MARKETS WITHOUT BANKS

(Craig Muldrew)

Charles Davenant

Trust and confidence in each other, are as necessary to link and hold a people together, as obedience, love, friendship, or the intercourse of speech. And when experience has taught each man how weak he is, depending only upon himself, he will be willing to help others.

NATURE OF MONEY

- Gold and Silver coins with an intrinsic value based on the market price of the metal.
- Not enough coins to meet the needs of the economy.
- Only £3 6s. per household in 1600, or 15% of a poor family's earnings.

USE OF CREDIT

- Over 85% of transactions used credit.
- Most of this was informal credit in practice and in law.
- Since most people were innumerate this was usually done orally.
- From about 1550 the number of transactions on the market increased dramatically, and as a result of the lack of cash this expansion of buying and selling was supported on a web of sales credit.

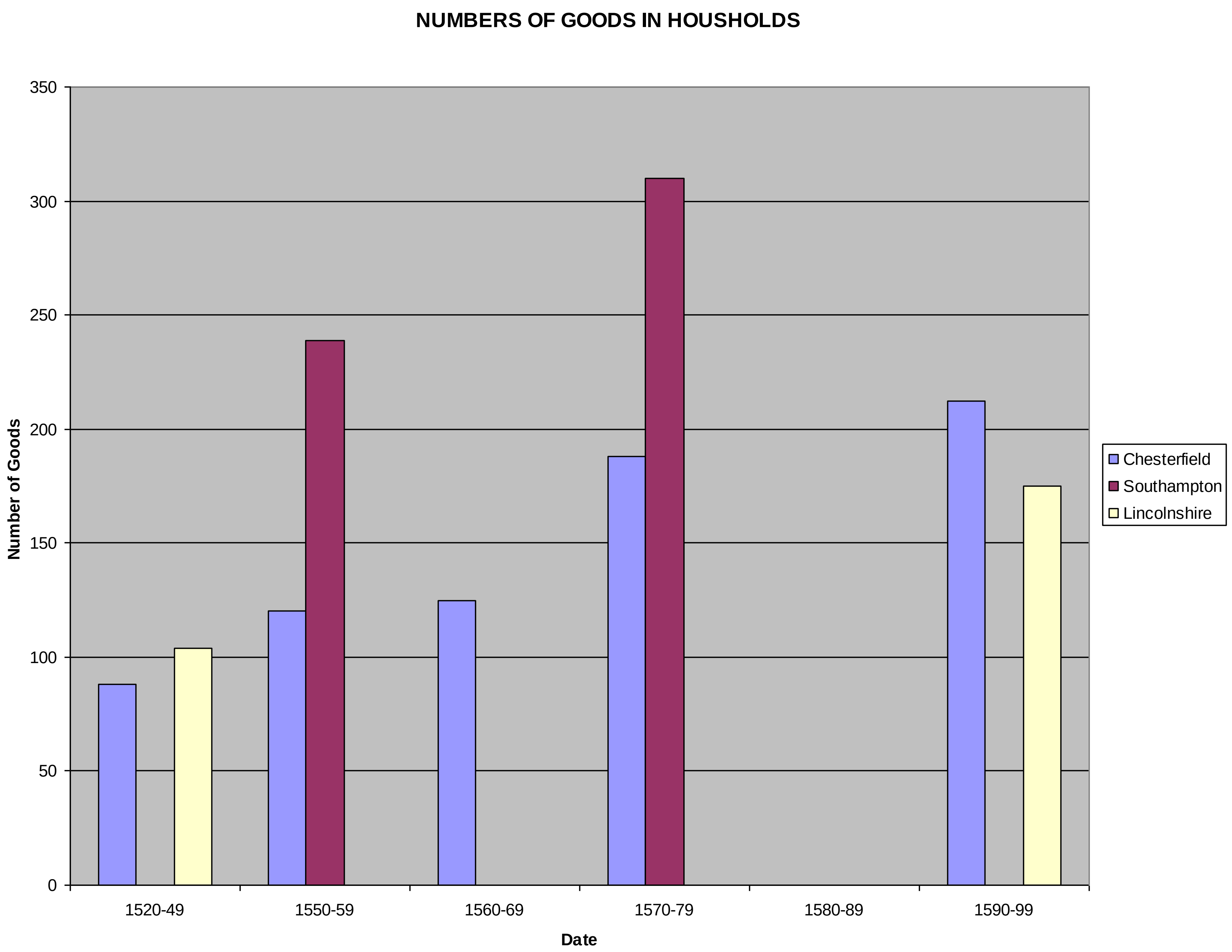
RECKONING

- Money existed as the ultimate means of payment within credit networks, but it was used in specified areas and transactions.
- At a local level, wherever possible, reciprocal debts contracted between as many interested parties as possible over a number of months, or even years, would be ‘reckoned’ and cancelled against each other, and then only the remaining balance would be paid in money.

- What existed was a credit economy in which everything was measured by monetary prices, but where money was not the primary means of exchange.
- Gold and silver were not the water upon which the vessel of the economy floated; they were the anchor which held the same ship in place upon a sea of credit.

EXPANSION OF THE MARKET

- Many indictors show there was a rapid expansion of marketing between 1540-1590.
- This created a rapid expansion of chains of informal credit.
- This in turn caused disputes to explode because of the pace at which market transactions increased.
- Bottlenecks of credit created liquidity problems for individuals leading them to sue in their own debts, which then had a domino effect on others.


NUMBERS OF GOODS IN HOUSHOLDS
Number of Goods
0
50
100
150
200
250
300
350
1520-49
1550-59
1560-69
1570-79
1580-89
1590-99
Date
Chesterfield
Southampton
Lincolnshire

A Scottish 'groceress' behind her counter in 1790: she sells among other things sugar-loaves, green tea, (Hyson), fabric, lemons, candles (?). Her gold earrings and jet necklace tell us that she was a woman of substance. (People's Palace, Glasgow.) (Photo by the Museum.)

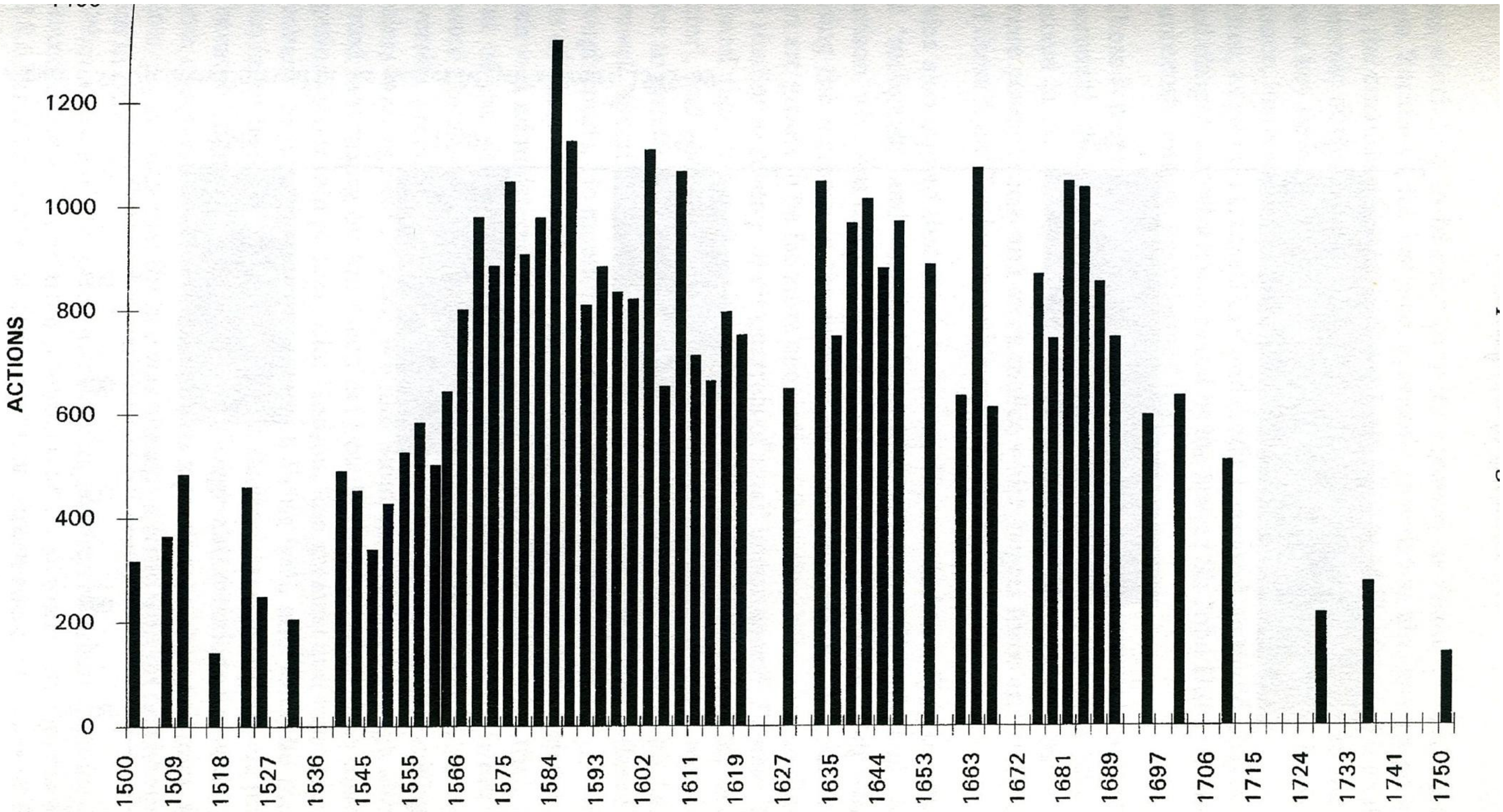


Figure 8.2 Litigation in the Great Yarmouth Borough Court, 1500–1750

- The phrase to `pay on the nail’ comes from Bristol where there were four bronze pillars erected before the Tolzey.
- They have flat surfaces where down payments, and payments in cash would have been made.
- One states `No man lives to himself’.

THE ECONOMY OF OBLIGATION

- Because trust was so important this meant that the growth of the market did not immediately lead to increased individualism through competition.
- Markets were not thought of primarily in terms of profit, accumulation and `self-interest' or as a way to allocate resources.
- Instead, the maintenance of communities remained vital, because economic growth was dependent on the ability of people to trust one another.

- Because the greatest part of market transactions consisted of masses of informal sales credit, trust was considered the crucial factor in buying and selling.
- As a result of these factors a strong notion of reciprocity in exchanges and communal bonds of neighbourliness coexisted with the free movement of prices.
- The mutual interdependence of such agents was stressed, and formed a much more comprehensive means of social interpretation than the private desire for profit.

ROBERT SOUTH:

‘The great instrument and engine for the carrying on of the commerce and mutual intercourses of the world is trust, without which there can be no correspondence maintained either between societies or particular persons.’

REPUTATION

- Reputation for honesty and fair dealing in the community was vital to being successful.
- Credit, in the form of household reputation, was a `cultural currency’ of trust used to transact most business.
- Trust, belief, and credit all went together, and *no distinction was made between economic and social credit.*
- Credit produced the wealth and status of the middling sort.

LOSS OF REPUTATION

- The loss of credit was harsh and many middle calls tradesmen went broke, possibly 10-25% .
- Debtors prisons were used as a punishment.

CONCLUSION

- Society was very much organised around credit and honesty *to make the market work*, not in spite of it.

> wee are so framed of God, that we must live in companie, …certainly wee have greate neede of contractes, …Neither can we be without the commoditie of bargaines, no more than we can spare either fire or water. (*A Godlie treatise concerning the lawfull use of riches)*

MORAL HAZARD?

- Today, as Joseph Schumpeter noted, money does not have an intrinsic value. Its value is given to it by central banks, and as such it is simply a massively centralised form of credit.
- In this system trust is not placed in the value of what is transacted, but rather in the ability of the structure of the banking system, through which money circulates, to maintain its value.
- Such trust has only been gained through a long process of state building and bureaucratisation, in which private individuals changed their conceptions of trust, which in the early modern period were overwhelmingly based on the reputation of the individual, to more abstract trust in institutions which was bound up with the philosophical change to utilitarianism.