HISTORICAL TRANSACTION COSTS AND RISK MANAGEMENT

http://humanities.exeter.ac.uk/history/research/centres/maritime/research/avetransrisk/
**Impact Objectives**

- Investigate economic institutions and their impact on economic development through the use of general average (GA) as an analysis tool.
- Contribute towards several current historiographical debates about the early modern period.

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**Historical transaction costs and risk management**

Professor Maria Fusaro explains how the research of her team aims to understand the legal framework of European maritime trade over the longue durée through an assessment of transaction costs and risk management during the First Globalisation.

Maritime trade, and its daily interactions supporting the practical functioning of trade and connected litigation, remains an essential element of the contemporary global economy. Investigation of the early development of its polycentric legal framework can help us to find solutions for today’s economic and political challenges. This is particularly important in two areas: the extent of a state’s jurisdiction in regulating maritime trade, and the management of a supremely international workforce such as seamen. Let us not forget that the maritime sector was the first truly global sector, and seafaring was the first global profession.

Can you briefly explain general average (GA)? Why do you think it has generally been overlooked by scholars until now?

‘General average’ (GA) is defined as the expenses affecting ships and cargoes from the time of loading until their unloading (due to accidents, jettison, capture and unexpected costs). GA was (and still is) a crucial mechanism for the redistribution of costs in maritime trade. Averages have a strong element of procedural convergence as a result of trade necessity. For example, in the event of a loss of cargo, a damage report had to be completed in the first port encountered after the accident, and certified by local authorities. This report then had to be accepted by the authorities of the destination port, hence the embedded trans-nationality of these legal instruments.

Several reasons lie behind the scholarly neglect of GA. History is a modern discipline shaped in the 19th century and, for a long time, it was centred on creating national narratives. This was even more evident in economic history. Fiscally and custom records were preferred as evidence, because they also had the advantage of providing serial figures. Now the discipline is moving towards transnational analyses. Several new approaches are being developed to answer these new queries, and General Average fits very well within these developments.

GA is also thought to remain static over time, therefore the complex demands of analysing large data sets focusing on a supposedly unchanged phenomenon have not been appealing to many scholars.

**What do you consider the most important challenge to overcome in order to move your research forward?**

Interdisciplinary work has been a very fashionable concept in academia for some time now, but the practical challenges of working across different methodologies act as a break on these endeavours. Overcoming these challenges was the reason I invited colleagues across several disciplines to work together, as teamwork is the best way to solve these problems. Currently, the biggest challenge for us is the administrative aspect of putting together such a large international project in the time of Brexit.

**The Average Transaction Costs and Risk Management Project (AveTransRisk)** is using general average in a collaborative research effort to focus on economic institutions and their impact on economic development.

**Understanding European maritime trade**

Maritime trade remains a vital element of the current global economy. Investigation into the historical development of its polycentric legal framework may aid us in resolving many of today’s economic and political challenges. The Average - Transaction Costs and Risk Management during the First Globalization (Sixteenth-Eighteenth Centuries) project is an interdisciplinary, international study that uses general average (GA) as a tool to assess the redistribution of costs involved in maritime trade. This is key in examining the extent of states’ jurisdiction in regulating maritime trade, as well as the management of an international workforce.

**INTERDISCIPLINARY RESEARCH**

Research funded by the European Research Council (ERC) under the EU Horizon 2020 Research and Innovation Programme is supporting a complex history and socioeconomic collaborative project involving scholars from the UK Universities of Exeter and Edinburgh, and the Centre for Financial History (University of Cambridge), the Dutch Vrije Universiteit Amsterdam, the Belgian Vrije Universiteit Brussels, the Spanish Universidad Nacional de Educación a Distancia (UNED), and the Italian Universities of Genova, Pisa, and Parma.

(Full details on the team are available at: http://humanities.exeter.ac.uk/history/research/centres/maritime/research/avetransrisk/)

“The project is funded through the Consolidator Grant scheme as the follow-on from an ERC Starting Grant,” explains Professor Maria Fusaro, Director of the Centre for Maritime Historical Studies at the University of Exeter. “The results of my previous ERC-funded project were pivotal to me designing this project.” The ERC assesses projects based on excellence as the sole criterion, and Fusaro recognises that the project would not be possible without the collaboration of a pan-European interdisciplinary team of researchers. ‘I have a large and excellent team working with me,’ Fusaro says. ‘They include socioeconomic historians, economic historians, legal historians, and an expert in financial accounting, as well as several doctoral students.

‘Such a large and interdisciplinary team allows us to use specific internal expertise to address all the complex issues which are emerging from the original documents under analysis,’ she notes. ‘We already know that the actual functioning of GA is put into question whenever new players enter the system. This happened with the English and Armenians in the 17th century, and is happening with the Chinese on the global scale today.’ Evidence suggests that geographic attempts to discuss, and possibly reform, the mechanisms underpinning mutual cost allocation is proof of the cultural specificities of risk analysis. This further stresses the crucial importance of trust within business activities, an issue of extreme topicality today. Fusaro suggests that: ‘What is emerging from our work is the existence of substantial variations across different cultures in both “risk perception” and the legal mechanisms created to minimise the financial consequences.’

When new, important economic players enter the field, their attitudes towards risk management strongly affect the practical development of the instruments designed to manage and control risk. This study will recognise European variation in business culture, trade regulation, risk perception, as well as levels of trade. The project seeks to investigate how these factors impacted on business structures, and on the varied institutional developments which underpin the global expansion of the European economy from the sixteenth century, to provide baseline data for future research.

**LEARNING FROM THE PAST**

The objectives of the project include the historical assessment of European economic and legal developments across the European maritime sector, and comparing the balance between private commercial enterprise and state intervention across a number of European states. The research also analyses the development of legal institutions and commercial legal systems, and the management of risk by different trade participants. The role played by formal and informal trade dispute resolution will also be analysed. Evidence suggests that economic historians tend to focus on the study of expanding economies,
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member Dr Sabine Go from the Vrije

Fusaro highlights a comment from team

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Fusaro argues that ‘from the quantitative

side, one of the big problems in studying

early modern economic development is

the paucity of reliable and consistent

figures, especially on transaction costs and

commodity prices.’ Such figures are also

found in data outlining cargo value, and

these exist for both insurance claims and

GA declarations. In the case of insurance,

these figures are not always reliable as

insurance became a speculative instrument

from the middle ages, and both over- and

under-valuing goods have been (and still

are) common practices which could benefit

speculators. GA procedures were designed

as a protection against risk, and remained a

fully mutualistic form of protection. Fusaro

underlines that the ‘result of this is that the

quantitative data produced during GA

analysis provides scholars with values closer
to the ‘real’ ones – the values perceived to be
‘real’ by all involved – simply because all who were involved in GA were active

participants in the business venture, and

therefore the over- or underestimation of
costs would have affected all parties, each

with substantially different interests within

the venture.’

whilst Fusaro comments that she likes to:

‘Shift attention to the investigation of how

crises were confronted in the past’. Fusaro

also recognises that: ‘Today international

(and indeed commercial) law has moved

beyond a Westphalian state-centred form

to include non-state actors, even if states

remain principal actors in global governance, with the interaction of these two levels

go one of the most

stimulating and controversial fields of both

political and legal activity.’ She also adds

that: ‘It is my belief that the 17th century

was at the opposite side of the cycle, as

states were confronted with the need both
to exercise their authority outside and to

strengthen it within their borders.’

Today, GA is regulated globally by the York- 

Antwerp Rules (YAR), which have recently

been revised and are currently being ratified

by states. This is providing the research team

with opportunities for active engagement

with practitioners, thereby fostering a creative

dialogue on the historical study of GA and

its future development, to better face the

challenges of maturing globalisation.

LONG-TERM COMMITMENT TO

MARITIME GLOBAL TRADE

Fusaro suggests that, for the long-term

outcomes and future of the research, ‘a

contemporary issue of great relevance is

the relationship between political actions

and economic developments. Taking the

long-term view will provide us with answers

about the practical ways in which political

interventions shape international trade, and

vice versa.’ Charting and analysing historical

development and changes over a long period

of time, across several countries and legal

systems, through the development of a

single legal concept such as GA, will enhance

understanding of institutional development

and changes. This project seeks to identify

what affects economic institutions, as well

as determine the relationship between

institutions and legal frameworks.

Fusaro highlights a comment from team

member Dr Sabine Go from the Vrije

Universiteit Amsterdam (the Netherlands),

who underlines that: ‘GA is a complex

concept, including legal, financial,

institutional and mathematical issues.

It encompasses long-distance trade,

risk perception, risk management and

valuation issues. But there is another

crucial dimension, that of governance – GA

started as a method of self-governance.

In time, an institutional layer was added,

third party enforcement.’ Current debates,

both scientific and political, deal with the

effectiveness of governance constructs. To

discuss the scope and effectiveness or even

the desirability of governing constructs,

Fusaro fully supports recognition by Dr Go

that from an economic perspective: ‘We

can learn a great deal from the long-term

development of GA to analyse the best

possible way to govern transactions and

markets.’

Fusaro argues that ‘from the quantitative

side, one of the big problems in studying

early modern economic development is

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Project Insights

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Professor Maria Fusaro

graduated from the Universita’ di Venezia Ca’ Foscari in Italy, and completed her PhD at the University of Cambridge, UK. She was Assistant Professor at the University of Chicago, US, after a junior research fellowship at St Hugh’s College, Oxford University, UK. She moved to the University of Exeter in 2006. Fusaro is the author of Political Economies of Empire in the Early Modern Mediterranean: The Decline of Venice and the Rise of England 1450-1700 (Cambridge, 2015); Reti commerciali e traffici globali in età moderna (Rome-Bari, 2008); L’uva passa. Una guerra commerciale tra Venezia e l’Inghilterra, 1540-1640 (Venice, 1997).