Early Modern merchant strategies and the historicization of market practices

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Among historians, there is no lack of interest in markets of the Early Modern era, which can be roughly defined as the period extending from the Renaissance to the beginning of the 19th century. The study of Early Modern trade has steadily gained in importance since Braudel provided the first general account, which traced the emergence of modern capitalism to this period, and more specifically in the development of its commercial life, although in part contrary to its "normal" course (Braudel 1979). European trading communities have been explored in numerous monographs, with an emphasis on ports and the so-called "Atlantic world" (Hancock 1995; Jeannin 1996, 2002; Lespagnol 1991; Morgan 1993; Matson 1998; Price 1996). The operations of Early Modern markets have been probed empirically, and with an emphasis on the ubiquity of credit relationships (Finn 2003; Fontaine 2008; Hoffman et al. 2001; Muldrew 1998) and on the significance of private, self-regulated networks (Hancock 2009; Trivellato 2009).

At the same time, market development has come to play a central role in the account of the transition to modern, industrial capitalism. Earlier analyses stressed technical, organizational or more widely Schumpeterian innovations and the rise of the factory. Pre-19th century developments were mere preliminaries; at most, primitive capital accumulation or the dismantling of various premodern institutional or ideological obstacles set the stage for growth, rather than providing its engine. Recent accounts almost always turn to earlier periods, to a preceding age of commerce which explains and underpins the later, spectacular growth of the 19th century. Explanations in the literature are quite diverse: from a standard growth theory in which market unification brought about increased overall demand and lower costs (Rothenberg 1992; Meyer 2003; Van Zanden 2009) to neo-Schumpeterian paeans to the scientific spirit or the revaluation of bourgeois virtues characterizing Western Europe (Mokyr 2005; McCloskey 2011) or less sunny variants in which escape from stagnation became possible thanks to the stolen profits of imperialism, or the sheer luck of local coal availability (Pomeranz 2000; Wrigley 1989). The common thread among these diverse theories is a shift away from 19th-century machines and factories, towards an 18th-century market economy and its attending institutions, ideals and practices which takes center stage not as a foil to full-blown capitalism, but rather as its cradle.

Early Modern social historians of markets and economic-minded historians of Early Modern growth have a hard time connecting, however. The latter, usually trained as economists, tend to assume models of market behavior which are hard to reconcile with the empirical accounts provided by the former. Early Modern markets were opaque, with information largely unavailable, and barriers to entry ubiquitous. Above all the economic agents operating in them rarely engaged in the kind of profit-minded calculating activity generally associated with the classic utility-maximizing rational agent. Few calculations of profit were ever made; accounts were poorly kept, if at all, and almost never balanced; and interest-free credit was the rule rather than the exception (Gervais 2012, 2014; Jeannin 1996: 82; Toms 2010; Yamey 2000). Market historians, however, generally do not go beyond these observations, and shy away from proposing a coherent economic description of what they observe which could compete

with the standard economic analysis of market operations and provide an economic model accounting for these behaviors. Instead, they retreat into invocations of embeddedness, or references to social obligations competing with market attitudes, such as community networks or *noblesse oblige*, which are used to explain the difference between observed agent behavior and expected utility maximization.

As with all epistemological generalization, there are exceptions. A few French economic historians, myself included, have tried to explore the possibility of economic narratives of the Early Modern era, whether model-based or not, which would depart from standard economic conceptualization (Daudin 2005; Gervais 2012; Grenier 1996; Verley 2013). That such a cluster of heterodoxy would occur for this particular topic is probably no coincidence: precisely because we know so much about Early Modern markets, and because they are so widely used in historical economics, the disconnect between historical knowledge and economic modeling is at its most glaring, and invites research. There is also the lingering influence of earlier work on household and moral economies, including the Braudelian non-capitalist markets cited above (Braudel 1979: vol. 2; Bruegel 2000; Merrill 1977; Thompson 1966).

But in one respect at least this is, at best, an incipient program of research. Unlike economic sociology, which is methodologically sociological, current economic history generally tends to be methodologically more economic than historical, a point recently and forcefully made by Francesco Boldizzoni (Boldizzoni 2011), which also holds true for most of the French heterodox school. Economic history is much closer to historical economics than to a history of the economy which would work on the periodization of economic practices, ideas and attitudes, historicizing them in such a way as to build historical moments which would clearly differ from one another in the vocabulary and the economic models used to describe them. The recent resurgence of neo-institutionalism is a case in point; while a number of authors have elaborated complex descriptions of the interplay between institutions and market mechanisms, the latter are basically considered as constant, with institutional influence taken as an exogenous force slowing down, accelerating, redirecting, and indeed making possible what remains largely an unchanging given (Greif 2006; Ogilvie 2011).

The work presented here is an attempt to explore the possibility of a more historicized understanding, taking as its starting point the apparent lack of concern for profit calculations evinced by even the largest Early Modern merchants. What economic — not social, not cultural — model could bring a merchant at the top of his profession, managing very large flows of money and goods, to not draw a balance sheet regularly, or to not charge interest whenever possible? Can we find a truly economic logic which would make such practices rational and utility-maximizing, and not merely the manifestation of a rationality somehow incomplete, or uninformed, or hobbled by handicapping external circumstances?

What was tracked: profit, assets, or credit flows?

Two families of sources allow us to understand how Early Modern agents approached market activity in general and profit in particular. Merchants wrote both account books and correspondence, with account books being partly normalized through double-entry accounting. The latter technique, developed in the late Middle Ages, enabled its users to record complex sets of transactions into multiple accounts, which could then be

balanced to show a profit or a loss, with the result of these balances recorded in a profit-and-loss account. However, most agents did not use double-entry accounting and simply recorded transactions as they occurred, or at most in "accounts current" books, corresponding to what was called "single-entry" accounting. Moreover, in most of those cases in which double-entry was used, individual accounts were seldom balanced, and a general computation of profit and loss over the whole set of existing accounts was even rarer, except in cases such as partnerships or stock companies which required regular reports to investors.

The standard narrative in accounting history maintains that since balances and accompanying profit calculations were made possible by double-entry accounting, the slow progress of such methods reflected the development of a truly calculating, capitalist spirit (Weber 1930: 18-19), thereby demonstrated to be present certainly as early as the 17th century among the most astute agents of the era, and among the managers of new, large stock ventures, such as the various East India companies (Carlos 1996). While practitioners only slowly discovered the possibilities of the form, textbooks had long pointed out that double-entry accounting provided tools for tracking profits per product line, tracking overall profits, and using such information to develop efficient business strategies (Edwards 2009).

The slow move toward systematic profit calculations, especially among merchants, has been ascribed to the overall structure of the markets (Yamey 2000). Early Modern markets were highly segmented. Information and goods circulated extremely slowly and imperfectly, and as a result prices could fluctuate wildly and unexpectedly, while agents were unable to change prices of goods long since sent off at earlier prices, or of orders passed weeks or months before the sudden change in a market. Prices were at best informed bets on the future, and moreover varied with the quality of goods, which was far from standardized and subject to unexpected ups and down; a merchant receiving a load packed in far-away places and transported under complex constraints could never be sure of what he would find upon opening its crates and barrels. In this narrative, profit tracking through double-entry book keeping was a revolution waiting to happen, with imperfect market development the only hindrance to the realization of its full potential.

A close examination of the way agents conceived of profit and its place in their activity produces a very different picture, however. Accounting textbooks always mentioned profit and loss calculations within a larger framework of credit evaluation. The goal was to clean up what accounting authors of the Early Modern period called "incomplete" transactions, that is, transactions which were limited to a net profit or a net loss, with no change in the credit position of the operator towards his or her various creditors or debtors. Whether an inheritance was received, or funds were spent on storage, or a ship sunk, the end result was a net increase or decrease in the assets owned, with nobody else owing more or less as a result. Sums won in a card game ended up being treated the same way as a profit on a shipping venture, as comparable entries in the profit-and-loss account. Indeed both French and English textbooks explicitly argued that all these operations were essentially the same, and that there was no need to distinguish between the various form of profits and losses involved (Gervais 2012).

The complete absence of theoretical reflection on the sources of profit could be written off as an optical illusion. The empirical itemization of specific profits and losses compiled through double-entry accounting in a profit-and-loss account could have been enough to fulfill the needs of the practitioners. But turning to actual account books, one has to admit that even the most advanced users of double-entry accounting usually wrote down profits and losses in such as way as to make any detailed profit calculation impossible. Levi Hollingsworth, a Quaker merchant of Philadelphia active in the 1780s, left a large set of books which prove that he was an extremely zealous, and in some way modern, accountant, drawing up a general financial statement for his business every year, for instance, which showed the net gain or loss occurred in the past year. But even Hollingsworth recorded profits and losses indiscriminately into a year-round profit-and-loss account, which he used as a cleaning-up tool. He then transferred the balance of this running profit-and-loss account to a second, separate profit-and-loss account opened specifically in order to register his overall profit in the final balance at year's end. The result of this was that in this final yearly balance, the profit-and-loss account contained a few lines at most, and gave no detail as to the sources of profit (N.B.: specific examples in this paper are drawn from the databases built by ANR MARPROF, available on demand at http://marprof.univ-paris1.fr).

Other merchants using double-entry accounting shared the same approach, registering their overall profit, if at all, as the sum of very diverse individual entries sometimes accumulated over years of activity, and in such a way as to make impossible any analysis of the actual sources of these profits, except through a painstaking rereading of dozens of original entries, often scattered over several pages. Even special accounts devoted to a given product ("Flour account", "Wine account") usually could not be used as a basis for profit calculations, because of the multiplicity of suppliers, qualities and prices involved, and because no effort was ever made to trace and individualize one lot of goods from its arrival to its departure. Lots acquired at various times and at various prices were jumbled together and redispatched throughout various transactions, so that nobody could possibly find out how much had been made on a specific barrel or package. Moreover, goods bought and sold were often regrouped into general accounts ("General Merchandize" being frequently used), or even transferred from suppliers to buyers without transiting through the specialized accounts supposedly listing them. A merchant could thus have one "Flour" or "Sugar" account, but simultaneously buy barrels of flour from supplier X and record them as part of a cargo for one of his shipping ventures, or buy barrels of sugar from X and sell them to Y, without either set of goods ever being listed in the specialized "Flour" or "Sugar" accounts (Gervais 2012, 2014).

And this was far from the worst possible situation when it came to merchant accounts in the Early Modern period. Using the somewhat arcane and complex tool of double-entry was a characteristic of the largest traders, or at least of the economic agents most committed to building detailed accounts. The majority of the population which did keep records mostly used single-entry records, which left even less space for profit analysis. Transactions were at best recorded in "current accounts" books, usually without any profit-and-loss account at all, and at worst, and more commonly, recorded in chronological order in day books. Accounting for profit did appear in the specific situation in which several investors had to be given accounts of the results of a joint investment. This was the case not only with the better-known official joint-stock companies active in international trade, such as the various East India Companies, but

also for any informal partnership and joint venture, such as shipping ventures. This has led some authors to link profit accounting to the "socialization" of capital (Bryer 2000a, 2000b). But even then what such investors received was usually a rather schematic account of the net result of the venture, with no effort made to detail its sources. In most cases, anyway, crucial information would have been missing to assess the key variable, the price at which the goods had been sold, since the partners had no way to check either the quality of the goods sold or the extent to which the sales price was the "best" price given the conditions at the endpoint market. Indeed the goods traded, whether regionally and nationally (wheat, wine, cloth), or overseas (colonial products, finished European goods, and the highly peculiar "merchandize", West African slaves) were usually not traceable even from the point of view of the merchant who took primary responsibility for trading them, since the loads eventually sold were usually made up of several different lots originally bought at various prices. As a rule, no attempt was made to separate the goods by source at the time of the final transaction, a practice which forbade any detailed profit statement since final selling price and original buying price were actually averages built over several, often very different, lots of goods (Gervais 2011).

Overall, the core goal of double-entry accounting among merchants was to accurately track complex flows of credit between multiple accounts in order to achieve a detailed, "true and fair" view of all assets, but most particularly credit relationships, when a final balance was drawn (Gervais 2012; Wolnizer 1991). With this goal in mind, net profits and net losses had to be cleaned out rather than analyzed, since they could throw off the valuation of certain assets, and did not add anything to the measurement of credit flows — they were "incomplete", in the words of the authors of textbooks. Thus they were not analyzed, not only because market conditions made such an analysis pointless, but also because the focus of merchant accounting activity was elsewhere. This is particularly remarkable when one notes that significant numbers of large producers, such as ironmasters or landed proprietors, had routinely compiled, analyzed and drawn advice from detailed profit and loss sheets at least since the end of the Middle Ages (Fleischman/Parker 1997; Toms 2010). Why, then was the focus so different among merchants, who arguably made up, if not the most powerful, at least the most dynamic and successful economic group throughout the Early Modern era? To answer this question, one has to turn to merchant practice, and to the strategies underpinning both these practices and the accounting practices they gave birth to.

Market segmentation and market control, the tools of merchant domination

Merchant strategies, which can be recaptured in particular through correspondence among the actors, were not merely the result of partly imperfect markets. What was prominent in merchant minds was their ability to manipulate market segments, as well as supply and demand within them. In this overall framework, cartelization was a key feature. Market activity always took place within a peer group, ideally achieving oligopoly or oligopsony control over the buying and selling of a particular type of commodity in a particular place. No market was free, no actor was isolated. Even at the lowest level of the merchant world, that of the village grocer or urban hawker, prices were never set through a straightforward confrontation of offer and demand, but rather as the local manifestation of complex battles between competing oligopolies. The key to this strategy was the ability of merchant subgroups to control access to a given market

segment, and constitute themselves into merchant "rings", quasi-cartels with strong oligopoly and/or oligopsony positions over this particular market segment.

The existence of such rings, incidentally, can be directly observed through quantitative study of account books: by plotting the network relationships created by transactions between personal accounts, and between merchandise accounts and personal accounts, one can determine in both cases that these transactions were grouped into sub-networks with little communication among each other. This is particularly striking when analyzing transactions involving merchandise accounts. Typically, such an account (say, "Flour") was linked with a very specific subset of suppliers and customers, with little if any relations to other merchandise accounts, and even to other subsets of actors. A few key players, on the other hand, shared with the principal owning the account books the distinction of being connected with several subnetworks at once. This, again, was never mere chance, but rather the direct result of a particular status such "bridge" actors had achieved with respect to the overall operation of the merchant owning the accounts. They could be the merchant's main agent in some crucial capacity or location, his or her official partner in a partnership, or his or her unofficial banker and provider of cash or credit (Gervais 2012; McWatters/Lemarchand 2013).

Building trusted groups of collaborators, however, was not in and of itself enough to achieve a cartelized position. This could stem from a variety of sources, but the most general starting point for this process in the Early Modern period was probably the ability to achieve a decisive comparative advantage in quality control. Because goods were not standardized, and imitation and fraud ubiquitous, a buyer could never be sure of the exact nature of what he bought (Beaur/Bonin/Lemercier 2006; Gervais 2008). A piece of cloth could be the luxury product of a French royal manufacturer just as well as a cheap imitation from across the border in Flanders or Switzerland. Good-looking flour could turn out to be an inferior product, gone to rot and inedible after a few weeks. Expertise was needed to detect even basic blemishes in most products, and even experts could be fooled. One merchant could not hope to reach a satisfactory level of expertise for more than a very limited set of goods, and even then could not be sure of the results. Specialization was thus only a partial solution, and not a very satisfactory one, since it restricted merchant activity to a very small number of markets. Since all markets were both heavily segmented and collectively managed by well-defended quasi-cartels, no economic agent could hope to dominate one market enough to generate massive gains. Rather, the gains one could hope to reap were commensurate with the number of market segments one took part in; in this regard at least, specialization was a self-defeating strategy.

The way to solve this particular conundrum was to avail oneself of a network of trusted suppliers and agents who would provide expertise for a particular market segment — a step which would also turn the group of allied peers I mentioned earlier into a formidable tool for market control. Lack of access to such specialized networks constituted a well-nigh impenetrable barrier to entry for newcomers. A would-be player on any market, say colonial sugar in Bordeaux in the mid-18th century, for instance, needed to create his (the colonial trade was entirely dominated by male actors, see Haggerty 2011) own network of planters and intermediaries in the sugar islands of the Caribbean, and to find buyers who would be willing to provide him with outlets for the sugar imported. On both sides of the equation, the lack of trusted partners meant a

sizeable risk, or indeed the near-certainty, of being loaded with an inferior product, or losing on sales because of underbidding on the part of the buyers or commissioners taking the sugar. This was a universal problem: in the absence of detailed institutional standardization and norms of the kind introduced in the second half of the 19th century, hierarchies of quality were essential to determine the price of a product, and these hierarchies were as much the product of a joint negotiation between buyers and sellers as the translation of any intrinsic characteristic of the good itself. To a large extent, quality was what the two parties to the transaction decided it was, and absolute mutual trust and cooperation was essential if one wanted to get what was commonly called "the best price."

Incidentally, this best price was not always the highest selling price or the lowest buying price; what was important was the price/quality combination. Higher priced, higher quality goods could bring higher profits on some market segments if customers were willing to pay more for what they liked better. Profit, insofar as it resulted from the price/quality combination built by the supplier, was thus also heavily dependent on an adequate match between that combination and the tastes of the target customers. Proper information on every aspect of the endpoint market, from customers' tastes to the evolution in prices, was essential. Suppliers' and buyers' networks thus doubled as sources of information on the state of a market segment, which was the other major barrier to entry that merchant rings relied on. Without detailed and correct data on both customers' preferences and price levels at a specific place and time, a merchant was sending goods blindly, and hopes of return were little more than wild bets (Gervais 2008). Coordination through information flows was essential, but information was easily controlled in a world in which most economic agents operated privately and in almost total secrecy. Again, a would-be player had to gain sources of information, which means that on a given market segment, only those with what would be called today "insider information" could trade with a reasonable hope of profit. Indeed, when for various reasons (distance, wars, etc.) the flow of information was missing or insufficient to ensure informal coordination, merchants went to great lengths to build special mechanisms enabling some degree of formal coordination, such as the public and regulated auction system Spanish merchants used in Spanish America (Lamikiz 2014). But in general, the possibility of achieving a very high level of control over market information and of preventing others from accessing it was the second main weapon whereby rings achieved complete dominance over given market segments.

A side result of this particular form of market exchange is that prices were never used as public signals on an open market on which demand and offer faced off, and in some cases were not even the best signals available to gauge the state of a market. Very often, public prices were lagging behind actual market evolutions, and sometimes did not reflect them at all. It has been shown that price-setting in the Early Modern era was largely cyclical, with a very strong path dependency at any particular point in space and time. In other words, there was a "customary" price for a particular good at a certain point in the yearly cycle (Grenier 1996). The main strategy merchants used to extract more than the "customary" profit was to play on quality, as we have seen. But they also derived their best gains from temporary imbalances in these market segments, in particular price differentials. Much as with contemporary stock exchanges today, these differentials generated profit only for the merchants reacting to them early, since latecomers would enter after the imbalance had been corrected. Merchants constantly

traded information on prices in the markets they were familiar with, because such information was not public, and constituted insider knowledge which could be exploited for profit. Such flows of information were of course strictly restricted to the members of a ring, and reinforced the barriers to entry newcomers would face.

The mot sought-after situation for merchants arose when exogenous shocks — a war, a bad harvest, any unusually large imbalance between supply and demand — would generate exceptional departures from the "usual" price, and huge monopoly profits for the groups able to step in and buy or sell at these moments of crisis. Collusion, cornering and speculating were thus rampant, in spite of all institutional efforts to limit what was seen as a source of scandalously undeserved profit, as well as of dangerously wild swings in market prices considered especially problematic when it came to vital goods such as wheat (in Great-Britain, injunctions against "forestalling, regrating and engrossing" go all the way back to the Middle-Ages...). In crisis situations, the cartelized nature of a local market segment tended to become even more pronounced, turning it into an arena in which two merchant rings, one of buyers, one of sellers, battled each other. Agreement between the two rings translated into brisk market activity, while lack of agreement brought transactions at a standstill. In this particular context, the true gauge of the state of the market was thus changes in the quantities of goods bought and sold, much more than price changes. A radical departure from the equilibrium price hypothesized by economists would be translated into a disappearance of buyers or sellers, and the outcome of the conflict would be a new price, as in classical economics, but this price would not have been reached through an open, transparent bidding process. Rather, secret negotiations would take place, and their unfolding would be primarily dependent on the availability of capital and credit on each side of the battle, and on bets on the future evolution of supply and demand.

All this should prompt economic historians to reevaluate what are usually analyzed as Early Modern market "imperfections". In these markets, insider trading, buyer and seller cartels, price-fixing, speculation, market cornering – in short virtually unbreakable barriers to entry and imperfect information reserved for the privileged few – were not bugs, they were fixtures. Merchants living off of these tools had no reason to agitate for transparent information, easier access to capital and credit, or State-run standardized norms as long as they were on the right side of the rings controlling a given market segment. Outsiders could call for all these, and more generally for an end to privileged positions, for better freedom of entry into a market, and for the destruction of tariff and non-tariff barriers, but they would quickly change their tune as soon as they themselves had consolidated a cartelized position. The tug-of-war between militants of the free market open to all and defenders of traditional market management by a privileged few was thus constantly reborn with new actors, and should not been seen as reflecting any deep-seated opposition between two contrasting political economies (Hirsch 1991).

One should also note that this type of economic organization led to a stark differentiation between actors with market power and all other economic agents. Extra profit could be made through the market management of price/quality combinations and the exploitation of exogenous shocks to customary prices, but producers who were not themselves actors on markets were barred from benefitting from such techniques. Indeed, for each given market they were at the mercy of the specialized networks who operated on that market, and basically controlled it. The result was a plethora onf

informal cartels, what I would propose to call merchant "rings", which could force on their suppliers extended delays for payments, or transfer storage costs to them, while manipulating selling prices to their best advantage and gouging customers and suppliers as much as customary price structures allowed for, and much more whenever crisis circumstances arose (Margairaz 2014; Villain 2014). Control of market access was buttressed by a combination of privileged information and such cartel-like networks, and was often complemented by merchant ownership of the means of communication, including the roads themselves whenever privileges were granted, as in the cases of turnpikes and canals (Gervais 2004). By the end of the 18th century, this economic organization was widespread enough to generate an increasingly visible shift in economic and social power away from the earlier landed elites, to the benefit of what may have been a merchant ruling class.

Merchant rings, credit relationships and the mechanics of merchant accounting

The crucial result from the point of view of our initial question on merchant strategies, however, is that the maintenance and development of the merchant "rings" to which a merchant belonged held precedence over any other consideration. Each specific ring fulfilled crucial functions in terms of the relationship a given merchant maintained with the market segment over which the ring held sway. The ring provided connections to a network suppliers and buyers both trusted and knowledgeable, who also functioned as the source of the information necessary to conduct transactions efficiently. It unified local players in such a way as to prevent outsiders from creating dangerous competition, and enabled its members to enforce their demands on producers and customers alike. It served as a mutual insurance fund, since profits and losses were usually spread over several partnerships within the ring; and, last but not least, it could be used as a quasi-bank, since the members could draw on each other's credit whenever the need arose.

This banking function is particularly important when one considers that most transactions in the Early Modern period were done on credit. Credit came in two forms: interest-free book credit, and commercial paper, more or less formalized (by the 18th century, simple IOUs were ubiquitous, and the earlier, strictly regulated letters of exchange had largely faded away). Book credit was even less formalized: once an account was opened, the account holder routinely both granted and was granted free credit in the form of unsettled transactions. Debts owed on transactions simply recorded in account books could reach impressive levels. A single account in the Bordeaux trading house of Abraham Gradis in 1755 was found to be in the red by 40,000 *livres tournois* for close to two months; using daily wages of construction workers as a basis for comparison (Baulant 1971), such a sum would be equivalent to €2 million today. An overdraft of this magnitude was possible only with close business associates, but even small village grocers loaned out relatively large sums, albeit in smaller amounts and over dozens of customers to whom they extended credit.

As I pointed out in the introduction, free credit used in such a generalized way is something of a puzzle from the point of view of today's political economy. What possessed these creditors, and why didn't they convert these informal book loans into commercial paper? IOUs had two major advantages over book loans: they could be negotiated at a discount, at least among the people who knew both creditor and debtor, and in some cases in much larger circles, and above all they were limited in time, and always bore interest once the period for which the loan had been originally extended

was completed. Rather than loaning 40,000 *Livres tournois* for free, Abraham Gradis could have drawn up a note of hand for the same sum, valid for a week or a month, after which it would have started paying interest. That he chose not to do so must be understood in the wider context of a very different political economy characterized by markets dominated by merchant rings . Then, and then only, does the choice of an interest-free loan become economically logical.

In a way, opening an account, at least for a fellow-trader who would eventually end up owing or being owed large sums of money, was tantamount to creating a partnership. Even at the lowest levels of commerce, a book account in a village store meant that the holder was granted the status of privileged customer, with a right to some free credit at least. In all these cases, the account holder was engaging in a mutual relationship which included duties, including economic duties, on his part as well. Credit could and did circulate both ways, and a merchant in trouble economically could turn to the network of people with whom he or she was "in account" to borrow some cash, take goods while withholding payment, or even ask for a credit loan in the form of a note of hand which he would discount elsewhere. Even more importantly, book accounts were the economic manifestation of the solidarity between members within a merchant ring. Because they traded with each other and were allied, each member of the ring would have accounts with at least several other members, and would thus be able to draw easily on the free credit thus extended by some of their partners.

Free book credit was only one element of a larger structure of credit, which, thanks to quantitative analysis of accounts, can be shown to have been crucially important to merchant activity. To start with, part of the existing interest-free book credit extended to business partners could be turned into a negotiable instrument. Merchants routinely cleared debts between themselves by using each other as a clearing house: a debt owed by merchant X to merchant Y would be offset in the books of merchant Z, who would debit X's account and credit Y's account with the amount owed by X to Y. This simple compensation method, with no recourse to cash or commercial paper, amounted to 20% of the value of all transactions in 1755 for Gradis in Bordeaux, and 25% for Hollingsworth in Philadelphia in 1787. Other merchants may have been less prone to this kind of clearinghouse-like activity: the Chaurand firm of Nantes, at the end of the 1770s, recorded clearing transactions worth only 5% of the overall amount exchanged. But the slack was more than taken up by the other dimension of merchant credit, commercial paper (generally in the form of simple IOUs). Once this commercial paper was factored in, merchant firms ended up with well over 50% of the value of all their transactions incorporating some form of credit (75% for Hollingsworth, 69% for Gradis, and a still hefty 52% for Chaurand). Overall, it is no exaggeration to claim that most Early Modern transactions took place on credit — which means in turn that the credit function of merchant rings was absolutely essential to its members.

The resulting constraints on Early Modern economic agents go a long way towards explaining both their credit practices and their accounting practices. Free credit was a badge of solidarity within a merchant ring, which we can define as a tightly-knit group of operators working to keep their hold on a market segment. Possible losses from forgiven interests were a marginal concern for a ring member, compared to the burning need to stay within the ring and to foster ring solidarity and cross-participation. Even in purely calculating terms, the windfalls from ring activity were certainly much larger

than whatever profit one could derive by charging interest, especially since one would presumably also have to start paying interest to others too. Similarly, both strategies and profits stemmed from one's position in a ring, not from any particular venture or relationship. Calculating the net result of a particular transaction, at a certain price/quality level and at a certain point in the ring's lifecycle, was not particularly enlightening. Indeed, many transactions could end up in apparent net losses if taken in isolation, while being part of a highly profitable larger whole. Thus in 1755 Gradis loaned for free on account more than two hundred thousand *livres tournois* (equivalent to about 10 *million* euros in today's money!) to one François Bigot for months on end with not the slightest apparent return, but this generosity becomes much more understandable when one discovers that the said Bigot was in fact the *intendant du Canada*, and a key actor in providing Gradis with highly profitable royal contracts for the supply of the province (Gervais 2012).

Overall, nurturing one's participation in rings had to be the paramount goal for any rational merchant. This was profit maximization for sure, and could bring about the tracking at regular intervals of overall gains in assets. But the particular political economy in which this search for profit took place meant that "profit" was much better measured as "credit", and not only quantifiable credit, but rather a wider notion of credit which encompassed the qualitatively assessed position of power one achieved within the rings of which one was a member. In this qualitative approach, credit was the ability to trust and be trusted within a bi- or multilateral relationship in which all sides were expected to act predictably and consistently according to implicit collective rules of behavior, rather than simply trying to maximize their own personal gains. Such a trusting relationship enabled flows of monetized credit, of information on markets and products, and of the products themselves, managed in such a way as to ensure a fair distribution of the profits arising from the control the group thus created maintained on a market segment (Gervais 2012, McWatters/Lemarchand 2013).

Even double-entry accounting could provide only partial tracking of the gains of a merchant in such a universe, since a good deal of the "gains" could be of a wholly non-quantified nature (entry into a new ring, e.g.). Moreover, the most interesting indications, strategically, came from the qualitative evolution of the set of accounts which directly reflected ring activities, which explains why all textbook authors insisted on the necessity of "weeding out" costs and profits to gain a "true and fair view" of the situation of these "complete" accounts. Each personal, merchandise or venture account was a strand in a narrative describing the life of a particular ring (McWatters/Lemarchand 2010), and its value had to be carefully tracked. On the other hand, the figures thus recorded were far too context-dependent to be used outside the specific framework of the ring activity which gave rise to them, and generally to offer any larger strategic lesson for future activities. Even overall assets measurement was merely a sign of the dexterity with which a merchant juggled with his many commitments, and no general conclusion could be derived from it either. As for costs, their meaning could change radically from one account to the next, depending on who was paying what to whom. Because ring activities were usually managed through complex subcontracting structures, particularly in the form of temporary partnerships or commissioning activities, a "cost" could actually turn out to be a payment from a principal to the merchant recording it, and acting as commissioner. As with profits, the

meaning of costs was wholly contextual, and tracking them in a detailed way would have been a largely pointless exercise.

Conclusion: from the age of commerce to industrial capitalism

Presenting the Early Modern era as a credit-based society in which a well-established merchant class dominated the economy through its collective control of highly segmented markets should lead us to discard the usual disparaging analysis of these same Early Modern markets are somehow "inefficient" or "incomplete". Such denunciations make sense only with respect to the ahistorical, theoretical free market of classical economics, which was nonexistent then and remains a figment of economists' imagination nowadays. These informal groups which I refer to as "rings" managed local markets with considerable efficiency during the Early Modern era. They built formidable barriers to entry for newcomers, ensured a smooth flow of goods and information, prompted large segments of rural and urban society to increase their participation in the market exchanges they organized, and launched colonial ventures which spanned the entire world. This last point is particularly remarkable: the expansionist streak Europeans started to develop around the Renaissance was entirely motivated by the ruthless push for capture and domination of new market segments (and of the corresponding products and trade routes) *within* foreign countries, a tactic unknown to earlier merchant groups in either Europe or Asia. Admittedly this was not merely a merchant program: European rulers, as much as European merchants, wanted complete control of local products in far-away placed, and they were the ones who launched most colonial ventures. But the simultaneous rise of merchant control of local markets abroad as a tool for economic domination, and of European colonial expansion, is probably more than coincidental.

At the other end of the period, historicizing the Early Modern search for profit, and more generally the rules and attitudes governing market-based processes at the time, should also prompt us to recast in an entirely new light the transition from the commercial society of the 18th century to the industrial capitalist society of the 19th century. Giving up on market control as the key tool of economic domination may have to be explained in terms of a breakdown of a well-established and fairly stable system, rather than as a straightforward, universally appreciated progression. Indeed the feelings of failure, chaos and dislocation which came with the early Industrial Revolution in the mid-19th century are much easier to account for if one accepts that the new, industrial capitalist focus on productivity and costs was a revolutionary break with the past, upsetting centuries-old habits and intellectual attitudes (Gervais 2004). The truly impressive advances in cost accounting realized from 1850 on can also be read as a symptom of a radical change in the way profit was pursued and measured. Last but not least, the lag between the cluster of inventions marking the closing years of the 18th century and the acceleration of the rate of growth in the second third of the 19th century makes much more sense if the first phenomenon was a side effect of the development of market society in its earlier form, while the second was the sign that this same market society was in the process of collapsing and being replaced by entirely new economic forms.

Merchant rings and segmented control of the market, at least in the somewhat schematic way in which they are presented here, do not provide an all-encompassing explanation of society in the Early Modern period.. One would have to articulate them with other aspects characteristic of the period, particularly State-based economic power and the

relationship of both groups, merchants and State officials, to the land, its owners, and it production. Such a path of inquiry would take us even further into a specific analysis of how Early Modern agents were conceptualizing and pursuing profit, and of the extent to which their conceptualization was different from the one holding sway today. More generally, economic historians should reconsider narratives positing a continuous, unchanging profit motive throughout history. In many ways, Aristotle's chrematistic, already accepted more or less at face value by Marx, has never ceased to underpin the concept of utility maximization, reducing the need for any time- and space-specific analysis. Profit was profit, capital accumulation was capital accumulation, and standard economic analysis applied regardless of the social-institutional forms within which these figures were deployed. While the narrative turn in many social sciences may have led in some cases to the aporia of universal relativism, there are still valid theoretical grounds for believing that profit, economic power and the way to measure and accumulate both must be more contextualized historically, and not simply assumed to be what we mean by these terms nowadays.

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