

The Commercial Revolution



"The Moneylender and His Wife," Quentin Metsys (1514)

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Commercial Revolution: Essential Questions

- 1. How did developments in the late Middle Ages impact the Commercial Revolution?**
- 2. What contribution did Luca Pacioli make to the Commercial Revolution?**
- 3. What was the nature of banking in the Commercial Revolution?**
- 4. What was a joint-stock company?**
- 5. What was the Domestic System" in England?**
- 6. What was the Price Revolution and what were its results?**
- 7. What were the principles of mercantilism and what impact did it have on economics and politics?**
- 8. In what ways did the Commercial Revolution sow the seeds of capitalism?**
- 9. What was "Tulip Mania" in the Netherlands?**

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The Commercial Revolution

Journal 12/A: What important economic changes in the early modern centuries does the term “Commercial Revolution” signify?

—Palmer Chapter 12 • pp. 106-114—

Directions: Using sentences or detailed bulleted notes, identify & explain the evidence Palmer uses to support the thesis listed above.

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Background to the Commercial Revolution

- **Commercial Revolution basics**
 - ✓ a term used by historians to describe the collective effect of the development of a profit-based economy, growth of cities, increased trade, and rise of powerful groups of merchants. [[Bedford Glossary for European History](#)]
 - ✓ change from a town-centered (medieval manorial) to a nation-centered (early modern European) economic system
 - ✓ in spite of name, the economic change of the Commercial Revolution was slow in nature
 - ✓ Commercial Revolution eventually would contribute to the first era of globalization
- **impacted by developments in the Middle Ages**
 - ✓ The Crusades (1095-1272): led to greater contact and trade with the Arab civilizations of the Eastern Mediterranean, North Africa and Moorish (Islamic) Spain
 - ✓ reintroduction of currency into trade (as opposed to the town-centered barter system that was characteristic of the medieval manorial system)
 - ✓ European interest in acquiring products from other parts of the world: gunpowder, silk, spices, tea, rice, etc.
- **Commercial Revolution went hand-in-hand with the Renaissance and the Age of Exploration & Discovery**

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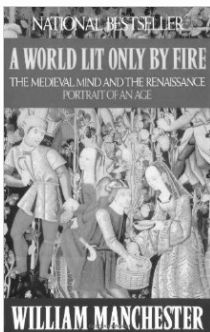
Double-Entry Bookkeeping

- accounting system developed in the late Middle Ages and early Renaissance to record and manage business debits and credits
- Luca Pacioli (c. 1446-1517)
 - ✓ Florentine monk and mathematician
 - ✓ published a textbook (c. 1494) to teach merchants how to use double-entry bookkeeping to manage their business accounts
- impacted commerce in Florence, Venice and other business centers during the Renaissance (and beyond)



Luca Pacioli
Source: Wikipedia

The Fugger Family: Reflections On



“The Hansa [Hanseatic League], a league of some seventy medieval towns centering around Bremen, Hamburg, and Lübeck, was originally formed in the thirteenth century to combat piracy and overcome foreign trade restrictions. It reached its apogee when a new generation of rich traders and bankers came to power. Foremost among them was the Fugger family. Having started as peasant weavers in Augsburg, not a Hanseatic town, the Fuggers expanded into mining of silver, copper, and mercury. As moneylenders, they became immensely wealthy, controlling Spanish customs and extending their power throughout Spain’s overseas empire. Their influence stretched from Rome to Budapest, from Lisbon to Danzig, from Moscow to Chile. In their banking role, they loaned millions of ducats to kings, cardinals and the Holy Roman emperor, financing wars, propping up popes, and underwriting new adventures — putting up the money, for example, that King Carlos of Spain gave Magellan in commissioning his voyage around the world. In the early sixteenth century the family patriarch was Jakob Fugger II, who first emerged as a powerful figure in 1505, when he secretly bought the crown jewels of Charles the Bold, duke of Burgundy. Jakob first became count in Kirchberg and Weisserhorn; then, in 1514 the emperor Maximilian I — *der gross Max* — acknowledged the Fuggers’ role as his chief financial supporter for thirty years by making him a hereditary knight of the Holy Roman Empire. In 1516, by negotiating complex loans, Jakob made Henry VIII of England a Fugger ally. It was a tribute to the family’s influence, and to the growth of trade everywhere, that a year later the Church’s Fifth Lateran Council lifted its age-old prohibition of usury.

Source: *A World Lit Only by Fire: The Medieval Mind and the Renaissance*, William Manchester (Boston: Little, Brown & Co., 1992), pp. 48-50.

The Rise of Banking

- **view of banking in the Middle Ages**
 - ✓ lending money at interest (usury) was discouraged for moral and religious reasons by the Roman Catholic Church
 - ✓ the Roman Catholic Church eventually relaxed its view toward usury in regards to commercial profit-making
- **great banking families of Europe**
 - ✓ **Fugger**
 - ➡ German banking family from Augsburg
 - ➡ loaned money to kings, princes, merchants, and the Roman Catholic Church
 - ✓ **Medici**
 - ➡ Italian banking family from Florence
 - ➡ loaned money to kings, princes, merchants, and the Roman Catholic Church
 - ➡ great patrons of the arts
 - ➡ involved in Florentine politics
 - ➡ two members of the Medici family became popes (Leo X and Clement VII)

The Rise of Banking (cont'd)

- **establishment of government banks**
 - ✓ banks created to serve the monetary needs of the state and merchants
 - ➡ Bank of Amsterdam (1609)
 - ➡ Bank of Sweden (1657)
 - ➡ Bank of England (1694)
 - ✓ **establishment of credit and paper currency**
 - ➡ banks allowed merchants to purchase goods by credit using a "bill of exchange"
 - ➡ banks developed a system of purchasing goods using a "cheque" (check)
 - ➡ banks eventually developed "bank notes" (paper currency) to replace gold and silver
- **results of the development of the banking system**
 - ✓ facilitated and increased international commerce in Europe
 - ✓ contributed to Europe evolving into a money-based economy and helped sow the seeds of capitalism
 - ✓ early in the Commercial Revolution banking was strongest in the Italian states, but later the great banking centers of Europe were in the north (most notably, Amsterdam & London)

Formation of Joint-Stock Companies

- **joint-stock company: a company formed through the issuance of shares of capital to a considerable number of investors**
 - ✓ those who purchased shares of stock may or may not participate in the work of the company
 - ✓ as joint owners, shareholders were entitled to a share in the profits, in accordance with how much was invested
 - ✓ joint-stock company was a permanent unit not subject to reorganization every time one of its members died or withdrew (unlike earlier business models)
 - ✓ the organizational model of the joint-stock company allowed for a large accumulation of capital through a wide distribution of shares
- **some joint-stock companies were “charter companies” that were granted a monopoly on trade by the government**
 - ✓ British East India Company (founded 1600): promoted English trade with Asia
 - ✓ Virginia Company (founded 1606): promoted English trade with the Virginia colony
 - ✓ Dutch East India Company (founded 1602): promoted Dutch trade with Asia
 - ✓ French East India Company (founded 1664): promoted French trade with Asia

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The Domestic System in England

- **traditional woolen industries**
 - ✓ in the late Middle Ages, England was an exporter of raw wool and an importer of finished woolen products (often from Flanders)
 - ✓ English merchants eventually sought to make the finished woolen textiles at home, but wanted to avoid the restrictive nature of England’s medieval towns and guilds
- **the Domestic System (or “Putting-Out” System)**
 - ✓ English merchants introduced the finishing trades to England, including the spinning, weaving and dyeing of wool
 - ✓ in order to avoid the traditional town and guild restrictions, English merchants moved the wool textile industries to the countryside (hence, “putting out”)
 - ✓ in the Domestic System, the merchant acted as contractor who subcontracted the finishing trades out to individuals who did the work on their own, usually in their own homes
 - ✓ women: in the Domestic System, the work was usually done by women, especially in the spinning and weaving components of the trade
 - ✓ Domestic System was also used in some parts of England’s iron industries (ex., pins and pots)

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The Price Revolution

- **Price Revolution: rapid rise in the price of goods in Western Europe, most notably in the period from c. 1500 to 1650**
- **causes of the Price Revolution**
 - ✓ increase in the production of native silver bullion in Europe in the latter part of the Middle Ages
 - ✓ vast influx of gold and silver bullion to Europe from Latin America (ex. from what is today Mexico & Bolivia) by the Spanish "Treasure Fleet"
 - ✓ growth in population led to a rise in demand for goods
 - ✓ shortage of goods contributed to a rise in prices
- **results**
 - ✓ led to an inflation where the price of goods rose approximately six-fold in 150 years
 - ✓ many merchants took out loans knowing that it would be easier to pay-off in light of the inflationary economic climate
 - ✓ inflation contributed to economic instability and a shortage of goods, especially in Spain and the Italian states

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Mercantilism

Journal 12/B: Mercantilist practices and policies were designed to build a strong and self-sufficient economy.

—Palmer Chapter 12 • pp. 106-114—

Directions: Using sentences or detailed bulleted notes, identify & explain the evidence Palmer uses to support the thesis listed above.

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Mercantilism

- basics

- ✓ grew out of the various economic trends of early Modern Europe and influenced by the Renaissance and the Age of Exploration & Discovery
- ✓ mercantilism held that “a state’s power depended on its actual, calculable wealth expressed in terms of the amount of gold and silver bullion in its possession at any given time.” [Burns, p. 545]

- mercantilism principles

- ✓ a state sought a favorable balance of trade, maximizing exports and minimizing imports
- ✓ a state’s goal was to achieve economic self-sufficiency (although it was not possible)
- ✓ a state should acquire colonies as a source of raw materials to be used in the production of finished goods
- ✓ governments were encouraged to keep wages low, which would have the effect of driving down local consumption and, therefore, increasing the amount of finished products that could be exported for profit
- ✓ governments would often grant joint-stock companies monopolies on trade (ex., British East India Company) and create banks (ex., Bank of England and Bank of Sweden) in order to increase their wealth

Mercantilism (cont’d)



J.B. Colbert: Louis XIV's
Chief Economics Minister
Source: Wikipedia

- impact of mercantilism

- ✓ contributed to the rise of a global economic system that connected Europe to its colonies and colonial aspirations
- ✓ used by the absolute monarchies of 17th & 18th century Europe, who centralized their governments and expanded government bureaucracies
 - ➡ France (especially Louis XIV)
 - ➡ England (England under the Stuarts)
 - ➡ Russia (especially Peter the Great)
- ✓ mercantilism would eventually be challenged in the 18th century by some French and British economists, who would argue for a *laissez-faire* (hands-off) approach to the economy

The Seeds of Capitalism

- background

- ✓ capitalism: an economic system in which the means of production are mostly privately owned, and capital is invested in the production, distribution and other trade of goods and services, for profit in a competitive free market; also known as a market economy or free enterprise [adapted from Wikipedia]
- ✓ as much as the Commercial Revolution was mercantile in nature, it also opened the doors for the rise of capitalism

- contributing factors

- ✓ Renaissance values allowed for the accumulation and enjoyment of wealth
- ✓ Protestant (Puritan) Work Ethic: many Protestants believed hard work and worldly success were outward signs of God's grace
- ✓ creation of joint-stock companies, banking systems and new business opportunities gave investors a vehicle for the acquisition of wealth

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Spotlight: "Tulip Mania" in The Netherlands

- background

- ✓ tulips were introduced to Europe from the Ottoman Empire in the mid-16th century
- ✓ tulips became incredibly popular during the Dutch Golden Age (17th century)

- Tulip Mania

- ✓ tulips were a sign of prosperity and status
- ✓ prices for tulips rose dramatically in the 17th century as demand for the flower (in many variations) sky-rocketed
- ✓ at the height of Tulip Mania (1637), some varieties of tulips were sold at prices ten times higher than the annual salary of a skilled craftsman

- The Collapse of the Tulip Bubble

- ✓ demand for tulips reached a peak and then suddenly crashed
- ✓ many tulip speculators lost their investments as they were stuck with their stock of tulip bulbs

- Tulip Mania foreshadowed other "Bubbles" to come

- ✓ South Sea Bubble (1720)
- ✓ Mississippi Bubble (1720)



A drawing of a tulip called "The Viceroy" (1637)

Source: Wikipedia

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Additional Notes

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Sources

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