# Pre-Modern Credit Networks and the Limits of Reputation

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## I. INTRODUCTION

This Essay questions a fundamental assumption of private ordering scholarship that a good reputation is so critical to the functioning of a private system that its maintenance incentivizes members of the community to keep their promises and act honestly.[1] But is this assumption necessarily true? The presumption of merchant honesty has, for example, served as a cornerstone of the myth of the medieval law merchant. Yet the historical evidence, still

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1. *See, e.g.*, AVNER GREIF, INSTITUTIONS AND THE PATH TO THE MODERN ECONOMY: LESSONS FROM MEDIEVAL TRADE 69 (2006) ("The merchant decided to share the profits in order to maintain his reputation, even though he did not intend to do business with the partner in the future."); Paul R. Milgrom, Douglass C. North & Barry R. Weingast, *The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs,* 2 ECON. & POL. 1, 1 (1990) ("Even in a community in which any particular pair of people meet rarely, it is still possible . . . for an individual's reputation in the group as a whole to serve as a bond for his good and honest behavior toward each individual member."); Stephen E. Sachs, *Conflict Resolution at a Medieval English Fair, in* EINE GRENZE IN BEWEGUNG: ÖFFENTLICHE UND PRIVATE JUSTIZ IM HANDELS—UND SEERECHT [A MOVING FRONTIER: PUBLIC AND PRIVATE JUSTICE IN COMMERCIAL AND MARITIME LAW] 19, 19 & nn.1–3 (Albrecht Cordes & Serge Dauchy eds., 2013) (discussing private ordering literature on reputation).

largely unexplored, provides abundant examples of cheating and of cheaters who nonetheless continued to do business with great success.[2]

Pre-modern credit networks provide another test for the role of reputation. These networks, which involved the whole society in interlocking webs of credit and debt, arose from the actions of individuals who offset the lack of sufficient specie by inventing credit mechanisms to solve the problem of purchase and sale. Governments played little to no role in creating these solutions. Reputation, to some extent, did drive lending decisions, but reputation did not reliably parallel a good history of timely repayment. Default, it turns out, was not a simple binary concept in the past, and, consequently, neither were the decisions about extending credit.

Although a fuller answer awaits extensive research in the archives, this Essay offers the preliminary argument that in the widespread networks of credit that acted as "the great lubricant of the Commercial Revolution,"[3] reputation, or at least reputation in the sense we might understand it today, did not bear quite the weight which private ordering theory assigns to it. This appears to be due in part to a more expansive pre-modern sense of what it meant to keep a promise, in part to the role of higher-level notions of confidence and reciprocity that transcended individual debtors to encompass whole communities of lenders and borrowers, and in part to the availability of public institutions, both lay and ecclesiastical, to sanction nonpaying debtors. Although these institutions backstopped rather than replaced social confidence and reputation, their expanded use seems to have corresponded with a general increase in the society's anxiety about the solidity of the credit networks as a whole.

This Essay focuses on the period from roughly 1200 to 1650. A great deal changed in the economy of Europe during these centuries, but the central place of credit remained constant. While credit existed before the 13th century, it was after around 1200 that the European economy began to grow most rapidly, as evidenced by the diversification in the denominations of specie issued in response to the needs of commerce.[4] Credit similarly continued to be important after 1650,[5] but by the second half of the 17th century, the spread of banks and then later of paper money began to change the role of credit in critical ways.[6]

2. *See* Emily Kadens, *The Medieval Law Merchant: The Tyranny of a Construct*, J. LEGAL ANALYSIS (forthcoming 2015) (providing examples of merchant cheating).

3. ROBERT S. LOPEZ, THE COMMERCIAL REVOLUTION OF THE MIDDLE AGES, 950–1350, at 72 (Cambridge Univ. Press 1976).

4. THOMAS J. SARGENT & FRANÇOIS R. VELDE, THE BIG PROBLEM OF SMALL CHANGE 46 (2002).

5. *See* Julian Hoppit, *The Use and Abuse of Credit in Eighteenth-Century England*, *in* BUSINESS LIFE AND PUBLIC POLICY: ESSAYS IN HONOUR OF D.C. COLEMAN 64, 64–65 (Neil McKendrick & R.B. Outhwaite eds., 1986).

6. CRAIG MULDREW, THE ECONOMY OF OBLIGATION: THE CULTURE OF CREDIT AND SOCIAL RELATIONS IN EARLY MODERN ENGLAND 115 (1998); Herman Van der Wee, *Monetary, Credit and*

Part II begins by describing the historical conditions that drove the use of credit networks. Part III examines the ambivalent role of reputation in establishing and maintaining these networks. Part IV considers the additional factors that creditors considered when making lending decisions.

## II. THE ROLE OF CREDIT

Pre-modern Europe was a monetized society. People of all stations of life used money to express value, whether of goods, labor, or property.[7] This does not, however, mean that people always paid in the actual silver, and later gold, coins that served as legal tender. Barter, for instance, continued to play a role throughout the period under consideration in both the daily economy of consumption and the international economy of long-distance commerce. Artisans traded their products for food;[8] customers paid shopkeepers in kind;[9] merchants exchanged goods.[10]

More important and more pervasive than barter, however, was credit. Extended through various mechanisms, it threaded through the economy from the large purchases of international merchants to the survival purchases of the urban poor.[11] Consumers did not pay for their bread, or candles, or shoes, or meat. They ran tabs with the shopkeepers.[12] Cloth traders bought wool on credit, had it worked into cloth by weavers on credit, then sold it at the international fairs and urban entrepôt towns on credit.[13] Vintners bought wine on credit and sold it to tavernkeepers on credit.[14] Individuals "secured services from barbers, apothecaries, and wet nurses on credit."[15] Innkeepers,

*Banking Systems*, *in* 5 THE ECONOMIC ORGANIZATION OF EARLY MODERN EUROPE 290, 351–53 (E.E. Rich & C.H. Wilson eds., 1977).

7. 2 FERNAND BRAUDEL, THE WHEELS OF COMMERCE 59 (Siân Reynolds trans., Book Club Assocs. 1983); MARTHA C. HOWELL, COMMERCE BEFORE CAPITALISM IN EUROPE, 1300–1600, at 17–18 (2010); RICHARD K. MARSHALL, THE LOCAL MERCHANTS OF PRATO: SMALL ENTREPRENEURS IN THE LATE MEDIEVAL ECONOMY 34 (1999); MULDREW, *supra* note 6, at 98.

8. JAMES DAVIS, MEDIEVAL MARKET MORALITY: LIFE, LAW AND ETHICS IN THE ENGLISH MARKETPLACE, 1200–1500, at 206 (2012) ("Poor artisans might also offer goods in exchange for victuals, or as surety for later payment").

9. MARSHALL, *supra* note 7, at 21.

10. Peter Stabel, *Marketing Cloth in the Low Countries: Manufacturers, Brokers and Merchants (14th–16th Centuries)*, *in* INTERNATIONAL TRADE IN THE LOW COUNTRIES (14TH–16TH CENTURIES) 15, 21 (Peter Stabel, Bruno Blondé & Anke Greve eds., 2000); Van der Wee, *supra* note 6, at 306–07 (discussing the use of barter in early modern international trade).

11. JULIE HARDWICK, FAMILY BUSINESS: LITIGATION AND THE POLITICAL ECONOMIES OF DAILY LIFE IN EARLY MODERN FRANCE 136–37 (2009); MULDREW, *supra* note 6, at 95.

12. *See infra* notes 51–53 and accompanying text (discussing how shopkeepers extended loans to customers).

13. *See infra* notes 26–28, 49 and accompanying text.

14. George Unwin, *London Tradesmen and Their Creditors*, *in* FINANCE AND TRADE UNDER EDWARD III, at 19, 19–22 (George Unwin ed., 1918).

15. HARDWICK, *supra* note 11, at 128.

moneychangers, monks, lawyers, artisans, and shopkeepers lent money to the rich and the poor alike.[16]

Pre-modern commerce revolved around credit, and likely no one was spared the need to be debtor and creditor.[17] "Everyone was in debt, virtually all the time, whether to neighbors, employers, servants, superiors, fathers, brothers, mothers, or even children."[18] In this society, people who had money lent it out, with the result that a great deal of wealth was tied up in credit.[19] Debts owed by others sometimes accounted for remarkably large portions of creditors' estates. "In 1421," for instance, "Thomas Frost of Hull left about £76, of which debts owed to him constituted about £70,"[20] and in 1424, the estate of the wealthy wool dealer William Lynn included total assets of

> £4842 *7s 2d*, of which about £965 was in coin, about £811 in merchandise, and about £39 in plate and utensils. The rest, about £3027, was in debts owing to him from various persons in England and abroad. In his turn, he owed various men about £1637 *1s 4d*—that is, about as much as he had in cash and merchandise.[21]

Due to the abundant records of debt disputes,[22] the extant documentary evidence is skewed toward credit, whereas cash payments left few traces.[23] Thus we do not know with precision the relative balance of cash versus credit. Nonetheless, the overwhelming evidence for credit seems to represent the reality of its significance in this economy.[24] By way of example, the Ragusan

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16. *Id.* at 136–39; WILLIAM CHESTER JORDAN, WOMEN AND CREDIT IN PRE-INDUSTRIAL AND DEVELOPING SOCIETIES 19 (1993).

17. HARDWICK, *supra* note 11, at 141 ("[M]ost people were lenders as well as borrowers . . . ."); *see* MULDREW, *supra* note 6, at 95; QUENTIN VAN DOOSSELAERE, COMMERCIAL AGREEMENTS AND SOCIAL DYNAMICS IN MEDIEVAL GENOA 124 (2009) (asserting that "medieval credit transactions were widespread"); Pamela Nightingale, *Monetary Contraction and Mercantile Credit in Later Medieval England*, 43 ECON. HIST. REV. 560, 562 (1990) ("[C]redit was used at all levels of society, even for the smaller sums . . . .").

18. HOWELL, *supra* note 7, at 25.

19. *See* M.M. POSTAN, *Credit in Medieval Trade*, 1 ECON. HIST. REV. 234 (1928), *reprinted in* MEDIEVAL TRADE AND FINANCE 1, 11 (1973).

20. Jennifer I. Kermode, *Money and Credit in the Fifteenth Century: Some Lessons from Yorkshire*, 65 BUS. HIST. REV. 475, 483 (1991).

21. POSTAN, *supra* note 19, at 22; *see also* Hoppit, *supra* note 5, at 64 ("Recent work has confirmed that many firms had more of their assets tied up in credit than in capital . . . .").

22. POSTAN, *supra* note 19, at 4–5 ("The abundance of mercantile debts clearly demonstrates that credit commonly entered into the commercial practice of the Middle Ages. At the same time it must not be taken to imply the rare use of cash payments, since debts were recorded while cash transactions were not."); VAN DOOSSELAERE, *supra* note 17, at 136 ("Without much information about cash transactions, it is difficult to estimate the proportion of trade credit in the overall movement of goods. However, the very large number of those agreements in the notarial records indicates that the practice was probably widespread.").

23. For example, shopkeepers often did not record cash sales. *See* HARDWICK, *supra* note 11, at 149; MARSHALL, *supra* note 7, at 43, 73.

24. MARSHALL, *supra* note 7, at 73 ("Sales on credit were not an occasional practice in 14th-century Prato; they predominated.").

merchant Benedetto Cotrugli wrote in his 1458 merchant manual, *Il libro dell'arte di mercatura (The book on the art of trade)*, that "'[i]t is necessary that the merchants do not try to sell their products piece by piece but that they sell them as wholesale; and in wholesale you find no entrepreneurs or buyers who pay cash.'"[25] In 1455, English wool merchants complained to Parliament that Italian buyers could buy wool more cheaply because they sometimes could pay for it in cash, an advantage the English could not match.[26] The letters of a 15th-century firm of English wool sellers show that they used credit in 92% of their transactions,[27] and the letters of an Antwerp firm "in its correspondence from Antwerp to Italy, would always state the prices of spices in the 1530s and 1540s 'a tempo due fieri', i.e. payable at two fairs or six months."[28]

Whatever other factors might have pushed the pre-modern European economy toward this extensive use of credit, the simplest was the lack of specie. Fiat money did not yet exist, and commodity money never circulated in sufficient quantities or in the appropriate denominations to meet the needs of commerce. No matter how extensive the mining of silver, including the influx of colonial bullion during the 16th century, the European economy continuously outgrew its money supply.[29] In addition, some evidence suggests that good quality money was valued more for its bullion content than its monetary value, and was, as a consequence, hoarded or kept for paying taxes rather than spent in the ordinary course of daily commerce.[30]

What money existed was difficult to use and often of questionable validity. Sellers stated prices in the preferred local money of account, which was a means of measuring value using a book denomination not necessarily linked to a physical currency.[31] The buyer, however, paid in a medium of actual exchange, though those coins did not have an absolute value relative to the money of account. Stamped only with identifying symbols, coins did not specify a numerical value.[32] Their value depended upon their weight in bullion, but neighboring lords frequently counterfeited popular foreign coins at a lower weight.[33] Paying with cash, therefore, often required the services of

25. GUNNAR DAHL, TRADE, TRUST, AND NETWORKS: COMMERCIAL CULTURE IN LATE MEDIEVAL ITALY 254 (1998).

26. POSTAN, *supra* note 19, at 10.

27. *Id.* at 21 ("[A firm] sold wool on credit in eleven out of every twelve transactions recorded in their letters and accounts.").

28. Van der Wee, *supra* note 6, at 307.

29. EDWIN S. HUNT & JAMES M. MURRAY, A HISTORY OF BUSINESS IN MEDIEVAL EUROPE, 1200–1550, at 63–64, 138–41 (1999); MULDREW, *supra* note 6, at 98, 101.

30. BRAUDEL, *supra* note 7, at 59; MULDREW, *supra* note 6, at 100–01.

31. PETER SPUFFORD, MONEY AND ITS USE IN MEDIEVAL EUROPE app. II (1988).

32. HOWELL, *supra* note 7, at 18.

33. *See* ELLEN WEDEMEYER MOORE, THE FAIRS OF MEDIEVAL ENGLAND: AN INTRODUCTORY STUDY 92 & n.44 (1985) (discussing "crockards" and "pollards," counterfeit English pennies minted in the Low Countries in the 13th century).

a professional moneychanger.[34] Such complications are believed to account for "the development of the *lettre de foire*, promissory note, and letter of exchange."[35] They also led to the use of so-called "black money": locally-accepted tokens that filled in for the scarce legal tender.[36]

Money was dangerous and cumbersome to transport,[37] and yet people had almost nowhere to store it. Banks existed only in a few major commercial centers,[38] but even where banks operated, the moneychangers who ran them were loath to hand out cash. According to a late medieval Italian merchant manual, "whoever wants to withdraw [cash] from the bank may [do so], but the changers resent this very much and do not feel inclined to make transfer [operations] for persons who would withdraw [cash] from the bank."[39]

All of this is not to suggest that no one ever paid in cash. The tax collector did not accept credit,[40] and the traveller purchased his food and drink at the inn in coin[41]—that is, unless he was either known to the innkeeper or had a local stand surety for him.[42] Historians speculate that merchants engaged in international trade may have paid between 20% and 30% of the purchase price in cash.[43]

34. RAYMOND DE ROOVER, MONEY, BANKING AND CREDIT IN MEDIAEVAL BRUGES: ITALIAN MERCHANT-BANKERS LOMBARDS AND MONEY-CHANGERS, A STUDY IN THE ORIGINS OF BANKING 250 (1948); G. DES MAREZ, LA LETTRE DE FOIRE À YPRES AU XIII$^{E}$ SIÈCLE [THE FAIR LETTER AT YPRES IN THE THIRTEENTH CENTURY] 30 (1901); *see also* HOWELL, *supra* note 7, at 19.

35. MOORE, *supra* note 33, at 289.

36. HOWELL, *supra* note 7, at 25; T.S. WILLAN, THE INLAND TRADE: STUDIES IN ENGLISH INTERNAL TRADE IN THE SIXTEENTH AND SEVENTEENTH CENTURIES 83–89 (1976) (relating the history of tokens used in 17th-century England).

37. DAHL, *supra* note 25, at 255; HUNT & MURRAY, *supra* note 29, at 64.

38. DE ROOVER, *supra* note 34, at 59–60, 203–04; HUNT & MURRAY, *supra* note 29, at 64–65, 209–11; Anke Greve, *Jacob Sconebergh and His Short Career as a Hosteller in Fourteenth-Century Bruges*, *in* SECRETUM SCRIPTORUM: LIBER ALUMNORUM WALTER PREVENIER [SECRET OF THE SECRETS: BOOK OF THE ALUMNI OF WALTER PREVENIER] 213, 220 (Wim Blockmans, Marc Boone & Thérèse de Hemptinne eds., 1999) ("There being no one other financial centre in north-western Europe, Bruges functioned as a clearing house for all kinds of payments in this region . . . ."); John H. Munro, *English "Backwardness" and Financial Innovations in Commerce with the Low Countries, 14th to 16th Centuries*, *in* INTERNATIONAL TRADE IN THE LOW COUNTRIES (14TH–16TH CENTURIES), *supra* note 10, at 105, 143 (pointing out that "deposit- and transfer banking did not develop in England before the 1640s").

39. ROBERT S. LOPEZ & IRVING W. RAYMOND, MEDIEVAL TRADE IN THE MEDITERRANEAN WORLD: ILLUSTRATIVE DOCUMENTS TRANSLATED WITH INTRODUCTIONS AND NOTES 148 (1968) (alterations in original).

40. *See* MULDREW, *supra* note 6, at 101.

41. *See* 1 ROGERS RUDING, ANNALS OF THE COINAGE OF GREAT BRITAIN AND ITS DEPENDENCIES: FROM THE EARLIEST PERIOD OF AUTHENTIC HISTORY TO THE REIGN OF VICTORIA 275 (London, John Hearne, 3d ed. 1840) (quoting a petition to Parliament from 1445 (new style), complaining that the shortage of half pennies and farthings (quarter penny) made it difficult for travelers to make purchases and for "retaillours of vitailles, and of oyer nedefull thyngs" to sell).

42. MARSHALL, *supra* note 7, at 59.

43. Munro, *supra* note 38, at 117 (estimating 1/4 to 1/3 in cash); Nightingale, *supra* note 17, at 560, 563 (estimating 1/5 to 1/4 in cash).

Nonetheless, the pre-modern economy was organized to avoid as much as possible the need for coins. The best known forms of medieval credit were those created to meet the needs of long-distance trade, in particular the bill of exchange and transfer banking. Although Italian merchants began to use bills and banking in the 13th century, their use spread slowly to other parts of Europe. English merchants adopted bills of exchange in the 15th century, while the Hanseatic merchants of Germany did not use them until the 16th.[44]

In major commercial cities, where bills could be drawn and remitted,[45] and in cities with banking systems, these mechanisms largely obviated the need for foreign merchants to carry cash. Florentine merchants, such as those of the del Bene company who bought cloth at the fairs of Champagne in the 14th century, did not bring money to make their purchases. They found "plenty of Florentine merchants whose agents had sold more than they bought in Champagne, and consequently had ready money available there, who were glad to sell the del Bene bills of exchange [repayable] in Florence and so reduce the need for their agents to remit precious metals."[46] In the 15th century, English merchants sold wool at Calais to Flemish cloth merchants, from whom they received bills of exchange. These they either took to the entrepôt cities of Bruges or Antwerp where they gave them to Genoese merchants in exchange for dyes and mordants to ship back to England,[47] or they sold the bills to English Merchant Adventurers, general traders who bought goods in Flanders, in exchange for bills payable in London.[48]

Even those groups that had not yet adopted bills of exchange during the Middle Ages found expeditious ways to move money without cash payments. Hanseatic merchants paid for the cloth they purchased in Flanders using letters obligatory, which the Flemish drapers assigned to other sellers to pay for the supplies they needed to have the cloth woven and dyed.[49] In 14th-

44. *See* HUNT & MURRAY, *supra* note 29, at 161, 212; Kermode, *supra* note 20, at 479 ("The Celys [in England] were using [bills of exchange] as a regular component of their business in the 1480s.").

45. DAHL, *supra* note 25, at 127 ("I should gladly have made the remittance by bill of exchange but I have not found any taker and to send payment by land would not be convenient for me." (quoting a Venetian merchant negotiating a remittance payment)); Kermode, *supra* note 20, at 478 (noting that "[s]ome major European capitals could provide this service, but most provincial centers could not").

46. SPUFFORD, *supra* note 31, at 142.

47. Nightingale, *supra* note 17, at 564.

48. Munro, *supra* note 38, at 117 ("[T]he Staplers frequently used their Flemish funds to 'buy' bills of exchange from Merchants Adventurers stationed in Antwerp or other London-based Mercers trading in and importing various goods from the Low Countries: bills that would be drawn for payment in England funds on their London financial correspondents."); Eileen Power, *The English Wool Trade in the Reign of Edward IV*, 2 CAMBRIDGE HIST. J. 17, 34 (1926) ("The third way by which the Staplers could transfer their money home was by means of letters of exchange drawn upon the London offices of merchants who did import on a large scale, and this was the method which they habitually employed . . . .").

49. Stabel, *supra* note 10, at 16–17.

century Bruges, merchants, innkeepers, and artisans could use the transfer banking system created by the local moneychangers to move money between accounts, thus eliminating the need for coins in commercial exchanges.[50]

These domains of the great merchants, however, formed only the outer edges of a dense web of debt and credit that included non-merchants, the rich, and the poor. Deferred payment for goods, simple loans, and pawning were more common than bills or bank transfers. The late Middle Ages and the early modern era witnessed the birth and spread of the retail shop. But in a world of scarce coinage, and in which daily purchases might cost less than the smallest coin available, shops had to extend credit or lose customers.[51] Even the wealthy bought on credit, as did "a son of the wealthiest family in Prato, [who] charged a small purchase of only" eight pennies in 1369.[52] These shop accounts could remain open for years, with the consumers occasionally paying off small amounts.[53] When retailers sold on credit, they, of course, also expected to purchase from their suppliers on credit.[54] Delayed payment was not limited to goods, as wages and services were also performed on credit.[55]

As a consequence, the retailers and artisan shops "were interconnected in a dizzyingly complex network of credit and subcontracting relations."[56] Between these shops—the miller who sells flour to the baker and takes bread in return or the tailor who drinks at the inn and gives the innkeeper a new suit of clothes—the most common process was to keep running accounts and to meet once a year to balance them. The debtor might pay the difference in coin, but the parties might also roll the debt over into the next year, or the debtor might give a note, effectively an "IOU." This note was assignable, so the creditor could transfer it to a third party to pay the creditor's own debts.[57]

In a world in which banks hardly existed, and investment opportunities, such as annuities or buying public debt, required sums many people would never accumulate, ordinary people put their excess coins to use by making

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50. DE ROOVER, *supra* note 34, at 57 ("Conditions in Bruges were the same. There, too, it was the custom to pay bills of exchange by transfer in bank rather than in specie."); JAMES M. MURRAY, BRUGES, CRADLE OF CAPITALISM, 1280–1390, at 110–112, 285–88 (2005) (describing the Bruges banking system).

51. *See* HARDWICK, *supra* note 11, at 173; MULDREW, *supra* note 6, at 124; *see also* RUDING, *supra* note 41, at 275–76 (quoting a petition to Parliament complaining that the penny was too large for common purchases of victuals and drinks).

52. MARSHALL, *supra* note 7, at 73.

53. *Id.* at 72–75.

54. *Id.* at 82–83.

55. Marjorie K. McIntosh, *Money Lending on the Periphery of London, 1300–1600*, 20 ALBION 557, 560 (1988).

56. James R. Farr, *On the Shop Floor: Guilds, Artisans, and the European Market Economy, 1350–1750*, 1 J. EARLY MOD. HIST. 24, 26 (1997).

57. MULDREW, *supra* note 6, at 107–09; Van der Wee, *supra* note 6, at 300–01; *see also* McIntosh, *supra* note 55, at 560–61.

small, informal loans.[58] Despite the Catholic Church's prohibition during the Middle Ages on usury, some of these loans probably earned interest,[59] though it is difficult to tell since creditors could not admit to it in court.[60] Perhaps more important than interest, however, was the social credit and status accrued by these acts of neighborliness.[61]

Loans came from many sources. Wealthier merchants and tradesmen made loans to the less-well-off to provide working capital,[62] but men and women living on the edge of survival also made consumption loans to neighbors; servants lent money to employers; shopkeepers made loans to patrons and other members of the community; tavernkeepers lent money to customers; and bar patrons lent money to each other.[63] In the 1620s, "Marguerite DelaVergne, the wife of a notary, borrowed money 'for necessities' from Julliene Saupin, who did laundry for her on occasion."[64] In

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58. McIntosh, *supra* note 55, at 562.

59. Interest up to certain stated amounts became legal in some parts of Europe during the late medieval and early modern periods. *See* MURRAY, *supra* note 50, at 138–43 (discussing legal interest in 14th-century Bruges); Van der Wee, *supra* note 6, at 302 (discussing legal interest in the 16th-century Habsburg Empire and in England).

60. HARDWICK, *supra* note 11, at 141.

> [W]e know very little about interest on short-term or informal transactions between individuals, between shopkeepers or artisans and customers, or between local suppliers and the traders who bought from them. In the seventeenth century, notations of payment in account books, or details about disputed debts in court cases, did not specify interest, whether because it was not charged, or because it was not acknowledged because of usury, or because it was included in the credit price.

*Id.*

61. *Id.* at 167 (explaining that "some lenders saw their transactions as part of a broader circulation of power, services, and support"); MULDREW, *supra* note 6, at 2 ("[M]ore than anything credit was a public means of social communication and circulating judgement [sic] about the value of other members of communities."); Neal R. Shipley, *Thomas Sutton: Tudor-Stuart Moneylender*, 50 BUS. HIST. REV. 456, 467 (1976).

> Sutton can hardly have regarded such small loans as financially worthwhile: these debtors were the common folk of the area in which he lived for the last three decades of his life, and his intention was no doubt service rather than profit. He was a deeply respected figure in the countryside, and ignorant and poor country people came to him for advice and assistance on many problems.

*Id.*

62. VAN DOOSSELAERE, *supra* note 17, at 137 (discussing merchants lending working capital to artisans); Unwin, *supra* note 14, at 27 (describing "a certain wealthy fishmonger" in London who lent money to butchers).

63. HARDWICK, *supra* note 11, at 138 ("Bars were also significant sites of varied debt creation."); MARSHALL, *supra* note 7, at 91 (noting that "loan entries turn up in all of the shopkeepers' account books, and these entries number in the hundreds"); MURRAY, *supra* note 50, at 135–37 (describing loans to neighbors and customers).

64. HARDWICK, *supra* note 11, at 144.

the late 16th century, a servant girl in the English village of Romford made loans to six others.[65]

Most loans were for small amounts, a few pennies or a few shillings.[66] Such loans were commonly given orally,[67] or with little more than a note in a shop book or on a scrap of paper.[68] Witnesses provided the most widely accepted evidence.[69] Loans for larger amounts might call for notarial records,[70] a signed receipt from the borrower, formal letters obligatory, or bonds.[71] The 1630 will of a French notary, for instance, mentioned 28 loans ranging in amount from 4 to 150 pounds (*livres*). Eleven of them were recorded in promissory notes (*cedulas*), one by an informal writing (*memoire*), six without any record, and one "by oath."[72]

Sometimes lenders, even neighbors, demanded collateral,[73] and this sort of lending may have taken the form of private pawnbroking.[74] Professional pawnbrokers, too, were widespread during the Middle Ages,[75] serving an important role in the economy. In 14th-century Bruges, for example, the licensed pawnbrokers lent money to local lords and governments and to the King of England, as well as to ordinary people seeking small sums.[76] During the long economic depression of the 15th century, pawnbrokers came to be viewed with great hostility, perhaps because of the high interest rates they had to demand in an age of population implosion that "made it more difficult to sell off pledges."[77] When the expanding economy of the 16th century again sent people to pawnbrokers,[78] governments responded with extensive

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65. McIntosh, *supra* note 55, at 568.

66. *See* JORDAN, *supra* note 16, at 19, 23–24; MARSHALL, *supra* note 7, at 92 ("[L]oans larger than a few lire were rare."); McIntosh, *supra* note 55, at 561.

67. *See* HARDWICK, *supra* note 11, at 134, 138, 140.

68. MARSHALL, *supra* note 7, at 95–97; MULDREW, *supra* note 6, at 105–06.

69. DAVIS, *supra* note 8, at 206–07; MARSHALL, *supra* note 7, at 76–77; MULDREW, *supra* note 6, at 40–41, 64; McIntosh, *supra* note 55, at 563; Ellen Wedemeyer Moore, *Medieval English Fairs: Evidence from Winchester and St. Ives*, *in* 2 PATHWAYS TO MEDIEVAL PEASANTS 283, 289 (J.A. Raftis ed., 1981).

70. HARDWICK, *supra* note 11, at 137–38; PHILIP T. HOFFMAN ET AL., PRICELESS MARKETS: THE POLITICAL ECONOMY OF CREDIT IN PARIS, 1660–1870, at 15, 25–30 (2000); MARSHALL, *supra* note 7, at 75–76.

71. MARSHALL, *supra* note 7, at 95; McIntosh, *supra* note 55, at 563.

72. HARDWICK, *supra* note 11, at 140.

73. MARSHALL, *supra* note 7, at 93–94.

74. HARDWICK, *supra* note 11, at 139–40; McIntosh, *supra* note 55, at 565.

75. Van der Wee, *supra* note 6, at 302.

76. MURRAY, *supra* note 50, at 140–41, 143–44.

77. Van der Wee, *supra* note 6, at 302.

78. *See* DE ROOVER, *supra* note 34, at 150 (noting report from 1601 "that the common people are constantly in need of small advances of money, and that great distress would consequently result, if they were cut off from means of pawning in order to obtain cash").

regulation, leading in the 17th century to the creation of public pawnshops restricted to giving small amounts at set interest rates for short periods.[79]

Between shop credit, delayed payment for wages and services, loans, pawns, and the more sophisticated bills and notes, members of pre-modern communities from king to peasant were entangled in interlocking webs of credit,[80] which ranged from intense local connections to attenuated links connecting people far beyond the borders of individual manors, villages, or towns.[81] These networks meant the expansion of business for some and survival for others.[82] On the other hand, the networks also created an ever-present danger. In any individual transaction, the creditor did not just have to worry about the creditworthiness of the debtor to whom he or she was lending money, but also about the creditworthiness of everyone who owed money to the debtor.[83] The slowness and difficulty of communication and travel, and the vulnerability to weather and blight of a society in which over 90% of the people worked the land, gave debtors little control over the payments of their own debtors on which they depended to meet their obligations. And when one person in the network defaulted, it could trigger a cascade of defaults.[84]

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79. Van der Wee, *supra* note 6, at 302–03.

80. HARDWICK, *supra* note 11, at 136 ("Loans of every size and every variety ran through every part of life, creating a kind of constellation of credit."); MARSHALL, *supra* note 7, at 87 ("All members of society [in Prato] were enmeshed in a vast network of credit relations."); MULDREW, *supra* note 6, at 95 ("Every household in the country, from those of paupers to the royal household, was to some degree enmeshed within the increasingly complicated webs of credit and obligation with which transactions were communicated."); *id.* at 97 ("People were constantly involved in tangled webs of economic and social dependency which linked their households to others within communities and beyond, through the numerous reciprocal bonds of trust in all of the millions of bargains they transacted."); Farr, *supra* note 56, at 26 (noting that shops were connected "in a dizzyingly complex network of credit"); Nightingale, *supra* note 17, at 569 ("A pyramid of debt was created from the dyers and clothiers to the middlemen of the Grocers' Company and from them to the capitalists who used the profits of the wool trade to keep the system going.").

81. *See, e.g.*, McIntosh, *supra* note 55, at 563 (explaining that borrowers in the English village of Havering who needed larger sums that locals could provide "turned to London merchants, major landholders or religious figures in the region, or royal officials. In this fashion local credit was linked to a system of large-scale lending centered upon London and the Crown").

82. *See* HARDWICK, *supra* note 11, at 137; POSTAN, *supra* note 19, at 10–11.

83. LOPEZ & RAYMOND, *supra* note 39, at 422–23 (instructing that one should make sure that a potential trading partner "extends sound credits" (translating GIOVANNI MORELLI, CHRONICA (1393), *reprinted in* RICORDANO MALESPINI, ISTORIA FIORENTINA 260–61 (Florence, S.A.R. Printing House 1718)).

84. HOWELL, *supra* note 7, at 24 ("The collapse of one family's fortunes brought other families down; their private disaster also reverberated through the finances of their city, to which these people were alternately creditors and obligors; the bankruptcies in one city in turn implicated families elsewhere in domino effects that could stretch across the continent."); Alan Everitt, *The Marketing of Agricultural Produce*, *in* 4 THE AGRARIAN HISTORY OF ENGLAND AND WALES, 1500–1640, at 466, 567 (Joan Thirsk ed., 1967) ("All went well till some customer defaulted or the harvest failed; then disaster ensued, perhaps involving a score of other victims, unaware of

No government established this credit network. Indeed, other than trying to stamp out, or at least control, usury,[85] and licensing and regulating professional pawnbrokers and certain types of banks,[86] governments and institutions had virtually no role to play in the creation of the credit economy. It arose organically as one person deemed another creditworthy, and those individual decisions multiplied across the millions of daily credit transactions occurring all over Europe. The next question is how such a multitude of far-flung, interlocking private networks could maintain themselves without government involvement and without collapsing.

## III. THE PROBLEM OF REPUTATION

Many historians assume that reputation drove lending decisions. Since a creditor presumably would not lend to someone with a poor reputation for payment, the credit networks must have functioned on the basis of the honesty and responsible actions of the debtors.[87] The evidence of the importance of reputation is ambiguous, however, suggesting equally that creditors cared a great deal about it, and that they did not care enough.

An individual's reputation, especially in as tightly networked a society as pre-modern Europe, was a creation of his or her community. It was a comment on how the community viewed the individual rather than an isolated measure of his or her personal qualities.[88] Thus, the individual's network played a key role in establishing reputation. We can observe this role of the network during the introduction of potential trading partners into a new community. When

their client's shaky status when they dealt with him."); Greve, *supra* note 38, at 223 ("The huge advantage of interconnecting networks could turn into a disadvantage: in this case, when Jacob Sconebergh failed in his business, he probably took others with him in his fall. Medieval banking was full of risks." (citation omitted)). Hoppit describes how this cascade occurs:

> Having become deeply enmeshed in such networks any businessman was confronted by the problems of trying to synchronize the payments being made to him as a creditor with those he had to make as a debtor. The more elaborate his usage, in terms of the numbers, amounts and distances involved, then the more difficult this became. It might take only a small incident to upset the timing. Yet that incident might have had little to do with the individual who came under pressure because of these difficulties of synchronization. The acute interdependence of businessmen in such dealings made any individual's chances at least partially dependent on the success of those both within and without his immediate circle of trading contacts. . . . Successive endorsements of bills and the centrality of trust and confidence meant that the collapse of one businessman could bring down many others like a line of dominoes toppling over.

Hoppit, *supra* note 5, at 67 (citation omitted).

85. CHARLES R. GEISST, BEGGAR THY NEIGHBOR: A HISTORY OF USURY AND DEBT 28 (2013); HOWELL, *supra* note 7, at 264–68.

86. JORDAN, *supra* note 16, at 34, 36–37; Van der Wee, *supra* note 6, at 302–03.

87. DAVIS, *supra* note 8, at 121, 205–07, 355; MULDREW, *supra* note 6, at 3, 148, 152.

88. *See* HARDWICK, *supra* note 11, at 153 ("[N]eighbours were deeply invested in their neighbours' fortunes, and their judgements were critical in providing or withholding help, mediation, and perhaps depositions."); Everitt, *supra* note 84, at 557.

a Venetian, Mathys Verge, arrived in Antwerp in 1542 in the hopes of trading there, he relied on two contacts, an established Venetian merchant and a prominent local merchant, to vouch for him.[89] In the same year, "three German merchants, all residents of Antwerp, made an official declaration before the city aldermen, testifying that they had known Wolf Pruner, a merchant from Bavaria, for a long time."[90] Similarly, in 17th-century France, a widowed secondhand dealer at first refused to buy linens from a man whom she did not know.[91] Then "she asked around, and acquaintances told her that he was a petty trader and that 'she could buy securely from him.'"[92]

These inquiries of the debtor's network helped answer two questions for a potential creditor. First, do others lend to this person? Simply being in debt already helped to establish a debtor's creditworthiness.[93] As François Rabelais had the character Panurge say in his 1546 book, *The Life of Gargantua and Pantagruel*, "God forbid that I should be debt-free. For then I shouldn't find anyone to lend me a penny."[94] Second, could the debtor borrow from someone else to pay his debt?[95] In many instances, this concern was formalized in the insistence on sureties.[96] In this way, a debtor's reputation depended not just on who he was, but also on who in his community would support him.[97]

The pre-modern normative literature is full of admonitions about the importance of maintaining a good reputation in order to be a good credit risk. The Florentine merchant Paolo da Certaldo wrote in his *Il libro di buoni costumi* [*The Book of Good Usage*] of around 1360 that "[i]t is better for a man to have a good reputation than a large fortune."[98] Benedetto Cotrugli, recommended in his manual, *Il libro dell'arte di mercatura* of 1458, that "you should pay [your debts] promptly on the day agreed upon. In doing so you will gain reputation as a reliable and honest person, a man of honour. . . . Your good name will now serve you as security when you yourself ask for loans

89. Donald J. Harreld, *Foreign Merchants and International Trade Networks in the Sixteenth-Century Low Countries*, 39 J. EUR. ECON. HIST. 11, 22 (2010).

90. *Id.* at 22.

91. HARDWICK, *supra* note 11, at 170.

92. *Id.*

93. *Id.* at 166 ("A high level of borrowing could easily be seen as a positive, an indicator of high credit and status, so owing money in itself was not the problem.").

94. FRANÇOIS RABELAIS, GARGANTUA AND PANTAGRUEL 295 (J.M. Cohen trans., Penguin Classics 1955).

95. *See* VAN DOOSSELAERE, *supra* note 17, at 129 ("[T]he odds of paying back were also associated with the debtor's capacity to borrow from someone else at the settlement date." (footnote omitted)).

96. *See infra* notes 145–47 and accompanying text.

97. *See, e.g.*, LOPEZ & RAYMOND, *supra* note 39, at 423 (instructing that one should "[h]ave nothing to do with one who has often changed his business, partners, and masters" (translating GIOVANNI MORELLI, CHRONICA (1393), *reprinted in* RICORDANO MALESPINI, ISTORIA FIORENTINA 260–61 (1718)).

98. DAHL, *supra* note 25, at 173 (internal quotation marks omitted).

or credits. People will trust you."[99] A late 15th-century English sermon instructed, "yf thou wold he shold be trewe to the[e] and pay his dettis [debts] and begyle the[e] not wyth subtiltees [subtleties] and sleyghtis [sleights] in byyng and sellyng, do the same thyself to hym."[100] Relatedly, in 1455, the branch manager of the Medici bank in Bruges was instructed that he may grant credit "only with caution and with due regard to the financial standing and business reputation of the customers."[101]

And yet, if reputation was so vital to decisions about credit, and credit was necessary to live, why did this kind of advice need to be repeated with such frequency? Why, for example, did the English town of Northampton make an ordinance in about 1260 instructing "that anyone giving credit at a fair should first 'find out how the borrower left his last creditor'"?[102] Why would the Florentine merchant Giovanni Morelli feel the need to write in his late 14th-century merchant manual to "beware of extending loans to bankrupts, whether relatives or friends"[103] or to advise his readers to "[t]ransact your business with trustworthy persons who enjoy good reputation and credit and who have something to show for their name. And if you ever get cheated by them, do not again fall into their clutches"?[104]

On a less normative level, if reputation were the main guiding factor in credit decisions, why would creditors lend to debtors who had given evidence of unreliability? In the 15th century, for instance, the "goldsmith, moneychanger, and twice [alderman] of Paris," Jean de la Poterne, was pursued by creditors in ecclesiastical court 16 times.[105] And yet, "[t]hough it appears that he often could not pay immediately when others called in his debts, he nevertheless retained great 'credit,' given his position."[106] A woman in 17th-century France, hearing that her neighbor, a notary, was about to have his household property distrained for back rent, "offered to pay the rent in return for some of [the notary's] personal goods," goods the notary was never able to redeem from her.[107] The local innkeeper also lent money to the same notary, initially without security and eventually taking a watch as a pledge, which the notary, again, never redeemed.[108]

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99. *Id.* at 259 (internal quotation marks omitted).

100. DAVIS, *supra* note 8, at 122 (second, fourth, and fifth alterations in original).

101. DE ROOVER, *supra* note 34, at 48.

102. DAVIS, *supra* note 8, at 206.

103. DAHL, *supra* note 25, at 190–91.

104. LOPEZ & RAYMOND, *supra* note 39, at 422 (translating GIOVANNI MORELLI, CHRONICA (1393), *reprinted in* RICORDANO MALESPINI, ISTORIA FIORENTINA 260–61 (1718)).

105. Tyler Lange, *Credit in the Body of Christ (Northern France, 1300–1600)* 13 (LOEWE Research Focus "Extrajudicial Judicial Conflict Resolution," Working Paper No. 10, 2013), *available at* http://publikationen.ub.uni-frankfurt.de/files/32260/1311202_Credit_Lange.pdf.

106. *Id.*

107. HARDWICK, *supra* note 11, at 154.

108. *Id.*

Perhaps in their eagerness to make deals, creditors did not so carefully investigate their potential partner's reputation. And perhaps ascertaining a person's credit history did not, in fact, provide all that much information about the likelihood that they would pay their debts. We make the assumption that reputation for payment is binary: either a debtor pays on time, or she defaults. The first creates a good reputation, the second a bad one. But in medieval and early modern Europe, these were not the only options. A better description of pre-modern debtor behavior would allow for a spectrum from "pay on time" to "pay eventually in full" to "pay eventually in part" to "default." The first step on the spectrum may not, in fact, have been the most common, and the last one did not mean that the defaulter could obtain no further credit—even from the unpaid creditor.[109]

Medieval and early modern records abound with evidence that due dates were often treated as aspirational but not actually expected. Medieval Genoese notarial records show that four-month promissory notes were paid, on average, five months late.[110] In 14th-century Prato, "Lando Spinelli's large debt of £70 s.8 d.6 undoubtedly prompted the tailor Domenico di Jacopo to ask three witnesses to write in his ledger that Lando owed this sum and would pay within one month; in spite of this verification, however, a portion of the bill remained outstanding a year later."[111] In evidence about domestic consumption loans, usually for small amounts supposedly payable in a few weeks or months, "we find innumerable references in the sources . . . to *prolongationes*, *prorogationes*, *elongamenta*, *elongationes*, and *provisiones* of loans."[112]

In 1440, the manager of the Medici branch in Bruges wrote to an important cleric:

> I have waited a long time for the outstanding balance which you owe me on behalf of the Bishop of Niver, and you have written to me several times that you intend to send the money; however, I realise that you have not done anything. My partners are most concerned and if you do not let me have your answer enabling me to write to Rome with the confirmation, you will be excommunicated.[113]

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109. MARSHALL, *supra* note 7, at 75 ("Whether repayment was delayed by a few days or a few years appears to have made no difference to the tradesmen; they continued to grant credit even to a customer who had made no payment on a prior debt.").

110. VAN DOOSSELAERE, *supra* note 17, at 136; *see also* MARSHALL, *supra* note 7, at 59 ("Many customers delayed payment for days, weeks, or even months."). Similarly, "[s]ome payments were remitted the same day, some the following day or week; but frequently they extended over a period of months or years, sometimes more than ten years." *Id.* at 72–73.

111. MARSHALL, *supra* note 7, at 77.

112. JORDAN, *supra* note 16, at 26.

113. DAHL, *supra* note 25, at 137 (quoting letter from Bernardo Portinari to Yves Gruau, Dean of Lens & Canon of Lille).

In 1406, an Englishwoman "loaned her son-in-law £60 . . . and was eventually paid in a mixture of salt and cash in 1413."[114] Recognizing such trends, the English poet John Lydgate (c. 1370–c. 1451) wrote that "[a] shrewed payer maþe [may] muche longe delaye/With fals byhestis [behests] and fals flatterye."[115] Similarly, a 15th-century English wool merchant, writing to his brother about an impending payment for which he had no money to pay, opined that "good debtors are slow payers."[116] Apparently, accepting late payments without penalty "was simply part of usual business practices."[117] Even when penalty clauses existed, scholars suspect they were often rhetorical and not enforced.[118]

Where credit relations were largely oral, and thus held in memory, debt became a matter of negotiation.[119] Creditors discounted debts, sometimes substantially, in order to get something, and even then they continued to lend to the same recalcitrant debtor.[120] Giovanni di Paolo, a cheese seller in 14th-century Prato, "after waiting two years to be paid by one of his customers, cut the debt in half; eight months later, still having received no payment, he sold his debtor some roof tiles on credit. Yet another three months passed before the customer finally canceled his debt by curing some pork for Giovanni."[121]

People spent a great deal of time chasing down their debtors asking for their money.[122] Yet creditors would often wait months or years before initiating an action for debt.[123] Sometimes, of course, debtors never paid. The mayor of the Italian village of Castelnuovo, for instance, opened an account with a druggist in Prato in 1366, and 16 years later the debt had not been

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114. Kermode, *supra* note 20, at 483.

115. DAVIS, *supra* note 8, at 82 (internal quotation marks omitted) (second alteration in original).

116. Power, *supra* note 48, at 30 (internal quotation marks omitted).

117. VAN DOOSSELAERE, *supra* note 17, at 136–37.

118. *Id.* at 138 n.39; *see also* Everitt, *supra* note 84, at 565–66.

119. MULDREW, *supra* note 6, at 65, 174–75.

120. MARSHALL, *supra* note 7, at 77 ("Only one attested method of debt settlement is found in all the ledgers: arrangements for payment of less than the amount due. The reduction could be considerable."); Kermode, *supra* note 20, at 483 ("Delays in repayment must have been detrimental—hence the offer of a discount for early settlement made by William Skyrwyth of York to a debtor in 1427.").

121. MARSHALL, *supra* note 7, at 49.

122. *See* DAHL, *supra* note 25, at 205 (quoting Leon Battista Alberti about the "weariness in collecting what is due you"); HARDWICK, *supra* note 11, at 152; MULDREW, *supra* note 6, at 180–81; Everitt, *supra* note 84, at 562–63.

123. DAVIS, *supra* note 8, at 351 ("One debt plea for John Chapman in 1407 sought to gain payments . . . for meat and herring sold to John Grey some five years previously."); HARDWICK, *supra* note 11, at 174 (calling the length of time to wait before resorting to the courts "infinitely variable"); MULDREW, *supra* note 6, at 200; Kermode, *supra* note 20, at 483 n.30 ("While most Londoners' actions against debtors defaulting under staple law commenced within one year, 39 percent of Colchester creditors waited for three years or longer.").

settled.[124] Wills reflected creditors' knowledge of bad debts by "regularly distinguish[ing] between *debita sperata* and *debita desperata* (debts with and without hope of collection)."[125]

On the other hand, much of the time, it seems, debtors did pay, albeit sometimes years late. In 14th-century Prato, eventual repayment of loans and shop credit extended by shopkeepers, a group at the center of a credit network including everyone from the wealthiest merchants to day laborers,[126] sometimes reached as high as 99%.[127] Prato's stiff legal penalties for default may, of course, have influenced this number.[128] Nonetheless, in a society balanced precariously on a fragile web of credit, people took quite seriously their obligations to repay.[129] Debtors acknowledged debts owed to the deceased husbands of widows who had no record of them,[130] and in their wills, people scrupulously listed the money they owed, even when they did not know the name of their creditor.[131]

Much of the foregoing data have come from the records of individuals, and it is certainly possible that such records represent the idiosyncratic decisions of an unrepresentative subset of creditors. That possibility increases the significance of the following two pieces of evidence, which provide a sense of how routine it was to expect late payment.

Letter writing was a vital means of communication in pre-modern Europe, and manuals existed to teach letter writing skills. One such manual, produced in England in the first half of the 13th century, contained ten model letters. Six of these concerned the procurement of goods on credit and, as a corollary, the payment of debts.[132] In one letter, an earl writes to a vintner ordering five tuns of wine. The letter says:

> Whereas we have often owed you something for wine on credit, we have always paid in full on your day, and nothing is in arrears, the more boldly in this present business we have turned to you, anxiously asking that you accommodate us with five tuns of wine, namely, two of Gascon and three of Angevin, at a price of 20*s* apiece, until Palm Sunday. You will know that we shall pay your money on the day

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124. MARSHALL, *supra* note 7, at 73.
125. Kermode, *supra* note 20, at 482.
126. MARSHALL, *supra* note 7, at 73–75.
127. *Id.* at 80.
128. *Id.* at 81.
129. HARDWICK, *supra* note 11, at 152–53, 171–72.
130. *Id.* at 171.
131. *Id.* at 140.
132. Martha Carlin, *Shops and Shopping in the Early Thirteenth Century: Three Texts*, *in* 1 MONEY, MARKETS AND TRADE IN LATE MEDIEVAL EUROPE: ESSAYS IN HONOUR OF JOHN H.A. MUNRO 491, 493 (Lawrin Armstrong et al. eds., 2007).

> named without any argument or delay; therefore, may you act only in such a manner that we shall be bound to you in gratitude.[133]

The letterbook offers two possible responses. If the earl's account is paid up, the vintner should agree to send the wine and add:

> Since whatever you have owed me you have paid in the best manner, I agree to your present request and shall accommodate you with the five tuns that you have sought, confident of you that on the day named, according to your custom, you will pay your debt to me in full.[134]

If, however, the earl's account is in arrears, the vintner is to write:

> Trusting only in your generosity, being so bold as to put your wishes in effect, I shall accommodate you with the five tuns of wine you requested, beseeching you anxiously that you pay me in full your old debt, which is in arrears, equally with this new debt, on the said day.[135]

The second example comes from an early 16th-century bilingual-language learning manual geared toward teaching merchants, or their sons, to speak a second language—in this case the manual is in French and Dutch,[136] but it also exists in a later eight-language version.[137] One of the seven dialogues in the book concerns the repayment of a debt, and it is worth quoting in full. The creditor, Morgant, confronts his debtor, Gautier.

> *Morgant*: Good morning, my friend.
>
> *Gautier*: And to you also.
>
> *Morgant*: Do you know why I have come?
>
> *Gautier*: No, actually.
>
> *Morgant*: How is that possible? Do you not know who I am?
>
> *Gautier*: No, who are you?
>
> *Morgant*: Have you forgotten that you recently bought goods from me?
>
> *Gautier*: Oh yes, that it so.

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133. *Id.* app. III at 531.

134. *Id.* at 532.

135. *Id.*

136. NOËL DE BERLAIMONT, VOCABULARE VAN NIEUS GE-ORDINEERT [VOCABULARY NEWLY REORDERED] (Antwerp, Belg., Jacob van Liesveldt ed., 1527). The author thanks Professor Susie Phillips for this reference.

137. NOËL DE BERLEMONT, COLLOQUIA ET DICTIONARIOLUM OCTO LINGUARUM [COLLOQUIES AND A LITTLE DICTIONARY IN EIGHT LANGUAGES] (Delphi, Greece, Brunonis Schinckelij & Cornelij Nicolai eds., 1598).

*Morgant*: Well, when shall I have my money?

*Gautier*: I really don't have any money now. I gave out all the money I had, so you will have to wait eight days.

*Morgant*: I can't wait any longer. I need to be paid. I have waited long enough. Do what it takes to see that I get my money, or I will have you arrested. Or give me a pledge.

*Gautier*: How much is it that I owe you?

*Morgant*: You know well what you owe me.

*Gautier*: I forget. I wrote it down somewhere but I don't remember where.

*Morgant*: You owe me ten pounds and four shillings, isn't that right?

*Gautier*: I believe that is correct.

*Morgant*: You promised to give me my money two months ago, you know that full well, but you have not kept your promise.

*Gautier*: That is true, but I could not get any money from the people who owe me.

*Morgant*: I have nothing to do with that. Make them pay you.

*Gautier*: Yeah, right, and when the people have no money, what should I do then? Just wait until they have it. One ought not to be so strict; we ought to have compassion with one another, as God has commanded us.

*Morgant*: That is true indeed, but I have waited long enough. I can't wait any longer, for those to whom I owe money won't wait any longer. If they would, I would wait.

*Gautier*: Now, come with me, I will pay you, or I will give you a pledge.

*Morgant*: Then let's go; I am content with that. So what do you say?

*Gautier*: Come here, my friend, this man shall be surety for me.

*Morgant*: Will he do that? [To Ferrand] Is it true, my friend, will you stand surety for this man?

*Ferrand*: How much does he owe you?

*Morgant*: Ten pounds Flemish.

*Gautier*: What?! Is it so much? It is not so much!

*Morgant*: But it is!

*Gautier*: It is not, truly. I dare to swear that it is not so much.

*Morgant*: How much it is then?

*Gautier*: It is no more than nine pounds. You have yourself just now said so.

> *Morgant*: Did I tell you that? I did not.
>
> *Gautier*: You did.
>
> *Morgant*: Well then, so be it. I think nonetheless that it is ten pounds, but I am content, seeing that you say it is no more. When will I be paid?
>
> *Gautier*: Within ten days.
>
> *Morgant*: I am satisfied with that. But see that you keep your promise.
>
> *Gautier*: I will do so, without fail.
>
> *Ferrand*: If he doesn't pay, I will pay you.
>
> *Morgant*: I am content. Farewell.[138]

These two sources, the letter and the dialogue, reinforce the evidence of the account books by demonstrating that selling on credit and having to deal with late payment were so common that they would be chosen as model topics in manuals designed to teach people to speak and write about matters of significance in their daily business. They also highlight other features of the credit networks discussed above: the lack of available cash with which to make payments; the willingness to continue to lend even though old debts have not yet been repaid; the negotiation, perhaps fraudulent, of debt amounts held in memory and of payment dates; the turning to others in the debtor's network as sureties; the difficulty in balancing the demands of one's creditors with the timing of the one's debts; and the long wait for repayment.

Another puzzling aspect of a system supposedly built on reputation is whether it prevented people from falsely ruining the reputation of others, especially given the evidence that many debtors did not, in fact, pay on time. Such false accusations did indeed occur. In early 18th-century Lyon, when other customers in a bar called a trader in gold leaf, Pierre Carcanac, "a 'bankrupt' during a dispute about gambling rules, he found the insult 'so offensive to his honour and dangerous to his business' that he took the men to court."[139] He claimed his "failure was 'honourable.'"[140] In other words, a bankrupt defrauded his creditors; Carcanac was just unable to pay them, and that should not adversely affect his reputation.[141] In a lawsuit brought 400 years earlier in Yorkshire,

> William de Wakefeud recited how the slander of Thomas Brounsmyth and his wife, in calling him a false, faithless man and a thief, and then raising the hue and cry, had cost him credit and a

138. DE BERLAIMONT, *supra* note 137 (third dialogue, no pagination) (translated by the author from French and Dutch).

139. HARDWICK, *supra* note 11, at 128.

140. *Id.* at 128–29.

141. *Id.* at 169 (noting that "early modern men and women made distinctions between the mundane juggling of debts, . . . honest failure, and bankruptcy").

> wine deal with Walter Gowere. The 'scandal and infamy' had come to Walter's attention and he refused to have any more dealings with William.[142]

In these cases, the alleged slanderer found himself in court. But a person of bad intent could harm another's reputation more slyly than through a public defamation and without risking a lawsuit or damage to his or her own reputation for honesty. Daniel Defoe, who devoted an entire chapter in his 1727 *The Complete English Tradesman* to the topic of idle and malicious gossip destroying merchants' businesses, asserted that simply refusing to answer an inquiry about some tradesman's character "is down-right giving him the worst character I can," and despite all protestations that the refusal was neutral, it would cause the inquirer to make an inference of bad credit so that he "declin'd trusting the Tradesman with the goods."[143]

Finally, creditors could demonstrate their distrust of reputation by seeking alternate assurances. Above all, the creditor wanted to get paid.[144] The best reputation in the world did not guarantee that, and so creditors sometimes insisted on additional protections, including sureties, pledges, formal notarized records on the continent, and bonds in England. Giovanni Morelli, the 14th-century Florentine merchant, warned creditors to "make sure that all loan agreements are duly set down in writing by a notary and registered with a guild. And, of course, that the securities are sufficient."[145] These protections did not always work out, however. Personal sureties, for example, might refuse or be unable to pay.[146] Nonetheless, the ability to avoid reputation permitted young, foreign, or out-of-network individuals to obtain credit.[147]

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142. DAVIS, *supra* note 8, at 205; *see also* Everitt, *supra* note 84, at 567.

> The reputation of Humphrie Grigg of Beaudesert in Warwickshire, as a result of the "unlawful and unconscionable proceedings" of Robert Wheeler of Tanworth in Arden, was "called into question and his estate descanted upon, so far as that whereas before such time . . . his word and credit was current and would pass in the country with and amongst his neighbours . . . now they make it very scrupulous to take [his] word or promise, yea scarcely his bond for a matter of five pounds:" so that he is "prejudiced and damnified exceedingly not only in his reputation and credit but also in his private estate;" . . . .

*Id.* (alterations in original).

143. DANIEL DEFOE, *The Complete English Tradesman*, *in* FAMILIAR LETTERS: DIRECTING HIM IN ALL THE SEVERAL PARTS AND PROGRESSIONS OF TRADE 204, 207 (London, C. Rivington, 2d ed. 1727).

144. DES MAREZ, *supra* note 34, at 39.

145. DAHL, *supra* note 25, at 190.

146. MARSHALL, *supra* note 7, at 76.

147. DES MAREZ, *supra* note 34, at 39–40 (describing the use of sureties and co-debtors); MARSHALL, *supra* note 7, at 59 ("When a traveler from beyond Prato was granted credit, the innkeeper usually had a local citizen guarantee payment . . . ."); VAN DOOSSELAERE, *supra* note 17, at 138–39 (showing that sureties helped foreigners or people outside of network); Kermode, *supra* note 20, at 492 (telling how sureties helped people without known reputation); Unwin,

If moralizers and governments had to instruct merchants to consider the reputation of potential debtors; if it was easy to ruin a competitor's reputation without risking your own; if reputation was difficult to evaluate because of a general allowance of late or eventually incomplete payment that might only become apparent over the course of years; and if creditors could simply avoid reputation by insisting on other securities, something in addition to reputation must have been at play in these credit networks. That something, the next part argues, is a wider perspective on the lending decision that included calculations about the effect of the loan on the creditor's place in the network, the creditor's confidence in the network as a whole, and the creditor's faith in public enforcement mechanisms.

## IV. RECIPROCITY, CONFIDENCE, AND LITIGATION

If reputation explains something about the initial decision to lend to one person rather than to another, it is less useful in explaining how these credit networks, once formed, were maintained, given the reality of frequent late or nonpayment. On what basis did creditors continue to trust debtors who did not timely pay their debts?

One part of the answer may lie in the nature of those tightly knit and tightly interwoven pre-modern networks. In many instances, lenders did not make isolated, one-off decisions about borrowers. They made their decisions within the context both of their position in the network and with an eye to the possible reciprocal benefits the debtor could someday provide to them.[148] This element of reciprocity is beautifully illustrated in the 13th-century model letter book cited above. This time the writer angrily refuses a request for some sort of assistance, writing:

> Lately I asked you to help me out with some lumber and beams, of which you have plenty at your place. But you turned deaf ears to my petition, and therefore you will not wonder if I refuse to hear your own present prayers. For I do not wish . . . to aid you from my [stock] . . . , since, [?when] I sought one thing of yours, you

*supra* note 14, at 21 (describing a vintner who "lent his credit to back the bills of less substantial merchants than himself").

148. MULDREW, *supra* note 6, at 124.

> [A] strong notion of reciprocity in exchanges and communal bonds of neighbourliness coexisted with the free movement of prices. It was through these numerous small, personal, face-to-face acts of credit that agents interacted within the market, and given the ubiquity of such actions, the mutual interdependence of such agents was stressed and formed a much more comprehensive means of social interpretation than the private desire for profit.

*Id.*

> disdained to come to my aid. And so, henceforward, if you want to have a friend, you will have to be found [to be] a friend.[149]

At some level, taking part in a credit network may have meant engaging in acts of generosity in order to maintain one's status in the network. These acts served also as an insurance policy against the time when the debtor might become the lender.[150]

This claim suggests that as markets became more impersonal and credit networks more attenuated in the 16th and 17th centuries, reciprocity would begin to lose its importance. That does appear to have happened. Early modern historians note a decided increase in debt litigation in the 16th and 17th centuries, indicating less willingness to be guided in economic decisions by norms of neighborliness.[151] In this vein, an example from late 17th-century France may be instructive. Jean Richard, a haberdasher in Lyon, had traded for three years with Pierre Marin, also a haberdasher. The parties had "always paid 'in exchange of merchandise' rather than in cash."[152] According to the 1693 reckoning, "Richard owed Marin 80 *livres* and 10 *sous*," and he paid for half of that in merchandise.[153] When Marin sought the rest, "Richard said he could not pay because . . . 'he was squeezed.' While Richard gathered the merchandise he could use for payment, he heard that Marin had taken legal action to collect the remaining 39 *livres*. Richard immediately offered payment in merchandise, but Marin refused, insisting on cash."[154] Marin overturned the parties' custom of paying in kind, an act that "may have reflected an emerging trend towards contractual market relations."[155]

If reciprocity helped convince creditors to overlook late payments or evidence of a questionable credit history, confidence that the credit system as a whole would not fail motivated continued lending. "*Confidence*," wrote the 18th-century Scottish economist James Steuart, "is the soul and essence of credit."[156] A good reputation helps establish confidence, but confidence is broader than reputation. It is also the creditor's belief that she will be repaid because her debtor's debtors will pay and thus that the credit networks in which she is embedded will not fail. When each individual was simultaneously

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149. Carlin, *supra* note 132, app. III at 535–36 (bracketed alterations in original).

150. JORDAN, *supra* note 16, at 25, 31–32 (discussing altruistic lending).

151. HARDWICK, *supra* note 11, at 178 ("The languages of lending suggest that a culture of social responsibility emerged in which older habits of Christian charity and neighbourliness . . . fused often uneasily, and always uncertainly, with newer realities . . . and the rising willingness to see the . . . court system as a possible resource for disputes between borrowers and lenders."); Everitt, *supra* note 84, at 563.

152. HARDWICK, *supra* note 11, at 154.

153. *Id.*

154. *Id.* at 154–55.

155. *Id.* at 146.

156. 2 JAMES STEUART, AN INQUIRY INTO THE PRINCIPLES OF POLITICAL OECONOMY 442 (Andrew S. Skinner ed., 1966); *see also* DES MAREZ, *supra* note 34, at 39 ("Sans confiance pas de crédit . . . ." (translated by the author from French as "Without confidence, no credit")).

involved in dozens or hundreds of credit and debt relationships, and when some of those accounts would not be wrapped up for years, confidence in the parts and the whole of the network were what allowed a creditor to make bets on the debtors' behavior in all of those other relationships.

An individual debtor's behavior did help breed confidence, though more important than timely payment was honesty and transparency. Pre-modern economic actors feared fraud and secrecy—and being accused of fraudulent or secret dealings—more than they feared mere honest breach. The debtor who acknowledged his debt and made consistent attempts to pay it off a bit at a time, no matter how late, retained good credit in the community. The debtor who denied his debt lost credit.[157]

Beyond individual behavior, however, the creditor also needed confidence in the whole system. The pre-modern networks of precariously balanced debt worked so long as everyone believed that everyone else was honestly trying to make good on their loans. When that confidence began to break down as the economy became more complex, the credit system slowly began to unravel.

When confidence waned and interest in reciprocity lessened, creditors turned to the courts.[158] Knowing that public enforcement worked meant that creditors could take greater risks in lending, even when they might have had less confidence in individual debtors or the stability of the network. In the village of Newmarket, England, 85% of the suits brought in the local court during the period from 1399 to 1413 were pleas of debt, mostly, judging from their amounts, concerning small commercial disputes.[159] Yet rather than demonstrating the surrender of private ordering to state enforcement, the use of litigation was in many instances another creditor strategy to coerce the debtor to pay. In Newmarket, 35% of those pleas of debt did not proceed to trial. Instead the parties asked the court "for a licence of concord, whereby the defendant paid 3d. and the parties were allowed to reach a private settlement outside the court."[160]

Between the late 13th and the mid-16th centuries, creditors also made use of the courts of the Catholic Church to pursue defaulting debtors. The church courts offered an inexpensive summary procedure to recoup debts, making these courts available even for pursuing the payment of relatively small loans.[161] With no jurisdiction to execute on person or property, the church had to deploy its unique enforcement mechanism:

157. HARDWICK, *supra* note 11, at 165–66, 169.

158. MULDREW, *supra* note 6, at 195, 199–200.

159. DAVIS, *supra* note 8, at 349–50.

160. *Id.* at 356; *see also* MULDREW, *supra* note 6, at 202 (noting that the threat of litigation or of initiating the suit was often enough to encourage settlement because of fear that arrest or attachment would damage one's reputation).

161. Lange, *supra* note 105, at 13–14.

excommunication.[162] Church courts throughout much of Europe appear to have made excommunication available to creditors for the simple payment of a court fee.[163] The result, at least where investigations have been made in France and Flanders, was astonishing. In Flanders in the mid-15th century, "each parish had an average of 35.6 excommunicate[d] parishioners in villages of at the most a couple of hundred residents."[164] In the French town of Beauvais between 1480 and 1487, 176 out of a total of 234 excommunications were listed as resulting from nonpayment of debts.[165] In the early 16th century, "[i]n the Dauphiné, during roughly the same period up to 25% of the heads of households in some villages were excommunicated for debts."[166]

Excommunication was a particularly aggressive way to break network bonds. First, the excommunication was virtually assured. When an agent of the church, sent to sell citations "encountered someone who wished to collect an unpaid debt," the agent just had to fill in the names and dates on a pre-written and pre-sealed citation.[167] "When the cited believer failed to appear before the official, whether because he had failed to hear the citation or because he had chosen to flout the 'spiritual sword,' he was automatically excommunicated . . . ."[168]

Second, excommunication removed the debtor from the community. The longer the debt, and the fee to seal the absolution, remained unpaid, the more severe the debtor's isolation became. At first, the sentence of excommunication and the unpaid debt were announced in church.[169] Later, the community was instructed to shun the debtor:

> [O]n pain of excommunication lest they should presume consciously to communicate . . . with respect to food, drink, the village oven, the mill, fire, water, socializing, chatting, working, selling, paying, sitting, walking, greeting him, entering his house, eating, drinking, selling or giving him bread, wine, meat, fish, or other of life's necessities, or any other act.[170]

Next, the debtor's family was to be shunned, and finally he and his family were to be entirely excluded from the community.[171]

162. Lucien Febvre, *L'application du concile de Trente et l'excommunication pour dettes en Franche-Comté [The Application of the Council of Trent and Excommunication for Debt in Franche-Comté]*, 103 REVUE HISTORIQUE 225, 242 (1910) (Fr.).

163. Lange, *supra* note 105, at 10–11.

164. *Id.* at 9.

165. *Id.*

166. *Id.*

167. *Id.* at 11.

168. *Id.*

169. *Id.* at 6–7 (quoting the 1474 Style of the Officiality of the Abbey of Corbie).

170. *Id.* at 7.

171. *Id.*

Excommunication for debt disappeared in the mid-16th century,[172] at around the time states and cities across Europe passed creditor collective action bankruptcy statutes. But these statutes did not just rationalize what had previously been a rapacious, first-come, first-served approach to insolvency.[173] They also turned the "bankrupt," defined as a person who did not become insolvent through mere misfortune beyond his control and foresight but rather through his own deliberate acts and choices, into a criminal, liable for penalties up to death.[174] Living beyond one's means or charging more to credit than one could afford were just as frowned upon as, for instance, perpetrating a fraud upon one's creditors in order to avoid paying debts that one could afford to pay. Said one late 17th-century commentator, "[a]mong all nations, fraudulent bankrupts (*banqueroutes*) are an abomination; because there is nothing more pernicious nor more repugnant to good faith; because *banqueroutes* are never without the accompaniment of a multiplicity of crimes; because *banqueroutes* are prejudicial to credit and commerce."[175] The bankrupt was a source of terror because of the potential that a bankruptcy would cause a cascade of failures that rippled through the credit network.[176]

The criminalization of bankruptcy, like the increase in litigation, represented a "rising anxiety about the potentially disruptive effects of debt."[177] As the Middle Ages turned into the early modern period, the economy expanded as people consumed more and European traders travelled the world, growing markets and spreading negotiable instruments ever further afield. As "chains of credit" stretched both in terms of distances between contractual parties and the number of people linked in the chain, the looser the bonds of reciprocity became and the more creditors worried about the possibility that defaults at some point in the chain would cause them loss.[178] The result seems to have been an increase in laws aimed at protecting creditors, an approach creditors continued to encourage into the 18th century.[179]

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172. *Id.* at 23–24.

173. Thomas Max Safley, *Bankruptcy: Family and Finance in Early Modern Augsburg*, 29 J. EUR. ECON. HIST. 53, 55 (2000) ("The handling of bankruptcies—as matters of business, legal and domestic concern—evolved into a more normative and rational process during the early modern period.").

174. HARDWICK, *supra* note 11, at 174–75; JEAN TOUBEAU, LES INSTITUTES DU DROIT CONSULAIRE, OU LES ELEMENS DE LA JURISPRUDENCE DES MARCHANDS [THE INSTITUTES OF CONSULAR LAW, OR THE ELEMENTS OF THE JURISPRUDENCE OF MARCHANDS] 734–35 (Paris, Jean Guignard, 1682).

175. *Id.* at 736 (translated by the author from French).

176. Greve, *supra* note 38, at 223–24.

177. HARDWICK, *supra* note 11, at 174.

178. MULDREW, *supra* note 6, at 217, 221; *see also* HARDWICK, *supra* note 11, at 167 ("[H]igh and rising levels of debt litigation indicate that mutual aid and social obligation had limited resonance.").

179. HARDWICK, *supra* note 11, at 135; Hoppit, *supra* note 5, at 73–75.

## V. Conclusion

More work remains to be done in assessing the role of reputation in decisions about how credit was granted, both across time and across different parts of Europe. But even this preliminary study suggests some conclusions. Credit was vitally important, but decisions about giving credit were not based solely, or perhaps in some cases even at all, on reputation. The reason was not that creditors knew too little about the reputation of potential debtors. In a world of face-to-face commerce, people knew a great deal about others in their community. The reason was that credit relationships in this society implicated repeated small decisions—the decision to give this debtor another week, another month, or another year to pay; the decision to forgive a portion of the debt; the decision to help a neighbor, a business associate, a family member who was already in financial distress; the decision whether or not to take some sort of security; the decision to go to court.

Creditors made these decisions over the often extended lifetime of the credit relationship, and they made them for dozens or hundreds of debtors. Simultaneously, their own dozens or hundreds of creditors made the same decisions about them. Such decisions involved more than a simple calculation about the debtor's reputation. They also involved calculations about the creditor's role in the wider network, and the creditor's confidence that the members of the network would continue to make the payments that would keep the network afloat. When reciprocity became less important to society, and when creditors began to fear that the debtors in the network had become overextended, the system as a whole started to break apart, and governments stepped in to fill the cracks with more judicial enforcement and regulation.