The Problem With Guilds, from Silversmiths to Taxi Drivers

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December 4, 2014

The guilds of merchants and craftsmen that dominated economic life in much of Europe from the Middle Ages until the Industrial Revolution are often portrayed as useful institutions that promoted training, trade, and quality improvement. But Sheilagh Ogilvie, a professor of economic history at the University of Cambridge, is having none of that.

In an article on "The Economics of Guilds" in the fall issue of the *Journal of Economic Perspectives,* Ogilvie writes:

My own reading of the evidence is that a common theme underlies guilds' activities: guilds tended to do what was best for guild members. In some cases, what guilds did brought certain benefits for the broader public. But overall, the actions guilds took mainly had the effect of protecting and enriching their members at the expense of consumers and nonmembers …

That someone with a master's degree in economics from the University of Chicago (which she followed up with a doctorate in history from Cambridge) reads the evidence this way should perhaps not be too surprising. It was Chicago's Milton Friedman, after all, who declared in his 1962 book *Capitalism and Freedom* that "[t]he overthrow of the medieval guild system was an indispensable early step in the rise of freedom in the Western world."

But Ogilvie does make a strong historical case in her article that guilds were up to no good. They kept training opportunities scarce, battled innovation, and were generally a drag on economic progress. It's almost certainly not a coincidence that so many of the great economic breakthroughs in the lead-up to and early years of the Industrial Revolution occurred in Low-Country communities that decided to ban guilds and upstart English towns that never had them.

This historical analysis is relevant today because while "guilds" are for the most part gone, guild-like institutions are going strong, even in the United States. Back in 1962, Friedman observed that "there has been a retrogression, an increasing tendency for particular occupations to be restricted to individuals licensed to practice them by the state." He took aim in particular at licensing requirements for doctors, because he wanted to be as provocative as possible, but the clear implication was that those for "egg graders and guide dog trainers, pest controllers and yacht salesmen, tree surgeons and well diggers, tile layers and potato growers" were even harder to justify.

Friedman didn't get around to mentioning automobile dealers, who in many states are protected not only by occupational licenses but laws banning automakers from selling directly to customers — a state of affairs that newcomer Tesla has been challenging, with mostly disappointing results. He did bring up taxicab companies, whose control of the market now actually seems to be unraveling in the face of the onslaught from Uber, Lyft, and their ilk. And in a recent essay for a Cato Institute forum on reviving economic growth, Johns Hopkins political scientist Steven Teles includes government contractors, property developers, and too-big-to-fail bankers among those who are (1) somewhat protected from competitive forces and (2) use their privileged status to extract "rents" (unearned income, basically) from the rest of society.

Now I'm *not* a Chicago economist, and I don't think it's necessarily a bad thing for there to be institutions that shield their members from market forces and give them bargaining power. I'm also not sure I'm ready to wipe out all the rules governing the medical profession in favor of, say, star ratings for organ transplants.

But Teles — also not a Chicago economist — argues pretty convincingly that in the United States at the moment, most of the guild-like institutions protect members who are already quite privileged relative to the rest of society, thus worsening inequality even as they slow economic change and growth. Private-sector labor unions, which once helped bring millions of workers into the middle class, have dwindled to near-irrelevancy. But the National Automobile Dealers Association and the American Medical Association are doing just fine, thank you. That's the way things generally worked in the Middle Ages, too. In most cities and towns of medieval Europe, Ogilvie writes, guild members accounted for only a privileged single-digit share of the population. And for the most part they — understandably — put their own narrow interests ahead of those of the larger community.

How were the guilds able to do this for so long? Ogilvie contends that the costs of their backward ways were "spread over a large number of people — potential entrants, employees, consumers — who faced high transaction costs in resisting a politically entrenched institution" while the benefits accrued to a well-connected and affluent few "who faced low costs of organizing alliances to keep them going."

That's pretty much exactly how Teles describes the modern dynamic. "While those with concentrated interests have a strong incentive to invest in political activity and to engage in surveillance over political actors," he writes, channeling the late, great Chicago-ish economist Mancur Olson, "those with diffuse interests do not."

In much of Europe, the guilds finally began to unravel when it became clear that businesses could make more money and governments could collect more tax revenue with them out of the way — which may be happening with taxis now. But in other parts of the Continent it took serious political conflict, including the French Revolution, to push guilds aside. Teles thinks political pushback is needed now, too — not revolution, exactly, but "subsidized anti-rent-seeking mobilization" along the lines of the environmental movement of the 1970s or the education reform movement of recent decades. So … see you at the anti-guild protest, okay?