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From the Tribal to the Open Society: The Role of Medieval Craft Guilds in the Emergence of a Market Order

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Abstract. The emergence of a legally constituted State in 16th century western societies represents the final lap of a process extending the sphere of the individual freedoms necessary for the emergence of the market order. A peculiar stage of this process came in the form of guilds. They materialised into a need for emancipation from the values of the archaic society and became the keepers of a peace and a justice on the market by ensuring the respect of new rules of conduct (1). This analysis of the behaviour of craft guilds will illustrate the question of the possibility of rational economic activity in medieval society (2).

Key Words: guild, feudal economy, economic calculation

JEL classification: N63, N83.

The question of the birth of the Open Society has never been tackled head on by Hayek. At best, he considers that it belongs to an evolutionistic process when he claims that “the transition from the small band to the settled community and finally to the open society and with it to civilization was due to men learning to obey the same abstract rules instead of being guided by innate instincts to pursue common perceived goals”.¹

For Hayek, the question of the emergence of the market is linked to the appearance of conditions allowing man to gain individual freedom. If it is generally accepted that it was only the emergence of a legally constituted State in 16th century western societies that enabled individuals to acquire the freedom necessary for such a learning process, this emergence, in our view, represents the final lap of a process extending the sphere of individual freedoms. This grew rapidly from the 11th century onwards thanks to the pressure operated by the merchants and craftsmen. A peculiar stage of this process came in the form of guild organization which marked the beginning of increasing attempts to pass from an economy of subsistence to an economy of profit. Up until the 12th century craftsmanship had been nothing more than an occasional occupation of manorial agents employed on large estates whose existence was taken care of by the great landowners of the time. In fact, the novelty which evolved with the craft industry in medieval towns during this period was that these people, who had organised themselves into craft guilds,² were specialised professionals who depended upon the market for their survival.

The aim of this article is to highlight the role of craft guilds in the emergence and extension of this budding market order. In the first section, we will endeavour to show that in a hierarchical medieval society subject to laws and morals lingering on from the previous

period of economic activity, the creation of these professional groups came in answer to a need on the part of the craftsmen to validate their own behavioural model. Guided by their interest in preserving an activity that they had not deliberately helped to create, the guilds craftsmen came to be the keepers of a peace and a justice on a market by ensuring the respect of new rules of conduct. Although they conveyed the values required to set up an economy of exchange, these craft guilds remained influenced by the values of mutual assistance which was a feature of primitive society. In the second section we will deal with the rationality of the behaviour of guilds craftsmen. We will highlight the fact that these craft guilds did not disappear because they represented an irrational form of production, but because their rationality, which was dominated by this primitive instinct of solidarity, produced worse results than that of a capitalist enterprise built on profit maximization.

1. Between Market and Hierarchy: The Principle of Guilds Co-operation

The analysis of craft guilds, as a special form of coordination *ex ante*, enables us to deal with a constitutive element of the Austrian theory of organizations: the connection between institution and organization.

1.1. The Craft Guilds or the Recognition of the Craftsmen's status civitatis

The needs of the craftsmen came into direct conflict with the interests and ideas of a society dominated materially by landowners and spiritually by the Church. The latter imposed an ideal based upon collectively working toward a common good through labour and abhorred any quest for individual wealth which put the eternal salvation of the soul at risk. The idealistic absolutism advocated by the Church would lead to production being geared solely to the requirements of this quest for evangelical poverty.³ In the face of this society, the craftsmen were far from taking any revolutionary action. They did not protest against the authority of the landowners nor that of the Church. All they wanted was room to exist and their demands did not go beyond those of the most elementary requirements, the first of which was freedom. They sought freedom only because of the advantages it conferred. Nothing was further from the minds of these craftsmen than considering freedom as a natural right: It was but a useful right. This frame of mind was a good reflection of the concept of freedom in the Middle Ages: that of *status civitatis* i.e. "civil liberties fixing the rights of each person with regard to his superiors or subordinates".⁴ In other words, the craftsmen sought the acknowledgement of a specific area of freedom within the strictly codified relationships of domination and servitude present in the feudal system.

This approach leads us to consider craft guilds as the result of the free association of craftsmen (*freie Einungen*) who have deliberately organised themselves with the intention of defending and furthering their own economic interests.⁵ These materialised into a need for emancipation from the values of the archaic society. Craftsmen demanded the freedom to choose their own goals, in this case the quest for a material wealth prohibited by the Church. We must note that the freedom sought by these craftsmen did not imply liberation from any form of personal dependence—a condition seen by Hayek as necessary for catallactic

mechanisms to function. In fact, it was more akin to the position of Levi-Strauss⁶ for whom the network of solidarity enclosing the individual is the key to freedom.

It is precisely because they did not violate the principles of distributive and commutative justice that they managed to validate a conception of life based upon trade. In a society dominated by three orders, valuing only those who pray, fight or cultivate, this new urban order, based upon exchange, could not have developed without the spread of certain moral attitudes and rules of conduct which at the outset were in violation of the existing rules.⁷ In order to obtain the general tolerance without which the craftsmen would never have been able to initiate change in the system as a whole, they were obliged to abide by the majority of the existing rules so as to be able to introduce new ones. This is why, from a Hayekian point of view, craft guilds limited personal initiative by containing a group of traditional pre-capitalist values. This was to protect the very principle of freedom they would not otherwise have been able to introduce. If freedom was the first requirement of the craftsmen, it was not the only one. Indeed traditional laws were no longer sufficient for a population whose existence depended on trade and industry.

1.2. The Craft Guilds or the Institutionalization of Business Ethics

The major change taking place from the 11th century onwards is the movement away from the “face to face society” toward what Popper calls the “abstract society”. Business transactions are henceforth impersonal, anonymous and systematic. The known requirements of known people are no longer the guiding factors for the craftsmen but merely impersonal market signals. This new situation implies different moral opinions and rules of conduct on the part of the craftsmen than the one in which they were able to see to whom the fruit of their labour went.

Man's innate morality, suitable for the conditions of life in small groups, was no longer suited to this wide market order where producers no longer served their brothers but total strangers. It is the negation of this duty of brotherly charity that Montchrétien saw in fraud when he wrote that “all quality defects come from the fact that men no longer know each other for what they are, i.e. members of one and the same body, united under one leader and when all is said and done, baptised in the same spirit”.⁸ Indeed, a consequence of anonymous business transactions was the increase of fraud in the quality of products. This was all the easier as consumers were unable to detect the problem before purchase.⁹ If this information advantage provided the supplier with an opportunity to mislead the consumer, the production cost differential between high and low quality gave him the incentive to do so.¹⁰ The quality of the products depended upon the raw materials and upon workmanship put into them. Since craftsmen controlled these inputs they could manipulate the production process to cut the quality of their products without the consumer being able to detect it at the time of purchase. Consequently, confronted with a number of products sold at identical supply prices but about which buyers knew that they varied in quality, consumers would be suspicious. They could even refrain from buying as a purchase may lead to a loss in exchange.¹¹

The craftsmen quickly understood that it was in their interest to maintain certain business ethics by defining what was lawful and what was not. Without this they would cease to

prosper. Hence, they had to agree upon and abide by certain work practises which would ensure fair trade. These practises all wished to make and sell “good and reliable products”,¹² according to a recurrent expression of the 12th and 13th centuries. But as the craftsmen were powerless against perjury and especially foreigners, they needed the approbation of the authorities to apply the rules they had established. As taxes applied to trade and traders income were the major source of town revenue, their level was proportional to traders’ prosperity. It is for this reason that guilds craftsmen obtained legal approval for their organization, thereby conferring the force of the law upon their rules.

By defining punishable types of behaviour, these craft guilds thus became keepers of a market peace and justice by ensuring respect for the rules of conduct. Traditional law in fact “knew no other custom than that gradually emanating from the relationships between people living off the land or off land property”.¹³ Aware that a “more efficient type of law, quicker means of proof less dependant on chance and judges aware of the professional occupations of those in court, were all required if the disputes brought before them were to be decided correctly”, the authorities granted the craft guilds the power to decide upon business complaints. This guilds jurisdiction “enabled craftsmen to give a certain security to commercial transactions in the absence of any contract, the good execution of which would have been guaranteed by the State. In general, the craft guilds conferred a community spirit to this mechanism, in such a way that any member who did not live up to his commitments would henceforth be refused any business exchanges by those with whom he had dealt with before”.¹⁴ So the craft guilds set up arbitration courts where consumers could voice their complaints.

It thus appears that if the craftsmen used the guilds organization to introduce and enforce new rules (respect for private property, business commitments, forbidding fraud, . . .) it was not because they thought it would be beneficial for society, but quite simply because it was advantageous for their group. However, by agreeing to submit their plans of action to collectively elaborated and respected organizational constraints, the craftsmen gave pride of place to an *ex ante* mode of coordination. The question of the relevance of this choice then arises, that is to say its ability to make their plans of action mutually compatible over time.

1.3. Guilds Organization: Cooperation versus Coordination

The choice of a mode of coordination, be it centralised or decentralised, is of crucial importance. Indeed, individuals can either coordinate *ex post* i.e. by adjusting their plans via the market or come to agreement *ex ante* regarding the modalities of their plan of action. In the context which is of interest to us, the craftsman wished to keep the (rather relative) independence he had just acquired whilst coordinating his production plans with those of his fellow craftsmen. The main element acting against spontaneous compatibility between plans came about through the lack of reliability and from the low volume of information available to craftsmen. The extent of trade outside the market, the numerous and heavy taxes as well as regulations on tariffs, all contributed to putting a bias on the information conveyed by prices. Making adjustments thus became more risky.

Above all, coordination *ex ante* was facilitated by the fact that basically all the markets upon which the medieval craftsmen worked were local. Consequently, the difficulties they all ran into were more or less the same. The fact that the events they were aware of and

the objectives they followed were similar therefore gave them a reason to collaborate. As Hayek (1988:19) emphasises “cooperation, like solidarity, presupposes a large measure of agreements on ends as well as on methods employed in their pursuit. It makes sense in a small group whose members share particular habits, knowledge and beliefs about possibilities.”

Over and above being faced with practically identical local circumstances, the similarity of their reactions was strengthened by common beliefs. In particular, the fact that the craft guilds were linked to religious bodies enabled the craftsmen to informally influence the cognitive universe of each other so that they would act according to the same beliefs. This aspect was all the more important as “it was the permanent law of Middle Age doctrines to derive the rules of economic activity from the law of morality”.¹⁵ Christian morality protested against fraud, that is against the vices harbouring the greatest threat to a Christian way of life: injustice, lies and cupidity. Indeed, the majority of introductions to guilds statutes refer to the need to instil behaviour worthy of the precepts of divine justice. But, as De Gailhard-Bancel (1912:29) emphasises: “... the guilds statutes would probably not have come so close to the austere precepts of Christian morality had they not also been the best support for spiritual interests, the most reliable safeguard for material interests”. Sharing these Christian values led the members of the craft guilds to perceive, interpret and act on the basis of a common reference framework, making general coordination and, consequently, their actions more efficient. These common beliefs were all the more present in the minds of the craftsmen as they had been initiated into them from a very early age. The apprentice indeed took part in all the ceremonies so that his perceptions would closely resemble those of his masters.¹⁶ This collective expression also strengthened the group around its rules.

The environment surrounding the medieval craftsmen was thus suited to this type of cooperation. The craft guilds provided them with a decentralised coordinating framework within which each person remained responsible for their own economic decisions. We will now analyse these decisions.

2. What Rationality for the Guilds System?

The question of the possibility of rational economic activity in medieval society is not as clear for the historian as in the debate between Mises and Lange.¹⁷ In historical reality, the possibility or impossibility of rational economic activity is not a problem of alternatives but rather of degree. It is in this way that the analysis of the behaviour of guilds craftsmen will enable us to illustrate the opinion of Lange who argued that economic development increasingly favours the rationality of economic activity. Consequently, the potential for rational economics is far greater under capitalism than feudalism.

2.1. *Possibilities of Economic Calculation in Feudal Society*

In the absence of a social division of labour, all the needs of a family or other domestic group, whether of monastery or manor house, were met by the work of its members. In these conditions, economic calculation was unnecessary as the individuals were able to directly evaluate whether or not their labour and efforts were adequately offset by the product. This is no longer the case when industry works to satisfy consumers who are strangers to the

group. A crucial problem thereby arises: that of the possibility of a rational economic choice in a system which is not based upon the interaction of free market phenomena. As Kula (1976) has emphasised, despite the arguments of Mises not being directed at the feudal system but at socialism, they are perfectly suited to it. In this system, free competition does not exist: the regulations hinder the freedom to produce and the choice of consumers, the labour market is in its infancy, economic activity is crushed by taxes ... Considering that minimizing means or maximizing results is the sign of rational economic activity¹⁸ thus requires that there be not only a variety of solutions in a given technical context but also that it be possible to compare these alternatives to select the most economic amongst them.

Rationality and the Range of Available Means. Economic activity will have a greater chance of being rational the wider the range of possible variations will be. This aspect was totally absent from the discussions between Mises and Lange because they both supposed “an infinite variety of imaginable and possible modes of production”. In fact, such a hypothesis is untenable outside the historical context of modern societies. The number of possible options depends not only upon the level of technical progress but also upon social conditions. Indeed, certain known and theoretically possible means cannot be considered as one of the elements of the calculation because they will be forbidden by customary or written law. In other words, the range of choices increases under the influence of two processes: scientific progress and an increasingly less rigid social structure. However, in the Middle Ages not only was science in its infancy, limiting the number of theoretically known variations, but social flexibility was particularly low so much so that the number of applicable variants was extremely small. Nevertheless, as different alternatives existed in pre-capitalist economies, the question of the rationality of the choice of the choice implied a second condition: the measurability of the elements entering into the calculation.¹⁹

Measurability and Co-measurability. In fact, it is only possible to compare the costs and results of an activity if these different categories are narrowed down to a common denominator which makes them not only measurable but also co-measurable. As Mises has shown, this denominator can only be provided by the market in a monetary form, that is to say in units which may be added up and which apply to all the elements. For prices to perform this function:

- there must be a relatively uniform market price;
- this price must be fixed through free competition;
- it must be possible to sell all the elements entering and leaving production on a market.

Historians long considered that, given the institutional environment of the High Middle Ages, characterised by the division of local markets, arbitrary regulations on tariffs, the large number of exchanges outside the market, the insignificance of the labour market ... prices could not be used in economic calculation. This opinion seems to be changing today as have been brought certain behaviours to light. Epstein (1991), particularly, has shown that medieval producers valued what they possessed at prices they believed they would be able to sell it in the future. Of course this does not mean we deny that any external element (pride in a job well done, fear of divine punishment) played a role in economic calculations when it came to making production decisions.²⁰ This is akin to the position of Mises (1949:230)

who argued that the economic calculation “was gradually perfected with the improvement of the market mechanism and with the expansion of the scope of things which are negotiated on markets against money”. This explains why we assume that the guilds craftsman, owning his means of production and skilled in a given activity, used economic calculations in his choice of action. Hindered, however, by the weakness of free market mechanisms and by an attachment to traditional moral values, the results of this calculation were much poorer than those obtained in a capitalist society where such obstacles have been largely done away with. Accepting the existence of economic calculation in pre-capitalist societies raises the question of the ways in which it was used by the guilds craftsman.

2.2. *Is the Guilds Craftsman an Austrian Entrepreneur?*

The particular skill of *alertness* used by the Austrian entrepreneur to gain profit by exploiting opportunities opened up to him via his functions (arbitration, speculation and innovation) can only be expressed in a particular institutional environment. One may well wonder whether the guilds system offered the prerequisites for this entrepreneurial activity, that is to say private initiative and the appropriation of the results generated by this activity.

What were the Motives Behind the Craftsmen’s Activity? Profit is both the cause and the desired consequence of the entrepreneurial activity. For us to be able to speak of the guilds craftsman as an entrepreneur, profit must first of all be the incentive of his actions. However, it is not easy to speak of profit in the strict sense of the word because neither the form of the craft activity nor the poor development of the labour and capital markets enabled profit to be calculated. What the masters could observe was the income, gross or net, which derived from the sale of their products. Three distinctive elements of guilds life point to the fact that guilds craftsmen sought the maximization of their income. The first, as strange as it may seem, lies in the most widespread criticism of craft guilds, i.e. their monopolistic position. Mickwitz (1936:47) describes the craft industry in this way “the patriarchal affluence of the small craftsman based upon his truly monopolistic situation”.²¹ Henceforth, why should guilds craftsmen have fought until the 18th century to conserve this privileged situation if it was not to take advantage of the opportunity to make larger profits? In the same way, why were there so many regulations regarding working hours, the number of journeymen and apprentices allowed, the banning of advertising,... if the goal was not to regulate the lust for profit within an organization supposedly united? This remark is also valid for the numerous disputes between craft guilds regarding the boundaries of their activity: why should they redefine the limits of their territory if there was no desire to widen the scope of their activity, the only way of increasing their income in the absence of any labour productivity increase?

Thus, considering the maximization of income as the force behind the craft industry leads us to wonder about the space given over to individual entrepreneurial activity within guilds organizations.

What Autonomy for the Guilds Craftsman? Apart from profit, the entrepreneur also requires autonomy in decision to put his specific skills to their best use. The basic principle of

the craft guilds requires the craftsman to be economically independent. Masters everywhere are forced by regulations to abide by this minimum guarantee of independence ensured by the possession of production means. This independence nevertheless falls within a wide range. As Coornaert (1941:253) has emphasised “the dividing line between true entrepreneur and simple manufacturer will always be extremely unclear [within the craft guilds]”. Although the craftsman working on the local or regional market is free to manage his production process, despite a certain obligation as to the quality of the output, to choose his own suppliers and to find his own buyers, the same cannot be said of those working for export. In this case, the production decisions transit via the influential merchants who organise the production process, bring the necessary capital and coordinate the work of the craftsmen who have become mere employees.²²

With reference to two aspects of entrepreneurial activity, the discovery of profit opportunities (Kirzner) and the choice of a structure of capital goods (Lachmann), it must be made clear that “the guilds statutes were never aimed at controlling the internal structure of the workshops on an economic level”.²³ Moreover, “production standards applied to finished products, not methods of production, and thus masters were free to invest capital and to tinker with ways to reduce their own costs while achieving commonly accepted results”.²⁴ Nevertheless, if the degree of a craftsman’s expansion was limited to the full use of authorised production capacities,²⁵ the craft guilds allowed a certain scope in the scale of production: it usually varied from 1 to 9, thereby leaving the chance to explore new outlets and markets.²⁶ It would so appear that “within the membership of independent guilds [competition] had some play, enough to allow of the exercise of individual initiative in trying out new sources or types of supply, or changes in techniques . . . ”.²⁷ One aspect of entrepreneurial activity remains to be examined: the opportunity of innovation for the guilds craftsman.

What was the Place of Innovation in the Guild Organization? In this field, the guilds craftsmen have to deal with their wide reputation for technological conservatism. As proof, searches and visits to workshops with a view to enforcing strict production processes, are traditionally put forward. However, the “guilds investigators” could only observe the non-conformity of the finished product compared to the standards required. It was thus feasible to introduce process innovation provided that the result was at least equivalent to the one required. It would appear however, that only capital-saving and skill-enhancing innovations were generated and accepted by the guilds craftsmen. This choice again reflects the will to preserve their independence. Capital intensive and labor-saving innovations would indeed have tended to substitute generic labour for specific labour and to increase fixed capital costs in the industry, thereby shifting control over production process from the owners of skills to the owners of capital.²⁸

Product innovations were the fruit of small scale practical experiments and hazard. The High Middle Ages did witness a wide variety of technological improvements and new activities resulting from the discovery of new products. In the view of Epstein (1991), the existence of product innovation is demonstrated by the diversification and growth in the number of craft guilds. Epstein (1998) goes even further by showing that the craft guilds quickened the supply of technology systematically in three ways:

- by establishing a favourable environment for technological change: clustering, which was a typical feature of premodern crafts, was likely in turn to produce positive organizational and technological externalities;
- by promoting technical specialization through training and technical recombination through artisan mobility;
- and by providing innovators with monopoly rents.²⁹

Despite the fact that the patent was a late medieval invention and was frequently applied during the early modern period, the current use of patents is in essence a nineteenth-century development. The most significant premodern incentive for innovation was thus the capacity to capture the rents provided by a technical secret; and the most effective source of these rents was the craft guild.

2.3. *The Rationality of the Guilds' Policy in Question*

Since the craftsman endeavoured to maximize his income in an organization striving for equality between its members, it seems reasonable to suppose that the guild craftsmen tried to maximize average income per member of the guild. Because craftsmen wished to preserve their relative autonomy, the only way to achieve this goal without hindering the independence of each was to regulate their number. In order to demonstrate this thesis we will use the approach of Gustafsson (1987) who considers the guild as a kind of producers' cooperative having full control over the input of labour. However let us clarify that we will use this assimilation only to analyse the decision of production of the craft guild. Indeed it is true that the member craftsmen constituted separate economic entities with their own economic responsibility.

We assume that the Masters and their workshops can be considered as part of one guild, and that the price of the produced article as well as the supply of capital is given. If the craft guild can freely vary its input of labour, L^* Masters will be accepted in this organization, as in that point the average production per labour unit has its maximum, R^* in Figure 1.

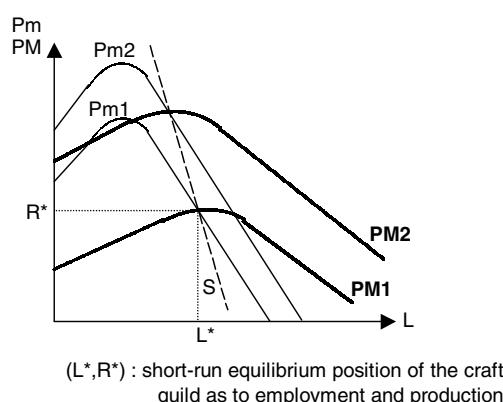


Figure 1. The economic behaviour of the craft guild.

This form of organization of the production shows a very interesting quality in case of a rise in the price of the output. Indeed, the supply of labour and also its product declines with a rise in price³⁰ (S in Figure 1). If there were no fixed costs, the supply would be unchange but anyhow it would not increase. This behaviour of guilds which maximized average income of their members contrasts with capitalist behaviour, according to which a rise in the output price usually leads to an increased demand for the factors of production and increased production. This pattern of reaction has sometimes been interpreted as an expression of a “livelihood” principle on the part of medieval producers. But as can be seen from the above analysis, it is the expression of a traditional maximization behaviour, in this case maximization of the average income per member of a collective.

This rationality, based on the solidaristic instinct of the tribal society, explains why modern industrialization did not originate from the town craftsmanship. In Figure 2, the behaviour of a craft guild is compared with a capitalist enterprise with respect to utilization of labour with capital as a constant factor of production. In the upper part of the figure we can observe the maximizing decision of the enterprise with regard to total revenue (RT) and total costs (CT). The capitalist enterprise employs labour and carries on production up to the point where the profit is maximized (the distance between RT and CT at its largest), that is the point E. The craft guild on the other hand maximizes average income per unit of labour (the distance between RT and CT with respect to employment at its largest), that is the point F.

Because of its solidaristic organization, the craft guilds utilized the most important productive factor, that is labour, less and produced less than the growing capitalist enterprise built on profit maximization. So the craft guilds perished not owing to the fact that they represented an irrational form of production but owing to the fact that their rationality gave lower results than the capitalist form of production. This analysis may help to explain why

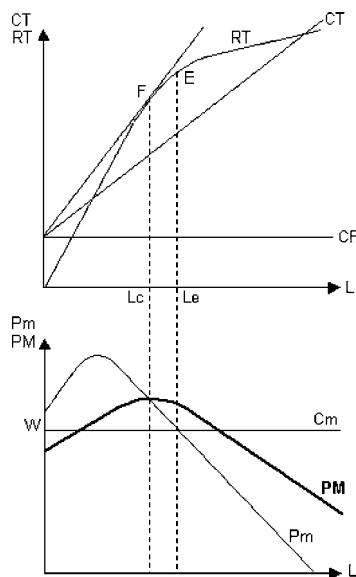


Figure 2. Comparison between the output decision of the craft guild and the capitalist enterprise.

Sombart³¹ has noted that the craft guilds did not seem to have been outcompeted mainly because they produced at higher costs than capitalist enterprises but because of a more restricted power of achievement (*Leistungsfähigkeit*).

3. Conclusion

For Hayek (1976:146), “it would therefore not be really surprising if the first attempts of man to emerge from the tribal into the open society should fail because man is not yet ready to shed moral views developed for the tribal society”. Although the craft guilds conveyed the values required to set up an economy of exchange, they remained influenced by the values of mutual assistance which was a feature of primitive society. As a consequence of the craft guilds’ solidaristic form of organization, they limited production to the volume which maximized average income of the members. For this reason, from the end of the Middle Ages and above all during the 17th and 18th centuries, there rose a growing class of journey men who never succeeded in establishing themselves as master but who would recruit the growing proletarian classes in the manufactures. If the craft masters had increased the employment in their workshops, the average income would have decreased. The guilds thus became prisoners of their own form of organization. If they were suited to the conditions under which they arose and developed, they became an obstacle in the new economic world which emerged after 1500. As Gustafsson (1987:32) has pointed out, “the guild crafts did not succeed—despite the fact that they were partly transformed to semi-capitalist organizations with journey men as wage labourers rather than future masters—in getting rid of these trammels. Centuries of tradition and custom became an independent power. The craft guilds never succeeded in breaking the shell but had to perish”.

Acknowledgments

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Notes

1. Hayek (1979:160).
2. These craft guilds, far from being specific to the west, has been defined by Pirenne (1951:324), as “privileged groups of craftsmen with the exclusive right to practice a certain profession in the towns in accordance with the regulations laid down by public authorities”. Craft guilds seem to be a generally occurring city-based industrial form of production in all pre-capitalist economies.
3. It is the existence of this very will, which imposed certain rules of conduct upon individuals, that Hayek uses to qualify a society as being archaic.
4. Ege (1992).
5. The spontaneous nature of this movement is highlighted by Coornaert (1941:56) who states that “the first associations of this type were naturally formed by people from the same profession as their is nothing which draws people together more than a likeness of interests”.
6. Levi-Strauss (1973), *Anthropologie structurale deux*, Paris, Plon.

7. In this way Hayek (1976:145) admitted that “the moral views underlying the Open Society were long confined to small groups in a few urban localities [...]. The moral sentiments which made the Open Society possible grew up in the towns, the commercial and trading centers, while the feelings of the large numbers were still governed by the parochial sentiments and the xenophobic and fighting attitudes governing the tribal group”.
8. Montchrétien (1615), *Traicté de l'Aeconomie politique*, reedited by Funck-Brentano, Paris, 1889, p. 268.
9. Gustafsson (1987:13) was the first to link the behavior of craft guilds to the issue of adverse selection. He showed that “craft guilds were founded primarily for guaranteeing a certain minimum of quality of the products produced by the craftsmen as a prerequisite for these getting a stable income”.
10. Munro (1994, in *Textiles, Towns, and Trade. Essays in the economic history of late-medieval England and the Low Countries*) estimates that pewterers could cut costs up to twenty percent by putting lead in their alloy, since lead was half the price of pewter, and pewter could hold up to forty-percent lead. Lead and unleaded pewter looked identical initially. But over time, lead leached from adulterated alloy, changing its color from silver to gray, spoiling the taste of food and drink, and poisoning those who consumed it.
11. Indeed, when the members of a profession complained of fraud, they underlined the resulting loss of customers. It is in this way craftsmen stated that bad quality was “an insult, dishonour and damaged their profession” (ordinances of Paris’ guild of pewterers, 1392).
12. Coornaert (1941:64).
13. Pirenne (1951:204).
14. Root (1994:125).
15. Brants (1881), *Coup d'œil sur les débats de la science économique dans les écoles françaises aux XII^eme et XIV^eme siècles*, Louvain, p. 5–6.
16. Of course the primary function of apprenticeship was to pass on skills and know-how because, here again the interest of the group was at stake. The newcomers had to produce the quality that the market expected of them so as not to jeopardise future activities of everyone.
17. Lange (1936), “The problem of economic calculation in the socialist system,” *Ekonomista*, no. 4, pp. 53–75.
18. “What acting man wants to know is how he must employ the available means for the best possible—the most economic—removal of felt uneasiness” (Mises 1949:207).
19. “The task which acting man wants to achieve by economic calculation is to establish the outcome of acting by contrasting input and output” (Mises 1949:210).
20. As Mises (1949:215) emphasises “no calculation is required to acknowledge them fully and to make due allowance for them. All that acting man needs in order to make his choice is to contrast them with the total amount of costs their acquisition or preservation requires”.
21. For Kula (1976:54), “craft guilds, as organizations of producers, are set up to establish the ‘monopoly price’, i.e. limiting the quantities produced and introducing a sharp price rise aimed at maximizing profit (...). The economic calculation of a guilds craftsman is based on a situation of extremely imperfect competition—quasi-monopolistic—on a limited market.”
22. Even if these craftsmen are spread out into craft guilds, the nature of their activity is totally different. As Pirenne notes (1951:328) “in local industry the tools, the workshop and raw materials belong to the craftsman as is the case of the product which he sells directly to his customers. In large industry however, capital and labour are separate. The craftsman, removed from the market, has contact only with the entrepreneur who pays him ...”.
23. Coornaert (1941:172).
24. Epstein (1991:129).
25. This restriction reflects the basic principle of the guilds system—ensuring equality of opportunity for its members. “One of the aims of the guilds system was to prevent what was once called ‘monoploy’, i.e. cornering the market and goods” (Coornaert 1941:204).
26. In local trade the top masters in a guild might have at least five times the amount of workshop help that the poorer men could keep, and would increase their income by auxiliary trade in the materials of the craft and by occasional deals in the staple commodities of the region.
27. Thrupp (1963:274).
28. Nevertheless, following the Black Death in 1348 (which decimated roughly half the population of Europe) craftsmen were encouraged to adopt labour-saving production methods.

29. However, the inventor had to weigh the guild's offer of a temporary quasi-monopoly rent against the possibility of obtaining a one-off royalty (net of migration costs) from a rival craft or government.
30. If the value of production is pq , average income per labour unit y and the fixed costs c , then $y = (pq - c)/L$. If p rises by $X\%$, the curve of marginal productivity (Pm_1) will also rise by $X\%$ (to Pm_2). But the curve of average productivity (PM_1) or average income per member will rise by more than $X\%$ (to PM_2). In the point where we had the earlier maximum of average income (and where the marginal productivity curve cut the curve of average income) we will consequently find the curve of the new and higher average income per member higher than the new curve of average income earlier. Consequently, the new maximum for average income is to the left of the earlier maximum.
31. SOMBART W., 1928, *Der moderne Kapitalismus*, München und Leipzig.

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