

## **The Hanseatic League and Freedom of Trade**

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The Hanseatic League was an unusual entity. It was embedded in the Holy Roman Empire of the German Nation (founded in 800 AD and ended in 1806 AD). But, there were many kings, princes, dukes, barons, bishops, abbots, and free cities under the cloak of the Holy Roman Empire. In fact, free cities were a very important part of the Holy Roman Empire. The free cities held charters of self-government from the Emperor, after payment of a fee.

The German Hansa began as associations of north German merchants, and in the mid-fourteenth century developed into a unique entity, an association of cities. Merchant senates ruled the free cities. The Hansa comprised almost 200 maritime and interior cities (along rivers). It extended from Bruges and Ghent in Flanders and London in the west to the Republic of Novgorod in western Russia and Tallinn on the Gulf of Finland in the east; from Bergen in the north to middle Germany in the south. But, Hansa activities extended to Venice where there was the famous German *fondacio* (factory) where German merchants lived and warehoused their goods. The Baltic (East Sea) and the North Sea were at the center of the Hansa. In the context of the merely formal nature of the Holy Roman Empire, the Hansa conducted its own diplomacy to maintain its access to trade and its own naval strength (armed merchant vessel) to protect its commerce against unrestrained governments. The Hanseatic League had no finances, army or fleet of its own. There

were no Hanseatic officials, only the officials of the member cities. There was a diet or Hansetag that rarely met. Philippe Dollinger (1970, pp. xvii-xviii) declared:

But in spite of these structural weaknesses and the conflicting interests inevitable in an association of towns so different and so distant from one another, the Hansa was able to hold its own for nearly five hundred years. The secret of its long life is to be found not in coercion, which played no appreciable role, but in the realization of common interests which bound the members of the community together. This sense of solidarity was founded on the determination to control the commerce of northern Europe. The historical function of the Hansa was in fact to furnish western Europe with those products of eastern Europe which it needed and in return to provide eastern Europe with some basic necessities, above all cloth and salt, from western Europe. As long as this economic interdependence continued the Hansa survived.

Europe in the Middle Ages was a frontier expanding society. Settlers and colonists cleared forests and marshes internally and then expanded to the east. German settlements went beyond the Holy Roman Empire: along the Baltic coast, or into Poland and Hungary (Siebenburgen in Transylvania, and the Banat of Temisvar). German merchants became important innovators in many eastern cities, such as Cracow and Lvov, where they often encountered Oriental merchants such as Armenians.<sup>1</sup>

The German settlement in eastern Europe was continued in the German settlement of American Middle West (Franklin, 1784).<sup>2</sup>

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<sup>1</sup> There was an important Armenian metropolitan influence in Lvov into the 20<sup>th</sup> century.

<sup>2</sup> One recalls that Benjamin Franklin wished to prohibit new German immigration to America (because they had large families and were too blond), and there is a myth that the first U.S. Congress was asked to make German the official U.S. language (in truth, it was to print laws also in German given it was the next largest Leonard P. Liggio

Hector St. John de Crevecoeur's *Letters from an American Farmer* (1782) introduced the American frontier to European readers. We should note that when the frontier had ended in Europe, Europeans turned to North and South America for further settlements.<sup>3</sup>

New farms in 19<sup>th</sup> century Ukraine, Canada, United States, Argentina and Australia made possible the industrialization of Europe. A large skilled population could specialize in manufacturing because they were assured of food supplies from far separated sources, so also in the Middle Ages. The Baltic provided fish protein in dried and salted cod and herring to feed the expanding manufacturing population in Medieval Flanders, East Anglia, Rhineland, and Italy. Sea salt from the French Atlantic was exchanged for fish. The settlement east of the Elbe and along the Baltic brought new grain sources into the river systems of Germany and on to the seas. The Grand Duchy of Lithuania's defeat of the Tartar Golden Horde extended the Polish-Lithuanian Crown to the Black Sea. The Polish-Lithuanian Union (1385) (followed by the Union of Kolmar (1397) of Sweden, Denmark and Norway) opened vast territories in the Ukraine to grain production carried up the rivers to the Baltic. From the 12<sup>th</sup> until the mid-19<sup>th</sup> century, the daily grain price at Danzig was the world price of grain just as the Houston Gulf price or Brent North Sea price is the price of oil. Sweden's Kopperberg Company was a major source of copper. Western Europe produced all kinds of woolen cloth from English and continental sheep, and sold these to farmers in the eastern countries.

Since the 11<sup>th</sup> century, Europe has become prosperous due to international trade. International trade provides food and resources for ever-increasing skilled populations. If History is Philosophy teaching by example, Europe and the world are standing atop a huge

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language in the U.S.).

<sup>3</sup> Recall the famous writing for the Chicago Worlds Fair in 1893: Frederick Jackson Turner, *The Frontier in American History* (New York: Henry Holt, 1920). (cf: Walter Prescott Webb, *The Great Frontier* (Boston, Houghton Mifflin Company, 1951).

historical edifice of wealth produced since the 11<sup>th</sup> century legal revolution. The continuing expansion of commerce in Europe as typified by the Hanseatic League is one example of the philosophy of economic science. Free trade is the core of economic science. Free trade is operational in a framework of international law principles. Adam Smith, in the *Wealth of Nations*, indicated the major authors who have established the principles of international law: Grotius, Puffendorf, Locke, Montesquieu. Harold Berman (1983) explained the importance of law in the growth of European civilization.

This legal tradition included the voluntary Law Merchant and the codes of the free cities. Codes and town councils were modeled on Cologne. Dating back to the Roman Empire, Cologne was the first large economic center in Germany and the model for the new towns; Cologne was the mother of German towns.

Dollinger (1970, p. 15) sees Hansa urban legal customs as decisive in economic success:

...several go back to the first half of the twelfth. In Westphalia the oldest is that of Soest (c. 1100), which was passed on to various neighbouring towns. Introduced with modifications, in Lubeck, it was taken from there along the Baltic shores as far as Estonia. The Dortmund code, in which more markedly Flemish and Rhenish influences can be detected, was adopted by most Westphalian towns, Dortmund remaining the supreme court (Oberhof) dealing with appeals and legal interpretation. Similarly in Saxony the Goslar code was adopted by several towns north and south of the Harz. But the Magdeburg code had the most far-reaching sphere of influence; from the end of the twelfth century it was adopted, with variations, by hundreds of eastern European towns where it was considered to be 'the German law' *par excellence*.

The Hanseatic League was an association of regional groups

of cities. Nestled in the purely formal, non-functioning Holy Roman Empire, the Hansa had not a centralized super-national government. The regional associations needed to consent if they wished to enter into a common effort. The wealthiest cities, such as Hamburg and Lubeck, exercised a very strong influence on the other cities, but could not coerce them.

In examining my copy of Adam Smith's *Wealth of Nations*, which I used fifty years ago at Georgetown University, the only part I underlined is in "Book IV – Of Systems of Political Economy, Chapter III – Of the Extraordinary Restraints upon the Importation of Goods of Almost All Kinds, from Those Countries with which the Balance is Supposed to be Disadvantageous." In his critique of the Mercantilist System, Smith (pp. 441-442) says of the contemporary restrictions since the Seven Years' War:

...before the commencement of the present war seventy-five per cent, may be considered as the lowest duty, to which the greater part of the goods of the growth, produce, or manufacture of France were liable. But upon the greater part of goods, those duties are equivalent to a prohibition. ... Those mutual restraints have put an end to almost all fair commerce between the two nations, and smugglers are now the principle importers, either of British goods into France, or of French goods into Great Britain. The principles which I have been examining in the foregoing chapter took their origin from private interest and the spirit of monopoly; those which I am going to examine in this, from national prejudice and animosity. They are, accordingly, as might well be expected, still more unreasonable. They are so, even upon the principles of the commercial (mercantilist) system.

First, though it were certain that in the case of a free trade between France and England, for example, the balance would be in favour of France, it would by no means follow that such a trade would be disadvantageous to England, or

that the general balance of its whole trade would thereby be turned more against it. If the wines of France are better and cheaper than those of Portugal, or its linens than those of Germany, it would more advantageous for Great Britain to purchase both the wine and the foreign linen which it had occasion for of France, than of Portugal and Germany. Though the value of the annual importations from France would thereby be greatly augmented, the value of the whole annual importation would be diminished, in proportion as the French goods of the same quality were cheaper than those of the other two countries. This would be the case, even upon the supposition that the whole French goods imported were to be consumed in Great Britain.

On the next page, Smith notes that English merchants pay for goods bought from Hamburg, Danzig, Riga, etc., by bills of exchange drawn on Holland. He continues to describe the banking systems of Amsterdam, Hamburg and Venice as superior to those of London, Antwerp and Lisbon (pp. 443, 445).

In the current debate over economic policy in the United States, it appears that the Republican analysts understand that the barbaric, mercantilist system was rooted in national prejudice, and the Democratic analysts also understand that system is today rooted in national prejudice. The Republicans understand that national prejudice will impoverish the American people, while the Democrats do not understand economic principles.

Ludwig von Mises in *Liberalism* (1927/1962, pp. 130-131) noted:

The theoretical demonstration of the consequences of the protective tariff and of free trade is the keystone of classical economics. It is so clear, so obvious, so indisputable, that its opponents were unable to advance any arguments against it that could not be immediately refuted as completely mistaken

and absurd. Nevertheless, nowadays we find protective tariffs – indeed, often even outright prohibitions on imports – all over the world. ...What renders the whole situation grotesque is the fact that all countries want to decrease their imports, but at the same time to increase their exports. The effect of these policies is to interfere with the international division of labor and thereby generally to lower the productivity of labor. The only reason this result has not become more noticeable is that the advances of the capitalist system have always been so far sufficient to outweigh it. However, there can be no doubt that everyone today would be richer if the protective tariff did not artificially drive production from more favorable to less favorable localities.

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