PART ONE

MEDIEVAL FOUNDATIONS
CHAPTER ONE

INTRODUCING THE PROBLEM:
THE EMERGENCE OF EFFICIENT INSTITUTIONS
IN THE MIDDLE AGES

New Institutional Economics and the Efficiency of Institutions

Economic historians, inspired by Douglass North and his broad reassessment of new institutional economics, tend to believe that the quality of the institutional framework of a nation or region has direct bearing on its economic performance. As explained in the introduction, the core assumption of this approach is that efficient institutions (‘rules that constrain behaviour’) reduce transaction costs and thus increase market exchange, specialization, and therefore economic growth. The way to test such a hypothesis would be to develop methods for measuring the efficiency of institutions, and link such measurements to observable economic performance. Much of the work in this field has, however, focused on the supposed efficiency of certain specific institutions, such as merchant and craft guilds, systems of property rights and tenure (how efficient is sharecropping?), or on the efficiency of the commons and their abolition via enclosures. Typically, new contributions to this literature have suggested that institutions that were previously considered ‘conservative’ and ‘inefficient’ – such as guilds and commons, manors, or sharecropping – were surprisingly efficient, if the functioning of these institutions were examined more closely. Guilds, for example, took care of the efficient transfer of knowledge and technology between generations (and between regions via wandering journeymen), stabilized labour and product markets, guaranteed the quality of products (necessary for domestic consumption and export), and were an efficient source of taxation for (local) government (Epstein, 1998). Some have argued that this sounds too good to be true, and that revisionism ignores the ‘dark side’ of institutions such as the guilds – namely, that they excluded outsiders (e.g. women), monopolized markets, and tried to suppress innovation (Ogilvie, 2007).

One of the problems with this approach, which tries to determine how efficient different institutions were, is that all institutions are