The Early Modern Atlantic Economy

Edited by

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1 Risk, credit and kinship in early modern enterprise

Peter Mathias

This contribution to a volume honouring Jacob Price and celebrating his work takes as its themes risk, credit and kinship in the early modern period, exploring the ways in which they interacted to condition business strategies and the day-to-day conduct of business. It seeks to survey and assess generally rather than to add to research.[1] Considerations about kinship, credit, risk and the avoidance of risk have suffused all of Jacob Price's investigations into transatlantic trade and finance in the seventeenth and eighteenth centuries, either explicitly or as a structural feature of the context. Indeed, because uncertainty and risk were almost universally present to so much greater an extent in 'normal' trading activities in that period than in conducting equivalent transactions in the twentieth century they conditioned the operation of the business system in an elemental way. Nor can risk be easily distinguished from uncertainty in the commonly assumed modern conceptual sense – where risk can supposedly be quantified (a precondition for commercial insurance) and uncertainty not. Many categories of risk had uncertainties also built into them and were in large measure open ended. Focusing attention on avoiding or minimizing risk may imply taking too negative or too defensive a view about the conduct of business in this period. It takes for granted other aspects of business which are emphasized in the literature of entrepreneurship in historical settings – the motivations of businessmen for expanding the scale of their operations, increasing their profits, pioneering innovations, making their personal fortunes, enhancing their social status with the accumulation of wealth. But one set of determinants does

[1] This chapter draws on, and adds to, my paper 'Strategies for reducing risk by entrepreneurs in the early modern period', in C. Lesger and L. Noordegraaf, eds., *Entrepreneurs and Entrepreneurship in Early Modern Times: Merchants and Industrialists within the Orbit of the Dutch Staplemarket*, Hollandse Historische Reeks, 24 (The Hague, 1995). For the general debate see O. E. Williamson, *Markets and Hierarchies* (New York, 1975); J. March and H. Simon, *Organisations* (Oxford, 1958); W. Reddy, *The Rise of Market Culture* (Cambridge, 1989); A. Godley and O. Westall, eds., *Business History and Business Culture* (Manchester, 1996).

not exclude the other. Entrepreneurship had to be exercised within the parameters of high risk, which made demands of their own, while different phases in the evolution of a business, different stages in a person's business career and different circumstances at a particular point of time would determine varied responses. This was particularly the case in circumstances of intense, occasional short-term fluctuations in trade and financial liquidity.

The central theme argued in the following pages is that the context of risk emphasized the importance of face-to-face personal relationships and kinship in business, in particular concerning access to credit.[2] Within the general parameter the family matrix was so often central to the operations of business, whether in structural relationships (patterns of ownership, succession, the identification of ownership with management authority and the like) or in everyday dealings.[3] A major dimension of such a matrix was demographic – and the demographic dynamic added risks and uncertainties of its own, as well as opportunities, which could not be anticipated. These demographic indeterminacies – as with economic and financial indeterminacies – are often subsumed and articulated (in the terms in which they were perceived) as 'luck'. The greater the degree of indeterminacy in a situation, the greater the role often put down to 'luck' – which is acknowledging the same reality through different perceptions and articulations. Demographic dynamics for the family firm were then very different from what they were in the later nineteenth and twentieth centuries. The hazards of survivability were much greater (compounded when in a tropical setting). This produced early – and unexpected – succession to ownership, unexpected windfalls from legacies, lower probabilities for direct succession through male heirs (or daughters) in a family firm. Higher demographic risks also enhance the importance of wider kinship relations in partnership successions, the role of widows and the propensity for re-marriage. The rights of patrimony and the normal legal provision for nominating kin to succession in a partnership con-

[2] J. Scott, *Social Network Analysis* (London, 1991); M. Casson and M. B. Rose, eds., *Institutions and the Evolution of Modern Business* (special issue, *Business History*, London, 1993). The introduction to the latter volume states that 'one of the consequences of making the institutional environment endogenous would be that networks and their social underpinnings would move from the periphery to the core of institutional theory' (p. 6). See especially in the same volume Casson, 'Institutional economics and business history: a way forward', where he notes that 'Transaction costs reflect a lack of trust between the people concerned' (pp. 151–2).

[3] S. R. H. Jones, 'Transaction costs and the theory of the firm', in Casson and Rose, eds., *Institutions and the Evolution of Modern Business*, pp. 9–25; P. Dasgupta, 'Trust as a commodity', in D. Gambetta, ed., *Trust: Making and Breaking Cooperative Relations* (New York, 1988), pp. 49–72; A. Etzioni, *The Moral Dimension: towards a New Economics* (New York, 1988); F. Fukuyama, *Trust* (London, 1995).

solidated the matrix, where demographic success permitted. The provision of capital and credit (more long-term capital than normal trade credit, except in emergencies) was another vital nexus linking kinship, and trusted personal connections, with the operation of business.

Such interpersonal and interkinship relationships are integrally linked with the context of high risk within which business had perforce to be conducted. One dimension of high risk derived from natural hazards of various kinds – the improving but still greatly limited control over nature: slow communications and the uncertainties imposed by storm, calm, flood, drought or frost. Technological weaknesses reinforced such natural hazards and, for the most part, had to be accommodated to the dictates of nature rather than being able to overcome them. The operation of the business system also created endogenous risks, apart from those consequent upon a hostile nature and a limited technology. Legal, institutional and political processes imposed great uncertainties, long delays and high costs. The most elemental 'law and order' precondition for the successful conduct of most legitimate business – the physical security of property and assets, a peaceful, well-ordered environment where commercial transactions could take place in a context of defined legal rules – was often lacking in many European as well as non-European settings, on occasion if not more permanently. More frequently, war created risks in international shipping and commerce. These various categories of risk can be elaborated at length but the general conclusion – even, perhaps, constituting a general law – would be that the weaker the institutional context, from a wide variety of sources of risk and uncertainty, then the higher the premium to be placed on individual dealings with known individuals, personal trust and the kinship nexus. As the common phrase puts it: 'blood is thicker than water'.

Wealth in the parents of a businessman and in his kinship group more widely, together with wealth brought by his wife and her family, could cover a multitude of risks. Very few great fortunes were created in a single generation by the efforts of a single man of business. Modest capital at least, and modest personal connections, were usually preconditions for success and overcoming the initial risks of establishing a business. The hazards of setting up in business were minimized by following one's father in trade or being introduced into a partnership by patrimony. Following in the shoes of one's father, or other relative, directly offered knowledge of the trade, connections with established clients, customers and suppliers, with the confidence and trust that continuity of dealing over earlier years had built up. In general, access to a prosperous business or professional career depended greatly upon family wealth and connections, despite well-publicized individual instances to the contrary. The fame of such exceptions correlated with their infrequency, compounded by much mythologizing on the poor-boy-made-good theme, which also has to be discounted. Where direct succession to the family firm did not happen, entry into an allied trade, or another partnership with personal links, could bring many of the same advantages. Young men were often taught the trade, following their schooling, by being placed with the firm of a family friend, living under his roof for a year or so. Membership of an elite trading or city company, preeminently the East India Company, could usually be contrived by powerful established members for a kinsman, if not secured by outright nomination as with an ordinary commercial or professional partnership.

Potentially lucrative business positions commanded high apprenticeship or acceptance fees which imposed high barriers to entry, as with the main trading companies with monopoly privileges, major brewers and distillers and more generally wherever large capital and potentially high returns were in question. Such fees could run up to £500–1,000 in the mid- and late eighteenth century, but provided a privileged entrée to a lucrative commercial world.[4] Even with high fees a personal introduction would be a prerequisite for acceptance. In all these ways parental wealth and influence could secure a privileged position for sons beginning a new career. At issue was not just the means of learning the trade in question, with the relevant technical skills, but of gaining access to the insider's world of personal contacts, confidential relationships, personal trust and status in the trade. This was not the only ladder to potential success but it was much the easiest and the fastest. In a context of high risk privileged access was at a premium. Given prevailing demographic patterns (provided that he took care to survive) the son could stand to inherit at an early age or be invited into the firm of an uncle or a cousin without male heirs. The demographic lottery could also yield unexpected legacies with extensive failures in the direct line of succession. Maintaining close links with kin on the side of both parents was thus elementary prudence.

The demographic odds also offered opportunity to the able apprentice who had demonstrated his talents as a salaried clerk or manager.[5] Apart from the possibility of working his way into the partnership (usually by way of a loan from an existing partner, at interest, but paid off by instalments saved from his salary), the salaried clerk who found himself in a strategic position running the business might even aspire to the possibil-

[4] R. Campbell, *The London Tradesman* (1749); see, for example, in brewing Peter Mathias, *The Brewing Industry in England, 1700–1830* (Cambridge, 1959).

[5] This sequence was played out in the relations between the Thrale family, with no male heirs, and the salaried manager of the large brewery in London, John Perkins. See Mathias, *The Brewing Industry*.

ity of marrying his master's daughter, or (it had been known) his master's widow. High talent in non-kin could also be rewarded where male heirs did not wish to take on the trade or were considered unsuitable. Where a business was important to a family's fortunes and extensive capital was engaged, practical considerations sometimes challenged the dictates of kinship. High risk and the safeguarding of capital, together with the income flows, produced important incentives to consolidate the operation of business with kinship links – and not only over the question of succession. Clearly, this has been the case in many walks of life, not least in the expansion and consolidation of landed estates, where dynastic alliances have traditionally constituted an essential strategy. Kings and princes, nobles and commoners have followed this motivation, jointly pursuing wealth, power and dynastic advantage.

Everything that has been said about discounting risk when setting up in business by choosing one's parents wisely relates in equal measure – and with greater choice – to the businessman's own marriage and this, of course, when he was young was far from being independent of his family's status. Marriage often cemented alliances between families with close business interests, while being arranged informally and remaining dependent on the personal consent of the two parties, despite family pressures. Such a marriage contract usually reflected a carefully estimated reciprocity, not cast only in terms of capital sums in down payment for a dowry and a wife's portion but including presumptions about the prospective earning power and inheritance of the bridegroom. Unless on marriage the wife's capital (or the widow's assets) was legally separated and administered on her behalf through a trust, as with an unmarried heiress, then her assets became her husband's. In the normal lottery of marriage, before the days of Married Women's Property Acts giving statutory protection, the husband won the jackpot. Past, present and future thus converged in the making of such alliances.

Where capital values and earning power derived from a business these considerations of personal ownership and control operated with much greater effect than when the assets were in land and property or in government stock (the 'Funds' in English parlance). To yield a continuing stream of income and to maintain their capital value all assets required skills in management, but the required degree of active management and the skills involved varied widely between different categories of assets. Minimal expertise and supervision, but honesty in administration by trustees or those with powers of attorney, was demanded by assets in the Funds. Freehold property required maintenance and effective supervision of tenants, but arrangements could be made to organize this, usually through local solicitors or land agents. Such services were widely available for both town and country. In the case of business assets, however, the case was more complicated. Effective management skills, technical expertise in the case of productive enterprise, application and honesty were paramount if the income stream from profits was to be preserved and the capital value of the assets which produced the income maintained, let alone enhanced. In the words of Samuel Johnson's famous comment on the sale of the Thrale brewery to Messrs. Barclay and Perkins: 'What can misses do with a brew-house? Lands are fitter for daughters than trade.'[6]

Daily attendance and supervision were required, just to maintain routine business and accounting, but the supervision of a salaried clerk on the spot could not supply the initiatives or the decisions which were the reality of doing business, as distinct from fulfilling its routine functions. This was not just a question of honesty, in a context where the opportunities for deception were manifold, but raised wider issues of decision-making, risk-taking, investment decisions and incentives. If a salaried clerk or manager with the necessary abilities found himself with such responsibilities he would want a share of the profits, which meant participating in the equity capital of the business as a partner – in short, moving from salaried manager to part owner. Where assets were in trade the elderly partner could hope to pull out by transferring his assets into land and property or the Funds without significant loss, if trading conditions were favourable. Most trading assets (stock, good commerical debts owing, perhaps some shares of ships) could be realized in a short time, if they were not taken over by existing or incoming partners. This is doubtless one reason for the relative absence of family dynasties in trade.

In the case of manufacturing realizing assets was not so easy. More capital was embodied in fixed assets, such as buildings, plant and equipment, which had to be utilized with specific skills and experience if the potential stream of income which they could yield was to be achieved. Without a certain level of technical knowledge, for example, being cheated was always a danger. A manufacturing enterprise also required associated trading skills and financial skills, in the absence of which similar risks applied. It was therefore that much more risky for an outsider to buy the business outright and take it over as a going concern. The greater the scale of operations and the larger the sum required then the greater the risk and the higher the odds against a successful outright sale. Such assets (whether tangible or in business connections) quickly deteriorate when unused. Hence the double incentive for selling to existing partners or negotiating partnership rights with an existing manager who had the necessary skills but lacked capital. The ageing owner without suitable

[6] Peter Mathias, *The Transformation of England: Essays in the Economic and Social History of England in the Eighteenth Century* (London, 1979).

male kin in the next generation had the confidence of preserving income and capital values while the ambitions of the lucky manager were satisfied, as his commitment to the firm combined with his own advancement and that of his family. The existence of a daughter created an opportunity for consolidating dynastic and business continuity in the next generation by a new alliance between kin and firm, with similar double advantages.

An equivalent route for advancement beckoned the impecunious clerk in a trading concern. If honest, capable and possessing book-keeping skills he might become a supercargo, acting as agent for the principals in trade. Considerable responsibilities would fall to him overseas when quick decisions had to be taken in the light of the actual market conditions prevailing when a ship arrived in port. Original instructions might not be able to be carried out profitably, while waiting for new instructions might well prove the worst option possible. Where principals were weeks or months away from taking decisions, the man on the spot was in the best position for taking advantage of any turn in the market. Opportunities would often present themselves for a supercargo to trade a little on his own account (and he might be able to command a modest space on a ship for this), from which small beginnings greater gains might follow. An offer of advancement might well follow the demonstration of such honesty and ability.

Credit

The role of credit in the operation of business and its relationship with risk is so fundamental that it merits a specific discussion. Many sorts of risk impinged upon a business by way of making extra demands for credit, in different forms. Risks, as we have seen, were inherent in the context of nature, climate and technology. Storm and shipwreck were endemic at sea, as were delays in the fulfilment of transactions. Ships could wait for weeks at the quayside for full loading (inland transport and production could also be held up by many kinds of natural hazard). The inherent logistics of inland transport by barge and wagon curtailed efficiency, compounded by delays (which meant higher costs) beyond these intrinsic parameters. Ships could wait for days or more for a favourable wind to clear the Thames estuary or the Downs or the Bristol Channel. Customs clearance could be time consuming; quayside spaces or warehousing capacity could be stretched when delays in making port led to a bunching of arrivals.

When shipping was controlled in a convoy system, as sometimes happened in wartime, such delays were compounded as the convoy assembled, followed by further delays from slow sailing and changes of route.

Even after an effective insurance market developed for ships and cargoes in the early eighteenth century the recoverable costs did not compensate for all the forms of loss, such as the consequences of delayed transactions and the payment of claims. Seasonal interruptions to agricultural, industrial, mining, construction, shipping and trading activities were endemic. Export markets (and also the home market) were subject to cyclical variations – affecting returns by way of price movements as well as changes in volume. Where industrial production was scattered over different sites, with different processes utilizing artisan technology taking place in different localities, delays in fulfilling orders could be inordinate. In a sense speculative trading was inevitable given the decoupling between taking commercial decisions and the information on which they had been based, even if consignments were only dispatched according to firm orders. Market conditions could change between the time of placing an order and the arrival of the ship carrying the goods. The same was true on a lesser scale for the commercial time gap between London and the provinces. A week might be required for commercial intelligence between Britain and the North Sea littoral. Returns from a trading venture to the eastern Baltic from Britain would take half a year, a full year possibly for the transatlantic trades and two years to India, south-east Asia and the far east. Inland bills were normally payable at twenty-eight days, with equivalent extensions for maturity according to the distance of trading areas. Even discounting the risks of non-payment, destruction or damage, the uncertainties resulting from delays and enforced changes in prices meant that capital and credit requirements were much higher in relation to turnover than in more recent times of faster, more assured communications. Margins could also be finer as such efficiencies increased. Extra credit needs arose where such delays proved longer than anticipated. Because so much capital was locked up in stocks of raw materials, goods being made and goods in the course of distribution – in all of which mercantile credit was paramount – the efficient control of stocks was central to business efficiency and the minimizing of risk from over-extended credit. Procedures for recovering debt, beyond the 'protesting' of bills of exchange, could be uncertain and protracted, with the certainty of high legal costs. Debt recovery in a foreign country compounded all these difficulties. The Crown of Virginia Act of 1663, for example, made it 'almost impossible' for a British creditor to use the local courts to collect from a debtor who had moved to the colony.[7]

[7] Jacob M. Price, *Perry of London: a Family and a Firm on the Seaborne Frontier, 1615–1753* (Cambridge, Mass., 1992), pp. 81–2. The Colonial Debts Act subsequently reversed the situation when 'land, houses, chattels and slaves of planter debtors became liable for the satisfaction of debts'. The process could still prove protracted and expensive.

The centrality of credit is amply documented. The Perrys usually bought at eighteen months' credit and, in turn, for goods exported in adventures to America at least twelve months' credit had to be offered, with a retail mark up of 100 per cent or more.[8] Large planters in Virginia had the leverage to command extended credit from importing merchants, but middling planter consignees could be held on a short credit leash.[9] The credit chain stretched from the merchant supplying raw materials on credit to 'putters-out' and manufacturers in England right through to upcountry store owners in the Chesapeake and other colonies: 'the real cost involved in the long credit offered by the export merchant rested in turn upon the long credits available from the wholesaler'.[10] Twelve months' credit was usual in the domestic trades in England. Those who agreed to six months' credit 'keep constantly giving orders and send up bills when it suits them, or are not drawn upon for the full balance perhaps for 2 or 3 years, the accompt remaining open, it may be said that almost every country shopkeeper has credit for a year, if not more'.[11] Credit facilities have long been acknowledged as the key to developments in the trade and the development of the West Indian slave economy. As a Liverpool slave trader put it, the right sort of credit 'made the wheel turn'.[12] 'First place must be given to credit' in the development of Virginia and Maryland repeats the assertion.[13]

Good credit, access to credit and access to cash to meet the unexpected, unanticipatable emergency were keys to survival in this commercial world beset with risk and uncertainty. In normal trading conditions discounting bills of exchange with a banker would enable a businessman to get returns in cash without holdings bills to maturity. He might also take advantage of short-term ledger credits from suppliers – in ordinary

8 *Ibid.*, p. 49. 9 *Ibid.*, pp. 66–7.

10 Jacob M. Price, *Capital and Credit in British Overseas Trade: the View from the Chesapeake, 1700–1776* (Cambridge, Mass., 1980), pp. 124, 143, 192. Chapter 7 is entitled 'The significance of credit'.

11 *The Tradesman's Directory* (London, 1756), pp. 54–5.

12 Jacob M. Price, 'Credit in the slave trade and plantation economies', in *The Atlantic Frontier*, ch. 5.

13 Jacob M. Price, 'Glasgow in the Chesapeake tobacco trade', in *ibid.*, ch. 1. See also Jacob M. Price, *France and the Chesapeake: a History of the French Tobacco Monopoly, 1674–1791, and of its Relationship to the British and American Tobacco Trades*, 2 vols. (Ann Arbor, 1973), p. 733; Richard Pares, 'A London West-India merchant house, 1740–1769', in Richard Pares and A. J. P. Taylor, eds., *Essays Presented to Sir Lewis Namier* (London, 1956), pp. 45–50; Richard B. Sheridan, 'The commercial and financial organisation of the British slave trade, 1750–1807', *EcHR*, 11 (1958), 249–63; Rosemary E. Ommer, ed., *Merchant Credit and Labour Shortage in Historical Perspective* (Fredericton, 1990); Jacob M. Price, ed., *Joshua Johnson's Letterbook, 1771–1774: Letters from a Merchant in London to his Partners in Maryland*, London Record Society, 15 (1979); Jacob M. Price, 'Transaction costs: a note on merchant credit and the origin of private trade', in James D. Tracy, ed., *The Political Economy of Merchant Empires* (Cambridge, 1991), pp. 276–97.

circumstances mercantile credit could offer great flexibility. In certain circumstances a 'float' of short-term credit could also be rolled over, or renewed, rather than liquidated at term to form – in effect by overdraft and doubtless at 5 per cent per annum – longer-term credit requirements. The need for such extensions of credit, however, could prove to be hazardous when credit was tight and where commercial and financial confidence had lapsed, propelling a rush for liquidity. Then merchants, bankers and lenders in general would demand to get back into cash to protect their own positions and the demands for liquidity being made on them by their own creditors. Short-term loans would be called in, bills presented for payment at their legal limits, further discounts refused or accepted only at a high cost because of the rise in the discount rate (to the legal limit) which such contractions in multiple but interlinked credit markets would bring. Such contractions operated in common trading areas – with particular sensitivity between Amsterdam and London – apart from the linkages in internal markets. The integration of regional and local credit centres with London progressed rapidly with the development after the mid-eighteenth century of a network of country banks, all having correspondent banks in the capital.

A business could require extra short-term credit urgently in such a situation, just when its normal sources were adding to the pressure with demands for repayment. Mercantile assets (whether stocks or commercial credits awaiting maturity) would probably not be negotiable in such a commercial or financial crisis, or marketable only at an unacceptable discount. The enforced realization of such assets in a short-term liquidity crisis would invite disaster. On the other hand, holding a large reserve in cash against such an eventuality imposed high costs: apart from the necessary marginal cash 'float' to cover ordinary dealings such financial resources would be earning a return if left in the business or invested in the Funds.

Where, in such circumstances, could the owner or partner in a business turn for accommodation? The context, universally, was of personal, unlimited liability, which meant that no line could be drawn between the debts of the business and the private and personal assets of the owners. Family savings and assets would normally be the main recourse, together with help from trusted close confidants – such as the long-known family attorney or those long associated in trade. Those offering assistance would need to know that the need for accommodation arose from crisis market conditions facing the firm rather than from speculative overtrading or fraudulent dealings. A personal relationship developing personal trust was required to produce such confidence.[14] This has been well put for the Dutch context:

Merchants were pre-occupied with risk and reputation because they were preoccupied with continuity . . . It was a question of faith, of conscience, of trust and reputation. Those were essential values in trade. A merchant was dependent on others and it was often difficult to know whether a person was trustworthy. One had to go by reputation . . . people made a clear distinction between 'us' and 'them' between 'friends' and 'strangers'. Everyone who did not belong to the circle of . . . friends was a stranger of whom one could not be completely sure.[15]

The most extreme form of risk in lending would be an unsecured 'note of hand' – meaning that such a debt might well not be recoverable in law – so that personal trust was absolute and the only assurance for repayment was the honouring of the borrower's word. Security would normally be taken to cover a loan and the commonest form of security – many times more extensive than holdings in government stock – was freehold land and property. When unencumbered by existing mortgages this was the cheapest and the most reliable way of raising cash. The mortgage market was well organized, easily tappable through attorneys, and offered interest rates only about a percentage point over the return on government stock. Hence freehold property owned by the businessman needing more liquidity, or by members of his family or his wife's family, could be pledged. Kinship, by creating a bond of personal confidence, provided a crucial base for lending of last resort for a relative over-extended in business. Wider kinship linkages, with extensive cousinhoods, where close association and mutual trust prevailed, also provided a genealogical nexus for such assistance.[16] This has been extensively documented for Jewish, Quaker, Scottish and other minority groups in business (not least by Jacob Price), but there is every reason to suppose that this was a universal characteristic of the linkage between kinship and enterprise.[17] The wider the operative kinship network – where relationships remained active – the more extensive this safety net could be: many cousins could ensure survival through a temporary business depression or money panic.

14 N. Nohria and R. G. Eccles, eds., *Networks and Organisations: Structure, Form and Action* (Boston, 1992); Grahame Thompson, Jennifer Frances, Rosalind Lecacic and Jeremy Mitchell, eds., *Markets, Hierarchies and Networks: the Coordination of Social Life* (London, 1993).

15 L. Kooijmans, 'Risk and reputation in the mentality of merchants in the early modern period', in Lesger and Noordegraaf, eds., *Entrepreneurs and Entrepreneurship in Early Modern Times*, pp. 27, 32.

16 A. W. Sleeswijk, 'Social ties and commercial transactions of an eighteenth century French merchant', in *ibid.*, pp. 203–12. This documents the kinship networks in the Dutch–Bordeaux wine trade, reinforced by membership of the Walloon church in Bordeaux.

17 Price, *France and the Chesapeake*, pp. 596–8 (for cousinhoods in the Whitehaven tobacco trade); Price, 'Joshua Johnson in London, 1771–5' and 'Buchanan and Simson, 1759–1763', in his *Tobacco in Atlantic Trade*, ch. 8, pp. 155–6 (the Hanbury cousinhood), ch. 6, pp. 15–16.

Apart from unencumbered land and property the next most marketable category of asset which could be realized was a holding in the Funds (total holdings of British government stock were over £50 million in 1730, £80 million by 1750 and £600 million in 1810). Such holdings were realizable: the elemental condition and supreme asset of a permanent funded debt was that its holdings were always negotiable, commanding a market, even if at a discount from the purchase price. The exceptional circumstances of Charles II's 'stop of the Exchequer' in 1672, which immediately froze public credit, were never repeated; and nor could they have been if the state was to be financially viable in the British context (where levels of taxation were determined in Parliament and where the Bank of England rather than the government controlled the money supply). Military, political and commercial crises could depress the price of government stock, particularly when large new loans were being marketed in wartime, and this would make the sale of such assets for cash more expensive; but holdings in the Funds were a major recourse for a businessman whose kin had savings in this form.

The operation of the usury laws, which put a ceiling on rates of interest (in the eighteenth century 6 per cent per annum before 1714 and 5 per cent thereafter), affected such capital and credit transactions. The 'real' rate of interest on government stock was not affected because the legal basis was deemed to be that on the stock 'at par' – the par price being 100 and the formal return being usually $3\frac{1}{2}$ per cent or 3 per cent. The actual return to the lender depended on the current price of government stock on the market: if this was 50 then the capital would be yielding 7 per cent or 6 per cent. Normal interpersonal loans would be at 5 per cent per annum – borrowed in pounds, repaid in guineas – at the maximum allowed under the usury laws. For the lender taking security for a loan, due care was needed to ensure a safety margin between the cash handed over and the realizable value of the asset (in case the security had to be realized in less favourable market conditions should the borrower default on the loan). Creditors asked to liquidate their holdings in the Funds might require that repayment of their capital at the end of the loan take the form of replacing the same 'par value' of stock as had been realized to provide the loan originally. If the price of the Funds had fallen in the interim the capital cost of replacement would be higher so that the borrower would, in effect, be paying at a higher rate than the usury law maximum (i.e. 5 per cent per annum plus any loss on the capital transaction). This, however, was within the legal rules.

The mode of operation of the usury law itself increased the intensity of disruption in credit markets and hence the risk facing borrowers on those occasions when the market rate of interest was driven above 5 per cent per annum. With commercial interest rates for discounting bills, as well as personal loans, being legally pegged at that point some lenders moved out of the discount market looking for better returns in government stock or even in Amsterdam. Discounts therefore had to be rationed by quantity rather than by price. This increased the rate of interest in the discount market, which itself generalized the panic among those seeking accommodation and fearful of being denied. Such occasions were relatively rare and short lived – at times, usually in war, of acute commercial and financial pressures – but they made the search for credit more difficult just when such accommodation was most needed.

Apart from the occasional need for short-term credit in an emergency, longer-term borrowing might also be needed – for example, when a business was being established or when a major investment had to be undertaken, making capital demands beyond the limit which could be met from annual profits. Here, again, the same logic applied, with kin being a usual recourse, often associated where the context allowed by extending a partnership to bring in equity capital. Long-term personal lending, at the standard fixed interest rate, was also widespread outside the kinship group, where a bond of personal trust could be sustained.

Despite such various exigencies it might well prove that, in times of temporary commercial constraint, customers could not repay outstanding commercial debts when the normal credit period had transpired. This could happen on both sides – with the failure of debtors to honour their credit limits preventing repayments in turn to commercial creditors when bills of exchange on the firm matured. Where this happened, providing that the business was essentially sound – and, in some circumstances, even if it was not – little use would be served by protesting the bills or taking legal action to foreclose on loans. If recoverable at all, an enforced sale of the commercial assets of a trading business at such impropitious times might realize only a few pence in the pound and with long delays. Industrial assets might well be even less saleable. Only the lawyers would profit from such a decision to invoke the law. Better to hold on – letting short-term credit continue into long-term at 5 per cent per annum, and with security if possible. As well as obliging in this way, establishing such a 'moral' credit balance might be put to good use in later circumstances. The sense of reciprocal obligations extending over time could be finely tuned. While a customer was under such a loan or credit tie, of course, he would find it difficult to seek keener prices from alternative suppliers.

Credit, and access to credit, was thus the key to successful trading, and had been so for centuries. The pervasiveness of credit in the medieval economy has been amply documented: doubtless credit is coeval with commerce itself.[18] A financial structure of growing complexity and sophistication articulated ever greater and more complex credit needs and credit flows in the seventeenth and eighteenth centuries. The universality of credit, as an integral constituent of commercial dealings rather than an applied lubricant, was such that to identify the growth of commercial and industrial capitalism as the triumph of the 'cash nexus' in a 'money economy' is a perverse interpretation. Monetization was a complex process as it spread into many relationships, but this trend marched hand in hand with the elaboration of credit, not as a substitute for credit. Indeed, one rule for success might be 'let him owe', provided the lender was sure of the standing of the debtor and that payment eventually would be secure. Prudence and consideration ran together, and the moral obligation thus created could be useful in the future.

Creditworthiness

Access to credit, as a precondition for business operations, had as its Janus-face creditworthiness. Again, the context of high risk and a limited institutional structure conditioned the mode of operation. Very little knowledge was available: no credit ratings, no published accounts and no professional auditing, while bank dealings were a highly personal affair. Beyond the charmed circle of partners and their private ledgers (to which the ordinary clerks in the counting house would not have access) all was rumour and hearsay. Law provided an outer envelope within which the business system operated, but personal trust and confidence, personal standing and personal introductions were of the essence. A prominent Glasgow tobacco merchant wrote that at the local level in Virginia in 1766 'it is in dependence on the labour, industry and honesty of many [small planters], not of their real property that they get goods on credit from different storekeepers', although larger loans were normally secured on bonds at 5–6 per cent per annum interest.[19] A man's personal reputation in business was all. Published homilies abounded about trustworthiness and personal character bringing their due reward, accompanied by downside scare stories that a rake's progress of personal extravagance, the pursuit of pleasure, vice and irresponsible behaviour would surely lead to nemesis for the person and his business conjoined. Contemporary literature – fiction, drama and pedagogic – abounds with such moral tales. At

[18] See J. Day, *The Medieval Market Economy* (Oxford, 1987); R. H. Britnell and B. M. S. Campbell, *A Commercialising Economy: England, 1086–1300* (Manchester, 1995); J. Kermode, 'Money and credit in the fifteenth century', *Business History Review*, 65 (1991), 475–501; P. Nightingale, 'Monetary circulation and mercantile credit in later medieval England', *EcHR*, 43 (1990), 560–75.

[19] Price, *Capital and Credit in British Overseas Trade*, p. 125, and *The Atlantic Frontier*, ch. 5.

the heart of this truth lay personal trust and the need to maintain the respect of one's fellows. In formal terms this was endowed with Christian obligations, following in medieval theological and moral traditions (with oaths normally sworn on the Bible), but broadened in secular dealings in the seventeenth century to cover general contractual obligations in civil society (taking up a later philosophical position).[20] Such conceptual and moral premises, when translated into the context of business dealings, rested upon more elemental empirical foundations. Personal trust was in its nature reciprocal and forward looking, usually with the implications that a transaction was not to be seen as unique, isolated, one off, but potentially as part of a sequence. To gain personal trust and establish confidence, dealings needed to be honest, confidentiality respected, commitments fulfilled, agreements and promises kept, pledges redeemed. Reciprocal honesty was a precondition for on-going business relations. As an observer put the point in 1717:

> To support and maintain a man's private credit, 'tis absolutely necessary that the world have a fixed opinion of the honesty and integrity, as well as ability of a person . . . indeed a readiness and willingness to perform one's engagements is such a fundamental of credit, that all the affluence of money and the most immense riches are of no consequence if there be ground for the least suspicion of disingenuity.[21]

Parallels drawn between a lady's honour and the maintenance of creditworthiness in a business were commonplace, with the assumption that once personal credibility had been forfeited it could never be regained. Such respectability could not be asserted, bought or acquired in the short run. Reputation, standing, status in the trade depended on the perceptions of others. It was other people, upon whom he depended in trade, rather than the businessman himself, who created his respectability by according him status, and such credibility had to be built up over time and won by performance as well as words. There was no distinction to be made between the firm and the person in this respect, as there was none in law. Continuity was itself important as a demonstration of survivability – with continuity over the cycle of business booms and depressions. The sobriquet of 'the Old Bank', for example, sent its own message.

With continuity went roots: respectability could be confirmed by accepting positions of voluntary office – itself a mark of trust within one's community. In minority-group communities such appointments would be virtually elective by the seniors of the community. In trusts and

[20] A. B. Seligman, 'The changing pre-contractual frame of modern society', in *The Responsive Community* (Winter 1995–6, Washington, D.C.), pp. 28–40.
[21] A. A. Sykes, *A Letter to a Friend* . . . (London, 1717).

charities appointments were offered by existing trustees – all a mark of social and personal standing. This dynamic operated at virtually all levels of 'respectable' society – from village level upwards. The word 'friend', widely in use in the eighteenth century when referring to a trusted personal acquaintance or collaborator in business (not just within the Quaker community as the formal mode of address to fellow Quakers) is resonant with the implications of personal trust and the obligations which friendship entailed. In business the assumption would be that mutual dealings had established a bond of reciprocity, a presumption of good will and willingness to help. Personal and business considerations would not be separated. A request to oblige would be made in the personal confidence that previous obligations fulfilled on the other side had established a moral credit balance in the ledger of personal dealings which could be drawn on, an expression of the matrix of personal trust and obligation upon which successful business dealings always rested.

Interest has revived recently in non-market modes of transaction and the ways in which considerations other than the naked economic calculus of price and quality become integrated with such dealings. The spectrum between gift exchange, barter and purely economic considerations is a wide one. Avner Offer has recently called this the 'economy of regard'.[22] The reality is not so much that these were alternative motivations and mechanisms for exchange to impersonal market transactions, but how market mechanisms were integrated with such other considerations and (in the circumstances of the context under discussion here) necessarily complementary, if markets were to operate effectively. As well as requiring a framework of law and public regulation, together with a set of market rules for governing the niceties of market dealings, a further dimension of what can most easily be described as 'moral' obligation upon participants was also present. Of course, taking a past, present and future time frame into consideration, 'moral' conduct brought material advantage as personal trust built up such confidence, and confidence encouraged business. As emphasized above, the higher the level of risk and uncertainty the greater the premium on such personal qualities and their recognition in the market. The classical economic theory of the market took such considerations largely for granted, at least to the point of not seeking to integrate them conceptually into a formal model. 'The neoclassical paradigm "neglects social influence on economic decision-making", whereas historical research seems to indicate their overriding importance in early-modern

[22] Avner Offer, 'Between the gift and the market: the economy of regard', *EcHR* (1997), 450–76.

merchant rationality.'[23] The same was true of the political requirements for an effective market – another precondition for the market economy which was seldom articulated in formal terms. The platitudes of contemporary commentators about personal probity nevertheless rested upon a truth of profound significance for success in business, when rooted in its institutional context.

Accepting the obligations of reciprocity, as an underlying principle, provided the common denominator for the rules of conduct in so many instances, even if the actuality of reciprocity and its modes could be subtle, delicate and oblique as well as direct. Reciprocity remained a fundamental feature of interpersonal relationships. Obligations of friendship in the business context – where business dealings were the main focus of transactions – impinged indirectly on a dynamic which could become complex.[24] If businessman A had bonds of trust and mutual confidence with businessman B, then A could recommend a third party C, in whom he placed his own personal confidence, to B – with B having an obligation through his friendship with A to oblige C, provided that this was within the limits of prudence and reasonableness (in his view). A, for his part, would not wish to put his friendship with B under strain by seeking an 'unreasonable' favour on behalf of C. C then had the obligation of dealing honourably with B or risking his friendship with A, who had intermediated on his behalf. Networks of mutual trust and obligation were built up on such personal recommendations to mutual advantage. Of course, the chain of personal trust might be broken if obligations were not fulfilled, and this could then ramify through the network as the reverse dynamic took hold. The ramifications of such relationships spread widely beyond the purely commercial nexus.

Credit, clearly, was fundamental in such a matrix – a precondition for its operation – and a means of attaining mutually advantageous results. In Jacob Price's words,

> Most contemporary correspondence reveals that merchants fully understood the uses of credit in creating a business clientele . . . credit could also be a highly rational, mutually advantageous relationship for both clear-sighted lenders and intelligent borrowers.[25]

But social, and even political, obligations often lay behind the granting of credit, by family and kin, by patrons to clients, by merchants to members of the social and power elite to whom they might be beholden, actually or potentially in past, present or future. These non-economic imperatives,

[23] Sleeswijk, 'Social ties and commercial transactions', p. 211. A subsection of the text is entitled 'The social embeddedness of merchant behaviour' (pp. 203–4).

[24] See in Scott, *Social Network Analysis*.

[25] Price, *Capital and Credit in British Overseas Trade*, p. 16.

in a society held together by interpersonal dealings, might well be at the expense of economic rationality, narrowly considered. Professor Lawrence Fontaine has written with great perception of those credit relations in French provincial society in the eighteenth century. She sees credit 'not so much part of a money market but concerned with social obligations and power over men' – apart from credit transactions between merchants.[26] Effective commercial transactions, even in the most market-orientated contexts, still operated within the matrix of personal trust and reputation – the congenial aspect of this being social reciprocation, but the dark side fear of adverse material consequences. A correspondent pleading with John Norton in 1772 not to refuse a bill of exchange wrote, 'I should look upon it as so fatal a stab to the reputation of a trader that I should never be able to recover it.'[27] John Norton himself wrote 'when once my credit is lost all is lost with me'.[28] More positively came the recognition of 'something that may not improperly be called a commercial friendship . . . which takes its rise from a long correspondence and is established by a punctual and steady integrity on both sides'.[29] Thus the command of credit in times of commercial pressure may have been of more strategic importance than technical and administrative skills and this, in turn, depended on personal reputation, inspiring mutual trust, which had grown up over a long period, and was demonstrably proof against adversity.[30] 'The commercial ideal of honour – and hence of trust', writes Professor Fontaine, 'was initially constructed to guard against the twin fears of personal insolvency and collective bankruptcy: it functioned simultaneously as a safeguard against risk and as a framework for a mutually supportive society.'[31]

Minority groups – religious minority groups or communities of different nationals in an alien setting – offer the clearest examples of the importance of kin, closely associated other families and the personally known networks of individuals for the operation of business. The main concern here is not the long-argued debate about the role of different theologies and their associated value systems as a motivating force for business success, whether Jewish, Calvinist or other variants of Protestantism in the European context such as the Huguenot, Quaker or

[26] Lawrence Fontaine, 'Antonio and Shylock: an essay on credit and trust in eighteenth-century France' (given as the Tawney Memorial Lecture at the Economic History Society Conference in Lancaster, 1996).

[27] W. Reynolds to J. Norton, 28 November 1772, in Frances Norton Mason, ed., *John Norton & Sons: Merchants of London and Virginia* (Newton Abbot, 1968), p. xvi.

[28] John Norton to J. H. Norton, 16 February 1773, *ibid.*, p. xvii.

[29] R. Corbin (planter) to Osgood Hanbury (merchant), 13 June 1758, *ibid.*, pp. xvi–xvii.

[30] Robert A. East, 'The business entrepreneur in a changing colonial economy, 1763–1795', *JEcH* (Supplement), 6 (1946), 22–3.

[31] Fontaine, 'Antonio and Shylock'.

Unitarian. Such attributes do not seem to have had an exclusive specificity to any one theology – minority groups identified with different religions acquired such characteristics, while secular motivational norms of entrepreneurship could become integral with religious values almost independently of the underlying theology. Many aspects of the behaviour of a minority group in business are not exceptional or *sui generis*, although often more visible, more clearly identified and better documented than with non-minority groups in the same area of business. The degree of articulation of minority groups varied greatly with context, ranging from formal 'ghetto' status (with personal freedom, terms of settlement, range of permitted business operations, legal privileges current within a defined area and the like being subject to legal authorization by state or monarch) to a self-imposed separateness conditioned by race, religion, national and cultural identity, reinforced by reciprocal alienation on the part of other social groups.[32] But many of what are often taken as the key characteristics of minority group business behaviour and which gave cumulative resilience and self-reinforcing economic strength were not specific to a minority group role but a more general response to context. The commonest attributes – often cast in terms of accusations – are those of being clannish, secretive, doing business where practicable, lending and borrowing within the kinship group or a magic circle of coreligionists or fellow nationals, consolidating business interests with kinship links. This traditional charge of maintaining a 'commonwealth within themselves' was a universal attribute of minority groups in business, most clearly visible to competitors or would-be suppliers and customers outside the group in question, who were doubtless parties to alternative networks themselves. Apart from providing a basis for normative values, legitimizing the lives and work of fellow sectarians, religion provided the matrix for the coherence of the community in the sense of social organization, and the basis for networking. The social matrix of religion therefore became of great significance in the establishment of communities of personal trust, through membership of churches (membership of a particular church congregation could provide a focus for such consolidation), chapels, Quaker meetings and synagogues.

To the extent that hostility and alienation were projected against

[32] See, for example, Andrew Pettegree, *Foreign Protestant Communities in 16th Century London* (Oxford, 1986); P. W. Klein, 'Little London: British merchants in Rotterdam during the 17th and 18th centuries', in D. C. Coleman and Peter Mathias, eds., *Enterprise and History: Essays in Honour of Charles Wilson* (Cambridge, 1984); D. J. Ormrod, 'The Atlantic economy and the protestant capitalist international, 1651–1775', *Historical Research*, 66 (1993), 197–208; H. Pohl, 'Die Portugiesen in Antwerpen, 1567–1698', *Vierteljahrschrift fur Social- und Wirtschaftsgeschichte*, 63 (1977); C. H. Yungblub, *Strangers Settled amongst Us* (London, 1996).

minority groups, all the forces in the context of business which have been identified as increasing risk were maximized, and encouraged the consolidation and internal coherence of the minority group in question. An 'alien' merchant coming to a foreign country would find the church at which his fellow countrymen and fellow sectarians worshipped his own natural focus. Apart from worship he could participate in social intercourse in his own language. Information networking as well as business collaboration were advantageous attributes of active participation. Virtually all the Dutch merchants in London in the early modern period worshipped at their own Dutch church in Austin Friars. The Scottish Presbyterian community at Veere, near Middelberg, was the mirror image on a smaller scale. Marriage partners were also potentially to be found within the same communities linked by a common faith, as social relationships endorsed the religious. Where a minority group had an international nexus as with the Quakers in transatlantic commerce or the Huguenots or – preeminently – the Jewish Sephardic communities more widely, a confidential information network had high value for all those with access. Non-local connections along the trade routes gave great strength.

Financial independence and strength were a necessary basis for the security of minority groups in a hostile environment. For the poorest members of the group there would be no public welfare. Private charity had strings attached which might threaten religious independence. At a higher level minorities would be excluded from the spoils of office. Fixed assets in land and property (where allowed) could also be more at risk, because less easily transferred or realized than financial assets, which could provide a better basis for current income. Some attributes of the context of high risk, that is to say, applied more forcibly to minority groups identified and segregated by religion, race or nationality. Equally, money lending, banking and finance were the most confidential of dealings with the highest premiums on personal trust and individual wealth. Personal family wealth with accumulation through the continuity of generations (if the hazards of genealogical discontinuity could be avoided – and a wide cousinhood could help with that) meant that well-established kinship groups enjoyed the benefits of cumulative advantage. These may well have been particularly important in banking, exemplified in Jewish and Quaker circles, although, as Jacob Price has shown, the family continuity and strength in banking and brewing of London Quaker families did not lead to their continuing as practising members of the sect – rather the reverse.[33] The dynamics of assimilation as against the surviv-

[33] Jacob M. Price, 'The great Quaker business families of 18th century London', in his *Overseas Trade and Traders*, ch. 3.

ing identities of minority groups are complex. The greater the alienation and hostility of the host environment, the greater the degree of separateness in the identity of the minority group by race, nationality and religion – with interacting influences – then the greater tended to be its continuity. Where conditions of high risk survive, whether by location and context or by the nature of the business, we see surviving the modes of business which were almost universal in the period under discussion in these pages, which Jacob Price has made his own.