchants in a more informal and non-contractual manner. In the old-style caravan or convoy trade, goods were protected against risky events to some extent by the organisational pattern of the caravan or convoy itself. Seeking this sort of protection was presumably the main reason why in the past merchants in early trade all over the world and across all civilizations chose such a caravan trade organisation. Once caravan and convoy trade in many Hanseatic regions had been replaced by an office-based form of trade, Hanseatic merchants, in contrast to their Italian contemporaries, seemingly neither developed a formal sea insurance nor adopted the widespread use of formal contracts regulating the distribution of risk between trading partners.<sup>213</sup> As seen above, Hansards also used a contractual type known as the *wedderleginge* or *kumpanie* and very much resembled the Mediterranean *commenda*, by which capital could be accumulated for a specific endeavour. Both parties in such a contract added their financial resources, but only one of them operated the trade whereas profits were shared between both parties. Nevertheless, this contractual scheme was only of minor importance for Hanseatic trade. Instead, merchants attempted to counteract the risk of transportation by using a more basic form of risk diversification. Usually, Hanseatic merchants tried to ship the commodities in a trade sample on several ships, and in the event they were also ship owners, they usually did not concentrate their investment on only one ship.<sup>214</sup> As with such solutions it was not possible for merchants to get successfully accepted their

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212 Cf. LOPEZ 1971.

213 Cf. EBEL 1957; CORDES 1998; HAMMEL-KIESOW 2000.

214 Cf. WOLF 1986.

property rights by own measures in the event these rights had been violated by others, individual strategies of hedging against risk had to be sustained by general Hanseatic formal regulations regarding liability for the loss and the damage of commodities while being shipped.<sup>215</sup>

## Creating Formal Institutions

Undoubtedly, Hanseatic merchants were entrepreneurs, who in seeking profits from their trade definitely followed an economic rationale. As citizens of their respective home towns, they had also to respect their home town's economic interests, trade regulations and juridical practices while carrying out their trade, at least to a certain extent.<sup>216</sup> More importantly, contemporary foreign merchants recognised their Hanseatic competitors as belonging to a group sharing trade privileges at certain markets they themselves would have liked to share. These economic privileges, together with the backing of Hanse towns, were the basis on which Hanseatic merchants built their system of long-distance trade within the Baltics.<sup>217</sup> They nevertheless needed a set of formal institutions to do this.

First of all, the *Kontore* of the German Hanse have to be considered in this context. These *Kontore* were founded in the cities of Bruges, London, Bergen and Novgorod where Hanseatic merchants shared economic privileges and certain liberties to their own economic benefit. As the outposts of the Hanse, the fairly formally defined institution of the *Kontore* regulated the merchants' local trading comportment in order to enforce the privileges against local rulers and in order to coordinate merchants' activities.<sup>218</sup> Given that these markets were vital to the Hanse's system of trade as a whole, inasmuch as they formed the commercial interface between this trade system and other systems of trade, Hanseatic merchant families had a keen interest in maintaining personal contact to their compatriots operating there.<sup>219</sup> By the middle of the fourteenth century, a second Hanseatic formal institution had emerged with the constitution of the Hanseatic League as an

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215 Cf. JAHNKE / GRASSMANN (eds.) 2003.

216 Cf. AFFLERBACH 1993.

217 Cf. von BRANDT 1963.

218 Cf. GREIF / MILGROM / WEINGAST 1994; Streb 2004.

219 Cf. SPRANDEL 1984, p. 29.

alliance of many Hanse towns.<sup>220</sup> The Hanseatic League never really served a headquarters' function for Hanseatic trade, but it can be seen as a sort of a political superstructure of the Hanse and it was a necessary device, in theory at least, to coordinate the economic and political interests of the Hanse's towns and cities.

For Hanseatic merchants, both the *Kontore* and the Hanseatic League did not work as self-enforcing institutions just because they were based on formal regulations and because participation within these institutions was regulated by exactly these formal rules; quite the reverse, in fact. These two institutions based to a large degree on formal definitions and were needed to enforce other regulations inside the Hanseatic system of trade such as those on the liability for losses and damages in sea transportation or those on the quality control of products. Interestingly enough, it was this rather formal part of the Hanse that had the largest and most lasting impact on historiography, making generations of historians believe that the Hanse was kind of a huge trading trust or a mercantile empire, an image of the Hanse which is categorically false.<sup>221</sup>

## Networking and Reciprocal Trade

To cope with their heterogeneously structured commercial environment, Hanseatic merchants found a rather different way to confront the considerable degree of variability and unpredictability of circumstances, as has been shown above in Chapter 2 in much more detail. They formed trade networks of different sizes, varying densities and endurance<sup>222</sup>, creating an exchange structure in which the parties involved often were related to each other through kinship or were attached to each other through friendship relations.<sup>223</sup> And, as was explained in greater detail in a previous section on the overlap of business and family among Hansards, the medium- or long-term cooperation on the basis of informal and implicitly defined contracts

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220 Cf. WERNICKE 1983; HENN 1984; PITZ 2001.

221 Also SCHELLERS (2003) emphasises the character of the Hanseatic League as having been an alliance of cities with primarily political purposes. This point will be discussed in more detail in the subsequent chapter of this book.

222 Cf. SELZER / EWERT 2001; 2005, 2010; EWERT / SELZER 2007; 2010.

223 Cf. SPRANDEL 1984; STARK 1993.

that were inherent to this system enabled merchants to not only assure themselves against the classic problems that typically evolved in agency relationships, but to also keep their transaction, information and organisation costs low. Shared common values facilitated mutual cooperation. By reciprocal exchange of goods, mutual trust between partners could be built over the course of time allowing the merchants to entrust the collection and processing of information relevant to sales' operations on foreign markets to their respective partner. Trust, reputation and shared common values, communicated through the various sociability institutions of the Hanse<sup>224</sup> and then distributed across the whole network<sup>225</sup>, could compensate for a lack of hierarchy in terms of coordination.<sup>226</sup> The multilateral reputation mechanism enforced fairness amongst Hansards<sup>227</sup>, in the long run at least. This system of reciprocal trade was able to solve the problems of free-riding and of controlling agents without the need for speedy communication lines and powerful enforcement institutions. It was a viable and self-enforcing mode of commercial exchange inside the Hanse that kept transaction, information and coordination costs at a fairly low level and, compared to other possible solutions, made them more or less negligible.

The networking strategy probably was of the most valuable economic benefit to Hanseatic merchants in terms of the high degree of flexibility it offered them while at the same causing only moderate costs. Due to the reciprocal pattern of cooperation, employing mutual partners as commercial agents, with their implication of each partner's expertise on the type of goods traded on their home market, Hanseatic merchants could afford to not specialise in particular commodities. It was the fairly lean governance structure of these reciprocal exchange relationships that enabled Hanseatic merchants to operate on the poorly developed market in Novgorod as well as on the highly integrated market in Bruges. And it was because of the relatively small size of their enterprises and their embeddedness in trade

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224 See e.g. DÜNNEBEIL 1996; SELZER 1996.

225 Cf. SELZER 2003b, pp. 84 and 96–97.

226 See in general on this POWELL 1990; GALASKIEWICZ 1996; STABER 2000.

227 Cf. SELZER 2003b, and for the more general function of the multilateral reputation mechanism within the interaction of Hanseatic merchants with foreign rulers GREIF / MILGROM / WEINGAST 1994 and STREB 2004.

networks that they could, in principal, engage in the Novgorod barter trade, but could also be involved in the commercial exchange at the Bruges market with its practice of complicated cashless financial transactions. The network always offered opportunities to establish commercial contacts in the distinct mercantile environments inside the Hanse. A fairly instructive example of the coexistence of different business styles is the activities of *Hildebrand Veckinchusen* who, at the beginning of the fifteenth century, was located in Bruges and traded from there intensively on the basis of reciprocal relationships with his brothers, cousins, father-in-law, nephews and some of his friends in Lübeck, Danzig / Gdańsk, Riga, Reval / Tallinn and Dorpat / Tartu.<sup>228</sup> Besides this, he was also part of a fairly formal society through which he operated his trade with Cologne.<sup>229</sup> Finally, the network pattern of trade caused all Hanseatic merchants to profit from the supply of goods at the markets of Bruges, London, Bergen and Novgorod, since the commodities traded on these markets could be easily accessed by almost every one via relatives or friends living and trading there. In turn, it were precisely these relatively stable kinship- and friendship-based relationships with commercial partners at distant locations in the Hanseatic trade area as well as at the *Kontore* in Bruges, London and Bergen that allowed Hanseatic merchants to handle their commercial exchange in an environment which was well-defined, even in times when the trade policies or regulations of the Hanseatic League might have interfered in that trade.<sup>230</sup>

## **Standardisation and Homogenisation of Commercial Institutions and Culture**

The Hanse and their merchants were essentially aware that differences in the markets' infrastructure, economic and financial institutions were quite inefficient and costly features of their trade system. As seen above, networking kept the transaction costs of commercial exchange at a level low enough to make trade quite attractive to the merchants, even though they had to operate in distinct commercial environments. However, a significant reduc-

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228 Cf. IRSIGLER 1985; STARK 1993; CORDES 1998; GREVE 2002.

229 Cf. SCHWEICHEL 2001.

230 Cf. SPRANDEL 1984, p. 31 f.



tion of the heterogeneity stemming from these heterogeneous settings would certainly have helped to lower transaction costs even more. Apart from closing this system for non-Hanseatic competitors to maintain monopoly rents, it was a fairly rational strategy to standardise and harmonise the various mercantile environments in order to reduce the degree of heterogeneity inside the Hanse and the amount of transaction costs for traders.

Several developments can be identified that contributed to a reduction of heterogeneity in commercial environments. First of all, the town laws of Magdeburg and of Lübeck had become the dominant town law in the Baltics. Over time, this initially unintended harmonisation of law proved to be extremely beneficial for commercial exchange. Although originating from many different Hanse towns or cities, most of the merchants of the Hanse therefore acted on the grounds of a commonly known and practised law.<sup>231</sup> However, also deliberate attempts of harmonisation were made by the Hanse to create a more homogeneous commercial setting for merchants.<sup>232</sup> For example, the Hanse standardised weights and measures for many of the commodities its merchants were dealing with.<sup>233</sup> Concerning the privileges of the Hanse in both Flanders and Novgorod measures to implement a quality control of commodities were also taken. For instance, the wax bought from the Russian producers in Novgorod had to be sealed, either in Novgorod before it was bought by a Hanseatic merchant, or in the particular Hanse town or city where it was sold to another merchant. Any breach of this rule was regulated with a fine.<sup>234</sup> Interestingly enough, a similar regulation for Novgorod furs was not set. Nevertheless, the Hanse already possessed quite systematic and widely applied regulations of weights and measures and a system of quality control by which transaction costs were reduced in a way that facilitated the search for specific products and made passing them forward within the chain-like trade between Hanseatic merchants much easier.<sup>235</sup>

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231 Cf. EBEL 1957.

232 Cf. JENKS 2005.

233 Cf. WITHÖFT 1976.

234 Cf. JENKS 2005, p. 38

235 Cf. JENKS 2005, p. 39; LINK / KAPFENBERGER 2005.

A further step along the path towards commercial settings that were more equal to each other was to also regulate the juridical practices concerning overseas transportation and other matters of commerce. This was primarily done to reduce transportation risks, to guarantee fair exchange and to enforce commercial contracts. Regulations in great detail can be found for those Hanseatic merchants that were operating in Flanders. These statutes encompassed various rules regarding the liability of merchants and that of their customers as well as regulations concerning the competence in the event of a lawsuit and also procedural questions. Strikingly similar rules can be found in the Hanseatic privileges for Novgorod.<sup>236</sup> A sophisticated sea right was developed by which responsibilities and liabilities for damages and losses due to averages were regulated.<sup>237</sup> To provide Hanseatic merchants with rather standardised juridical procedures regarding the risks related to shipping and to the commercial exchange with foreign producers, brokers and traders, was an approach of the Hanse that certainly helped to lower transaction costs, mainly through a reduction of the costs for contracting and for contract enforcement. In contrast to the networking strategy, the part of the Hanse's institutional arrangement of trade that resulted from such standardisation and homogenisation was not self-enforcing at all. Town councils, the *Kontore* and later on also the regular diets of the Hanseatic League were needed as kind of 'third-party-institutions' to enforce these rules.

Finally, it should be noted that a kind of latent harmonisation also emerged, which was more or less a by-product of the Hanseatic merchants' commercial activities all over the Baltic. This nevertheless turned out to be of great value for their economic transactions. With shared values and common norms it was possible to create a more homogeneous mercantile setting. However, the homogenisation of cultural beliefs was certainly not a clear strategy that had been deliberately implemented, but as Hanseatic merchants were present all across the Baltic, it was rather an unintended but nonetheless natural – and in a way also helpful – development that over time cultural beliefs and practices became more and more equal to each other. Shared common values were probably very obvious inside the merchants'

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236 Cf. JENKS 2005, p. 39 f.

237 Cf. JAHNKE / GRASSMANN (eds.) 2003.

families and were therefore spread out across the areas of Hanseatic trade with family members settling at market places that were distant to their family's home town. These values naturally materialised in festivities and marriage patterns and in having a good command of the Lower German language<sup>238</sup>, and they were certainly enforced by the various institutions that enabled and facilitated sociability. For the networking strategy, the homogenisation of cultural beliefs proved to be of fundamental importance, because it was, as shown in an earlier chapter of this book, also a key element for the enforcement of fairness within trade cooperation via the above-described multilateral reputation mechanism.

### **Success and Failure of Hanseatic Strategies to Cope with Heterogeneity**

To sum up: late medieval Hanseatic merchants were confronted with a great deal of diversity concerning their trade. Their commercial activities covered a whole range of markets from highly integrated and very efficient markets with already quite sophisticated juridical and financial institutions in the West, to very inefficient and poorly developed markets lacking in developed institutions in the Northeast. Heterogeneity seems to have been an important determinant of this trade. Interestingly enough, it was this economic and cultural divergence within North Europe which had been one of the key factors that had previously allowed Hanseatic merchants to gain significant commercial advantages over former competitors. Because they were able to link these separate regions commercially, Hanseatic merchants could practically monopolise trade within this area. Within this economic framework that consisted of various mercantile environments showing tremendous differences, merchants handled a variety of goods and products, meaning that in daily work they had to acquire a vast array of product-specific knowledge or instead had to rely on someone else's expertise on these commodities.

The Hansards' response to this challenge of heterogeneity was also heterogeneous. A clear pattern of reactions can nonetheless be seen: firstly, as maritime trade was virtually the only viable way to bridge the huge

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238 Cf. de BOER / GLEBA / HOLBACH (eds.) 2001.

distances in the Baltic and in the North Sea, merchants had to find a way to deal with the specific risk related to this kind of trade. There were attempts to minimise the transportation risks involved in maritime trade by both non-formal individual solutions and corporate formal ones. Secondly, the Hansards created formal institutions like the *Kontore* and later on the Hanseatic League, which were necessary to enforce certain regulations and to coordinate the economic activities of both individual merchants and of town and cities. Thirdly, the merchants participating in the internal Hanseatic trade also maintained a rather simple form of reciprocal and informal cooperation between partners at distant locations, which allowed them to operate in a rather cost-efficient manner. At the same time, this business style was flexible enough to be suited to either a very sophisticated level of market development, as in the case of Bruges, or to a rather poorly developed market, as in the case of Novgorod. Finally, over the course of time, the Hansards made more and more attempts at standardising and harmonising the different mercantile environments they were operating in. Both the standardisation of weights and measures and the harmonisation of juridical regulations and cultural beliefs helped to reduce transaction costs in Hanseatic trade. However, given the fact that the strategy of forming trade networks by which merchants remained flexible, created enormous benefits for merchants, this rather simple and seemingly old-fashioned business style can be considered a key element in balancing the effects of heterogeneity. Thus, it was by harmonising the context while still remaining flexible with regard to individual trade opportunities that enabled Hanseatic merchants to successfully bridge, and to a certain degree even fill the existing gaps between the various mercantile environments inside their realm.

Towards the end of the fifteenth century however, the commercial advantages the Hansards possessed in the Baltics were rapidly ceasing. This failure of the system as a whole seems to have been path-dependent<sup>239</sup> insofar as it was precisely the networking strategy which had been employed success-

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239 See on the theoretical concept of path dependence, a paradigm which has been discussed in economic theory for some time ARTHUR 1989; DAVID 1994; SYDOW / SCHREYÖGG / KOCH 2009. Its relevance for the history of the Hanse will be further elaborated in Chapter 6 of this volume.

fully at earlier stages in the history of the Hanse that had now turned into a severe hindrance to the sustained growth of their trade system.<sup>240</sup>

Focusing solely on either the context or the individual level of the Hanseatic trade system is certainly not the only explanation that can be given for the manifest degree of heterogeneity inside the Hanse. Besides the fact that the typical Hanseatic business was quite small in size and thus had to adapt itself to a given heterogeneous context, the Hanse's commercial exchange was embedded in several overlapping organisational layers. The likelihood of potential conflicts between the individual interests of single merchants and the collective interests of town communities and of the *Kontore* presumably increased even more following the formation of the Hanseatic League. Although only a rather loose association of towns and cities, the Hanseatic League (or at least the town delegates who were involved in the Hanseatic League's decision making) thoroughly developed their own economic and political scopes and very strictly attempted to get these interests accepted not only by foreign traders but also by the Hanseatic merchants themselves. Once designed to coordinate merchants' interests, to oversee trade and to provide the enforcement of privileges and trade regulations, it was this multiplicity of structure itself that put a further constraint on the activities of Hanseatic merchants.<sup>241</sup> As the economic and political scopes of the *Kontore* in Bruges, London, Bergen and Novgorod, and those of particular Hanse towns and the Hanseatic League were sometimes conflicting merchants became more often affected by the negative effects of this multiplicity of structure. This of course could create situations in which individual merchants came into conflict with higher order economic interests, for instance when becoming subject of the Hanse's typical ban on the formation of business partnerships with non-Hanseatic traders.<sup>242</sup> This seems to have been the case especially during trade embargoes. For instance, during the Hanseatic blockade of Flanders from 1358 to 1360, the traders of the town of Kampen tried to profit from circumstances by circumventing

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240 Cf. SELZER / EWERT 2005; EWERT / SELZER 2007; 2010.

241 Cf. von BRANDT 1963.

242 Cf. SPRANDEL 1984, p. 32 f.

the ban on trade with Flanders.<sup>243</sup> In a sense, with this superstructure of the Hanse a second-order problem of heterogeneity emerged.

Moreover, the merchants' potential to remain flexible at the cost of a still lacking development of the capital market structure within the inner reach of the Hanseatic trade system, meant that Hanseatic merchants, unlike their non-Hanseatic competitors, had almost no access to risk capital which would have been utterly needed for much bigger commercial endeavours than those typically undertaken in the internal Hanseatic trade.<sup>244</sup> The Hanse's traditional policy of blocking opponents on the grounds of the privileges and liberties its merchants enjoyed in Bruges in the long term turned out to be a severe hindrance to keeping this beneficial economic position. This was because ultimately the Hanse failed to realise early enough that the economic importance of the Bruges market had been rapidly declining with the rise of the Antwerp market in the second half of the fifteenth century. And finally, harmonisation of course reduced transaction costs inside the Baltics for Hanseatic merchants and helped them to carry out their trade. Yet, the external effect of this harmonisation produced lower transaction costs for non-Hanseatic merchants, too. As a consequence, the commercial competitors of the Hanse were able to overrun the Hanseatic system of trade and intrude into the Hanse's commercial realm by the end of the fifteenth century, from then on posing a serious threat to the privileged commercial position held by the Hansards in the Baltic.

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243 Cf. FRICCIUS 1932/33.

244 Cf. SCHONEWILLE 1998.