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Capitalism and (or) Age of Commerce: the peculiarities of market exchange in the early modern era

Pierre Gervais

1 Ever since Aristotle, the theoretical understanding of market exchange has remained stable in one of its key characteristics: at its core is this well-known duo, a buyer and a seller. To quote Robert Frank and Ben Bernanke's classic textbook, "the market for any good consists of all the buyers and sellers of that good" (76). The idea of two actors, or more recently two sets of actors, facing each other can be tweaked in a variety of ways: exchange can be asymmetrical —oligopoly and its variants come to mind; a host of external constraints and influences, such as various institutions or incomplete information, can come into play. But the basic act of trading does seem to require some kind of confrontation between the two sides of a transaction. And while the theories trying to clarify the other major dimension of any trade, price determination, have evolved considerably more, especially with Alfred Marshall's marginalist revolution and the replacement of straightforward supply and demand on a "simple" market by supply and demand curves, more or less influenced by the aforementioned variety of external elements, there again the basic concept of a price still links a buyer or buyers on one hand, and a seller or sellers on the other.

2 The present paper argues that such a binary description of trade does not account for some important traits of monetarized exchange as it took place in the early modern era in Western Europe and other areas controlled by European merchants and settlers. More specifically, this exchange can be understood better, if one takes into account the fact that it almost always included an original producer and a final customer separated by a more or less extended chain of intermediaries. The key argument here is that exchange within this chain of intermediaries was not operating as a straightforward transaction between buyer and seller, nor was it governed primarily by price signals,

which is a major difference with the market mechanisms posited by both classical and neo-classical economists. The group of intermediaries linking producers and customers on any given market segment enjoyed an asymmetrical relationship with both ends of the trading chains, and trading within this group was primarily governed by the need to maintain this asymmetrical relationship. In other words, early modern markets may be better understood as oligopolistic markets, though of a somewhat unusual kind, since the oligopolists were intermediaries. This was a situation Adam Smith, or even Alfred Marshall, would have considered a serious deviation from the proper functioning of markets, generating large disefficiencies and self-correcting competition or regulation in the long run ; and while more recent research, such as the work of Jean Tirole on industrial organization, could be used eventually to modelize it as a stable equilibrium or set of equilibria, to the best of my knowledge this has not been attempted yet.[1]

3 Several researchers have pointed out the need to develop specific analytical tools when dealing with early modern trade, especially among French economic historians. Jean-Yves Grenier argued that price formation had to be reconceptualized as a cyclical, path-dependent process rather than a simple confrontation of supply and demand curves (Grenier). Guillaume Daudin stressed the highly segmented nature of early modern markets, and the consequences of this segmentation on the mechanics of growth (Daudin). On the investors' side, Philip T. Hoffman, Gilles Postel-Vinay and Jean-Laurent Rosenthal for Paris (Hoffman et al.), and Naomi Lamoreaux for North America (Lamoreaux) have highlighted the role of information-controlling insiders, in very different contexts. A large body of evidence has also been gathered in the past fifteen years or so on the key role played by insider information, privileged access, and cartellization in the structuration of early modern markets (Marzagalli; Hancock, *Oceans of Wine*; Trivellato; Lamikiz; Vanneste; Gervais, "Mercantile Credit"; Gervais et al., *Merchants and Profit*; Gervais, "Facing and Surviving War"; Cutterham)

4 The goal of this paper is to add to these efforts on one specific issue, i.e. the way monetarized exchange operated among the professional traders dominating commerce in most of Europe and several other regions more or less dominated by European powers from the 14th century on. I will first outline these constraints, before moving on to the model of exchange between traders I consider central to early modern economic organization, and will offer a series of illustrative examples to show how this exchange worked in practice. While these examples in themselves are anecdotal, and derived from a handful of case studies from France and the Eastern seaboard of North America in the eighteenth century, there is a striking similarity in the story they tell.[2] In each and every case, the parameters governing the exchange came from the broader context of the market segment on which this exchange took place, and an agreement was eventually struck through direct negotiation between oligopolistic players rather than through a bargaining or auctioning process determining an equilibrium price. Indeed, one of the most striking traits of these stories is how rarely issues of costs and prices appear as a topic of conversation. But to understand why this was so, one must first recapture the economic universe within which these men we are studying operated —for the merchants we study were all men, whereas there was a significant number of women trader at the time (see e.g. Haggerty; Noel; Dousset). This shortcoming will have to be fixed in further research.

Exchange in the early modern era: the conundrum of expertise

5 The key element of any transaction in the early modern era was the lack of contractual certainty on both sides. Let us start with the buyers, who were faced with a world of highly diversified goods, the quality of which was in most cases extremely difficult to assess with any degree of precision. In the absence of standardization, there was no way to develop specifications precise enough to serve as a basis for a contract; assessing quality was an art. It took Steven L. Kaplan seven full pages to give a mere overview of the devilishly complex process bakers used to assess the quality of such an apparently simple product as flour. They would take into account ideally the soil quality of the farm on which the wheat was grown, or at least the reputation, i.e., more or less, the average quality of the wheat and flour of a given area, a reputation often specific to a few square miles; the time lapsed since the wheat had been harvested and ground, “new” grain being paradoxically less appreciated than wheat stored over the winter, and flour stored for at least a month; the color, texture, shape, density, taste, odor, and moisturizing properties of the grains or the flour bought, which would roughly lead to a classification on a scale of qualities (in eighteenth-century Paris, *blé de tête*, *blé marchand* and *blé commun* for wheat, *fleur de farine*, *farine blanche*, *gruau fin*, *gruau gros*, *recoupettes* for flour); the actual properties of the specific batch the baker was using, which combined these various parameters in a unique way and therefore had to be properly taken into account in the bread-making process; and, because of these peculiarities of each batch, the extent to which it would be possible to combine, work and bake the batch they were testing with other batches of various origins, much as winemakers combine grapes, so as to obtain the best final product possible (48-54).

6 Only the latest part of this exercise was related to craft skills. For every previous step, the knowledge and experience of the buyer played a crucial role in setting a level of quality, hence a price —no price could be set before solving the quality puzzle. This was all the more true for products for which quality assessment was far less straightforward than in the case of flour. While one could at least taste and touch agricultural produce, manufactured goods offered an even wider range of possibilities for misjudgment. Categorizations, both for purpose of official control by guilds and/or the State, did little to reduce the dizzying number of variations one could be faced with for any given product; a single manufacturer of the luxury Sedan woolen cloth offered nineteen different broad categories of varying fineness and width, each with its own seal guaranteeing quality, and half of them developed into a rainbow of fifty-three different colors —and the list was not even complete, being punctuated as it was with "etc." and "generally of all kinds" (Gayot, *Les draps de Sedan* 388). But the real issue with manufactures was the extent to which they were open to fraud. Gérard Gayot gave the following list for textile: “cheating on raw materials [;] on the thickness of yarn and on waste [;] on warp quality and number [;] on dyes and finishing [;] on weights and weighing instruments [;] on ells [;] on folding [;] on the selvage which was supposed to help identify the cloth [;] through fake *scels* [seals;] by selling outside of designated selling places” (“Réflexions sur les fraudes textiles” 511-12 ; translated by the author of this article).

7 Buyers thus had to contend with highly complex and largely continuous scales of quality, and also with the fact that even products apparently certified by seals of origin

and careful inspections in the *manufactures*, areas of production in which either local guilds or the royal State enforced common standards, could actually come from production centers set up specifically to churn out poor imitations of this higher-quality cloth, which would then be passed as the genuine product. Bakers and other specialized producers at least could concentrate on a narrow range of products, and hope to acquire the expert knowledge necessary to navigate their commercial universe, but traders could not adopt the same strategy, if only because no reasonable trader in the early modern era would have specialized in a narrow set of products. Risk had to be spread across several markets, given the multiplicity of exogenous shocks on these markets one could expect at any moment – war, loss of a ship, bad weather slowing communications or ruining a crop, unexpected bankruptcies breaking the chain of credit on which all traders depended, etc. (Yamey; Gervais “Mercantile Credit”; Gervais, “Facing and Surviving War”). All traders were faced with the apparently impossible task of mastering dozens, potentially hundreds of product universes, with each one characterized by the same kind of elaborate quality control needs outlined above for wheat flour and Sedan cloth.

8 While buying was difficult, selling was hardly simpler. A seller met equally baffling hurdles when trying to determine both dimensions of payment, quality and quantity. Qualitatively, “money” was not an obvious proposition; absent legal tender, one faced a jumble of metallic currencies of dubious contents and values, and anyway most transactions took place on credit. Which credit to allow, to whom, at what interest rate or discount if any, was a difficult decision because any credit entailed the risk of default, or at least of delayed payment, and embroiled its recipient in a complex relationship with the debtor. Most payments were made not in actual metallic currency, but rather in commercial paper: sometimes formal letters of exchange, but much more frequently "notes of hand", written acknowledgments of a debt, which were usually "promissory", i.e. including a due date, at least among traders. These traders’ notes could be endorsed to business relations, then to relations of these relations, so much so that by the mid-Eighteenth century a large merchant dealing on several European places would routinely accept, endorse, and give in payment notes written by people he had never met or dealt with (Baxter, “Credit, Bills, and Bookkeeping”; Rogers; Baxter, “Observations on money”; Gervais, “Mercantile Credit”). These chains of credit were shaky and could easily end up with the note being protested and turning out to be worthless, some more “bad paper” to write off as a loss. A good trader would try to obtain “good” paper, and avoid or at least get a significant discount on more dubious offerings, a process which required just as much expertise – and diplomatic haggling – as product quality assessment. In many ways, means of payment, whether commercial paper or metallic currency, should be seen as one more commodity, just as hard to trade as any other, indeed more so than most.

9 What kind of payment one would receive was only part of the problem of the seller, for there was also a question of price. The most important parameter setting the price was the recognition by the buyer that a product was of a certain quality. It could be argued that consumers chose according to the scales of quality and associated scales of prices they had in mind; these scales could be negotiated, but always self-referentially, i.e. based on past scales (Grenier). Prices were cyclically fluctuating, following cycles of production (seasons for crops, end of the winter closure of transatlantic shipping for colonial products, etc.). All kinds of exogenous shocks, as well as variations in supply and demand and long-range trends in the reputations of a product, as with Languedoc

cloth in the Levant (Lupo) could also move prices. All this produced at any given time a range of acceptable prices, rather than one set price. The goal of the seller was to get the best possible price for the given level of quality one had managed to get the consumer to validate. In order to do so, the first step was to provide a description of the goods that would be recognized and accepted by the consumer. Once the quality had been agreed upon, however, the result would still be a more or less limited set of acceptable prices, of which the seller would try to obtain the highest. This, too, required expertise in identifying the proper consumer, developing a convincing sales pitch, taking into account the market environment at the time of the sale, and pushing the price up to the limit of what was acceptable for the customer one was pursuing. Obviously, such a process required a thorough knowledge of the local market segment on which the transaction took place, and of both the tastes and the price elasticity characterizing the customer preferences on this particular segment. And again, no single merchant could hope to know so intimately every market segment on which he would want to operate.

10 The universal solution adopted by early modern traders was to build networks of expert correspondents, each of whom would have the specialized knowledge needed for the particular product market on which one tried to buy or sell, and with whom they would informally or formally partner on this same market. Expert suppliers would be knowledgeable enough to be able to guarantee that the description of the good matched its reality, i.e. that there was no discrepancy between the actual vs. expected qualities of the product given the announced position on the quality scale. Expert wholesalers / retailers, often acting in the capacity of agent or commissioner, would know the target market well enough to obtain the highest acceptable price within the range of "fair" prices the good sold could command in a given location at a given time, and thus could bring the best possible price to the merchant. The way merchants structured their activity according to subsets of partners on each of the product markets on which they were present has been observed particularly well in account books, which can be mapped so as to match these subsets to specific products (Gervais, “Mercantile Credit”; Bissières). The graphic representations offered in the two references I give here are striking, but the same reality can easily be translated in statistical terms as well: for instance, of the 51 business partners listed in 1755 in the account books of the house of Gradis in Bordeaux as having bought or sold one of eight products for which a separate, specific account was created in that trader’s account books, 46 (90.2%) were strictly specialized, dealing only in either flour, or wines and alcohol, or colonial products (coffee, indigo and sugar).[3] Only five accounts were linked to two of these larger categories, and none to the three (Gervais, “Mercantile Credit” 706). This is perfectly logical given all the constraints described above, and the crucial role of expertise in any discrete transaction on any product market.

11 Even the most cursory reading of eighteenth-century merchant correspondence will come up with dozens of instances of recourses to a partner’s expertise, with the petitioner yielding control over his own business to a degree which would astonish most 21st-century actors. Nathan Appleton, one of the biggest traders in Boston ca. 1810, traded mostly with England, exporting raw materials from North America (wheat, flax, potash...) and importing finished goods from Great-Britain and Europe, mostly cloth (Gregory; bibliography in Gervais et al., *Merchants and Profit* 192).[4] Writing to his

brother Samuel in London in 1813, Appleton prepared the end of the war with Great-Britain and gave the following instructions:

> I should like however to have some good merchandize for me should they be reasonably low. Say to am(t) of £ 5000 – if you have not already purchased any for you M. Stone is an excellent judge of goods + I should like to have you get him to purchase them if you do not wish to do it yourself [...] It is [also?] necessary that I should give a particular order as I wish the goods to be of the most staple kinds say Cambrics Calicoes shirtings ginghams +c. to am(t) of £ 3000 or 4000 - + 1 or £2000 in staple woolens as in my former letter [pr?] I + T Haigh for goods in their line – I leave it however to your judgement from the state of the market + the prospect of peace or a continuance of the war to purchase or not at al.[5]

12 There are no less than three instances in which Appleton explained that he would receive whatever goods his correspondents in England would choose to send him; and what he suggested was explicitly presented as a mere suggestion to people better placed than him to decide, "excellent judges of goods," to use his words. It is also important to underline that this kind of broad delegation of power with complete trust in the supplier was not specific to transatlantic exchange, nor to relatively complex manufactured products like cloth imports, as will be illustrated by the following examples, provided by two business correspondents of one Levi Hollingsworth, a Quaker merchant in Philadelphia who dealt both in general merchandize and in flour and colonial products. Both wrote to him in very similar terms:

> I am of opinion a small speculation in apples and good sorned sweet dear Cyder, say not more than one hundred Barrels of Apples and twenty or thirty Barrels of Cyder. If they could be here on or before the 20(th) december, and delivered in tollerable good order at a reasonable freight say about three shillings p(r) Barrel delivered here and bought with you at a dollar p(r) barrel for apples and three dollars for cyder including Cask, would yield a profit of near 50 p(ct) provided they were of the Best Kind.[6]
> I know you to be a good Judge of this kind of [ill] and I request that you will please to look out for 2 pairs of 4 feet 4 Inches Diam(r) Burs [iron bars] of the First Quality, one inch more or less in size will meke but little difference if they are good, [ill.] Good Twenty tempered Burs neither too open or too Close, and Tollerable hard. [...] They must Be such as I decret if they should Cost [ill.] more then Common, for it there is one Bad Bur in the [ill] I won't have them, I wish to have them down in as short a Time as possible.[7]

13 Terms such as "good", "tol[erably] good", "reasonable", "the best kind", "of the first quality", "good", "neither too open or too close", "tolerably hard", "such as I decree" (with no further specification given save approximate dimensions) are as many testimonies to the extent to which these networks of chained expertise operated cooperatively. Of course each time a transaction went wrong everybody blamed everybody else, and the bickering quite often spilled over into courts of law; and because expert chains were also credit chains and everybody was everybody else's bank, a failed debtor somewhere could easily bring all his correspondents down into bankruptcy. But the basic leap of faith, blindly trusting an agent, commissioner or correspondent, was both so compulsory and so compelling, and the cost of breaking the link thus created so high, that most participants used legal enforcement of debts only gingerly, and as a last resort. Indeed such falling outs could turn out to be temporary, and two merchants find themselves in litigation one year, and in partnership the next (Mann; Wegener 15).

From expert networks to oligopolies: early modern trade and the search for market control

14 None of this so far seems to point to the necessity of a reassessment of exchange itself as a process. Whether buyers, sellers, or intermediaries, all the actors of this process could easily be described as experts negotiating with other experts, final customer excepted maybe, although David Hancock has forcefully argued that the specific consuming expertise of the latter was crucial in generating tastes and orienting production (Hancock, "Female Traders" chap. 5). These "chained" intermediaries determined value through a series of negotiations, possibly within institutionalist and / or conventionalist contexts, building mutual trust along the way. Price formation would still be a function of supply and demand curves. Granted, the expression and combination of these curves would need a more constant collaboration between all participants than on less fragmented and complex markets, but the uncertainty on product quality and the risk of opportunistic behavior could be mitigated through shared experience and commonly accepted scales of risk, priced accordingly – thus there would be no need for any fundamental rethinking of the current post-Marshallian approach. As numerous authors have pointed out over the past two decades, sharing would be encouraged by the family-based structure of early modern societies, which would foster cooperation among kin spread out over several markets; a common religious or national background could also be used to buttress these networks of trust and extend them beyond the family members (see e.g. for North America Henretta; Vickers; for Europe Alfani and Gourdon; Fontaine; Muldrew; and for merchants more specifically, e.g. Hancock, *Citizens of the World*; Lespagnol; Trivellato). Information and expertise would be readily shared within the group thus created, ensuring a relatively efficient process of market exchange in spite of the external limitations on the latter.

15 These two last points however, collaboration and the free circulation of information to mitigate uncertainty, constitute the crux of the matter here, insofar as they led to a separation of each segment of the merchant world into "insiders" and "outsiders." To start with, merchant intermediaries had no incentive to share too much information with producers; whatever information the merchant wanted the producer to have (such as which quality was wanted) had to be given anyway, and any other information (which market the product was bought for, what the current price was, etc.) could help the producer introduce competition between merchants. Symmetrically, merchants had no incentive to give information to consumers beyond what was strictly necessary for them to buy the product, and which there again would be given for free; again, giving too much information would be courting increased competition. Because expertise brought measurable benefits, keeping it away from producers, competitors and customers alike was a logical strategy. Indeed, there was a structural incentive to hide information for opportunistic and monopolistic purposes, and in the absence of a regulating authority which would be in a position to enforce transparency on each given market segments, there was no reason to expect an outcome other than a very uneven distribution of information, which would become increasingly hard to come by as one moved further away from any given expert network.

16 To put it another way, the very need for each merchant to build an expert network on a given market segment (for one product in one specific place in which the product was

bought, sold, or transited) generated a very powerful incentive to engage in the constitution of oligopolies and oligopsonies. Collusion between intermediaries was a structural necessity in order to share information and credit. At the same time, unequally distributed information created high barriers to entry, with a high potential for profit. In this context, there was every reason for each trader involved to promote opacity in the markets, since it provided by far the best opportunity to exploit a very strong positional advantage. Conversely, there was no reason at all to include consumers in the expert network, and since there was a positive incentive to exclude producers, the ultimate goal had to be to concentrate expert knowledge in a few hands, all but ensuring that no competitor would be able to enter the market segment thus protected and controlled. The hypothesis proposed here is that early modern merchants turned expert networks into a specific and highly efficient tool of economic exploitation, by "weaponizing" trust and other traditional merchant practices to ensure their collective local control of segmented markets through specialized cartels, or "rings". Through this local control, they ensured for themselves a dominant economic position on the surrounding social groups, the extent of this dominance at any given time being a direct function of the economic importance of market exchange in the social context in which they operated.

17 In truth, "hypothesis" may not be the right term here – it is a certainty that anti-competitive strategies were used, the real question is the extent to which such strategies characterized the period. I will give a few examples here, both because it is the best way to grasp how this type of exchange operated, and because the way these examples appear in the sources is a strong argument in favor of them being illustrative of standard practice. This is particularly clear in the most egregious cases —cases found only when a small group of operators exerted complete control over a market segment – in which one member of a group would write another with explicit reference to this dominant position. For instance, on December 22nd, 1786, Solomon Maxwell, an agent of Levi Hollingsworth, the Philadelphia merchant quoted above, wrote to his principal from about forty miles downstream along the Delaware valley that "Mr Potts is here & says T Canby has sold them 500 bbs @ 40/- & he expects remaindr at that price but I shall engage all near this place early tomorrow & they must call on us for remand(r)".[8] Translated from the Eighteenth century shorthand common to merchants, this meant that a competitor had visited Port Penn, a landing near Wilmington, Delaware, where the flour produced in the hinterland was shipped to the city, and had bought 500 barrels of flour (about 50 metric tons) at 40 shillings a barrel,[9] whereupon Maxwell had proceeded to corner the local flour market so that the hapless Potts would have to buy the monopolist's flour, at an inflated price of course.

18 Two elements are striking here. First, Maxwell planned on (and indeed succeeded in, as shown by a letter a few days later) having every single miller in an area at least forty square miles or so act in concert with him and refuse to sell to Potts. This was already quite a feat, because agriculture and milling in the young United States were dominated by small producers, particularly for such a staple as flour. Coordinating dozens of producers merely through the strength of pre-established networks points to the degree to which the merchant organizers of these networks dominated local economic life. But even more striking is the fact that this cornering of the market was not presented as in any way exceptional. Maxwell's description of his strategy is formally similar to the famous incident of the dog in one of Conan Doyle's Sherlock Holmes novels: it is important because it did not take place at all. How he achieved

what he achieved went without saying, and thus was necessarily rather mundane and habitual, so much so that "I shall engage all near this place early tomorrow" seemed explanation enough.

19 An equivalent example can be found in the correspondence of Abraham Gradis, the Bordeaux merchant quoted above. From May to August 1755, Gradis, who was commissioner for a number of planters from the French sugar island of Saint-Domingue (split today between Haiti and the Dominican Republic), hoarded sugar in Bordeaux and refused to sell it, speculating that war with Great-Britain was imminent, and would send the prices of sugar in Europe soaring. This meant that the Saint-Domingue planters mandating him to sell their sugar, and usually in debt and hard pressed for cash, would have to wait for their returns from the sales. Gradis knew this was unlikely to be accepted, so from the end of May to mid-July he blandly kept telling his correspondents, the sugar producers, that nobody was buying: "[Sale] not possible [...] a month since only 3 or 4 sold;" "14 Hogsheads of Sugar [...] are still in store it was Not Possible to sell them so far for the little demand they have;" "Sugars in the month Past had no demand;" "We couldn't sell so far [the sugars] we had in store, absent any advantageous offer;" "Sugars are still very quiet here they don't sell."[10] However, on June 11th, our Bordeaux merchant sent a very different explanation to one of his close business partners, one Luker in Nantes: "Sugars dropped very little here it even seems that they won't drop at all at least if sellers maintain their Intention of not letting go;" and he further explained to the same correspondent on July 15 that "goods from the Americas Are pretty quiet [i.e. no transaction] here there were a few Sales this Week of some raw Sugars from 35 to 36£ most of our shippers do not want to sell at S[ai]d Price."[11]

20 Again, the implication is that the main market for sugar in France, one of the priciest commodities ferried across the Atlantic, was under an oligopolistic control so tight that a few operators could effectively corner the market and stop all transactions – note that there is no mention of a rise in prices. Just as in the case of Maxwell, the complete solidarity between sellers did not seem to deserve any explanation, and was rather considered entirely normal. What the Gradis case adds is a definite proof of the huge information gap separating insiders and outsiders. Planters were told that there was no demand for sugar, and had no way to discover that the real issue was the lack of offer, due to sugar sellers speculating on a war breaking out. In the absence of any transaction, even the price lists occasionally published in port cities could not help them; such lists recorded current prices, but not the volume of transactions, and in this case the real indicator of the state of the market was the fact that no sugar was sold. Indeed in August of the same year, following a brief skirmish between French and British ships, the news of which had sent the sugar prices soaring as expected in mid-July, transactions stopped again, for a different but symmetrical reason. As Gradis explained to another Nantes business partner, "For the past 4 to 5 days there was no sale on sugar [...] our buyers would like to lower prices a bit but they will have trouble doing so save if some amicable settlement [between France and Great-Britain] is reached which we consider unlikely at this point."[12] In other words, an equally powerful oligopsony was facing the oligopoly Gradis belonged to, and speculating as well – on peace this time. And again, this fact seemed so unremarkable that Gradis barely commented upon it.

21 Overall, the fact that transactions could completely cease point to a very narrow group of operators dominating a local market; the presence of multiple, uncoordinated buyers and sellers would have resulted in the price signals standard economic theory posits as the main source for information on “free” markets. Since both producers (the planters) and customers (the French upper classes buying sugar) were effectively kept in the dark, they could do little but follow price and supply movements organized through these oligopolistic / oligopsonistic practices. Conversely, information within these privileged group was much more accessible, and indeed could be quasi-perfect at times, as illustrated by this letter sent in 1786 to Levi Hollingsworth, the Philadelphia merchant, by George Douglass, a business partner in New York:

> I have about 4000 weight of Green Granada Coffee which I propose shiping you by the Amboy Stage if the weather will permitt next thursday so that the [last?] part of it will be down by the last of the week I expect to Coopers Ferry – this I hope will fetch 22d or 21 with you – as you say there is no Qtys at your market & up to 22d – & none can arrive this same time now by water – it is scarce here I dont think there is so much in the place as I send you – tho’ the consumption is small in this place to what it is with you.[13]

22 At that time, New York and Philadelphia were the two biggest cities in North America – and yet one merchant could seemingly corner the entire market for one of the major colonial crops, and claim to have perfect knowledge of this particular market segment, which for him – but apparently for nobody else – was entirely transparent. The only risks incurred were thus logistical, relating to time and transportation issues. Supply and demand was for all intents and purposes taken care of. And, as in earlier cases, this situation is presented as wholly unremarkable, a common occurrence which did not deserve particular comment.

23 Obviously not all merchants were as efficient; if every early modern merchant had become wealthy through riskless speculation, we would have heard about it. But once a certain critical mass of activity and degree of insertion in various monopolistic groups were achieved, risk really seemed to be quite reduced. Douglass was protected from any market fluctuation by his perfect information, and even the weather he alludes to in his letter may not have an impassable obstacle. This is illustrated by another letter from Maxwell to his employer Hollingsworth, sent from the lower Delaware in January 1787:

> I expected to have had clear Stores & been with you next week but in vain our Creek is full of Ice. On thursday rec(d) last of B & S Tob◦ which put on board of G Wirt with some flour for Tillay also loaded Gardner for Wilmington & expected theyd have gone down that night but both Crews got in a frolick & lays froze up at Hugils old house. Have this day collected fifteen Teams to take the Tob◦ by land on Monday morning [...] everything seems to go wrong but hope we shall be right in the end.

24 The letter was sent on January 13th, 1787, which was a Saturday. The Delaware had frozen over on Thursday evening; in two days, Maxwell had arranged to hire fifteen carting teams, drivers, draught animals, and carts, and would transfer on them over the week-end the cargo of at least one river ship, a load of tobacco, which would thus be sent on its way to Philadelphia by the following Monday. Given that carts at the time carried up to one ton per team, this was a large, complex operation, and indeed our agent this time underlined its unusual and praiseworthy aspect. But the very fact that he could pull it off does point to the degree of risk control large merchants had achieved, even when dealing with unexpected events like a frozen river.

25 The most perfect example of how merchant networks could flexibly resist even the worst exogenous shock is offered by Gradis, though. We have seen how the beginning of the Seven Years' War between France and Great-Britain (officially started in 1756, but already brewing a year earlier) had prompted speculation on sugar. Gradis' mastery of information meant that he knew a war was coming, and he knew, much better than the king in Versailles, that the French Navy was no match for its British counterpart. As he wrote to a noble correspondent in July 1755, "Having no navy to show the English we have a few Sh.ps in our harbors but we Are unable to send them out since we lack Guns anyway the number of our Sh.ps is too limited to hold against them It would be very Advisable that we bear it patiently until a day come when we could Answer this insult for at this point we cannot."[14] The impending French defeat did not deter our Bordeaux merchant, however, who wrote a month later to a business partner in Hamburg:

> For many days Sugars and other articles of America have sold here just as well as at your place, but still there is every sign that if we were unhappy enough to have war as we see which seems unavoidable, that prices will be even better which is why we asked our friend Mr. Jean Leris [from St Domingue] to load [400 Hogsheads] of sugar for your place at your address we assured him that his interests would never be better defended in any other hands than yours [...] the Bill of lading and bills will be as for your account and risk so as to avoid any inconvenience in case of war.[15]

26 Even what has been billed as one of the first world wars between the two superpowers of the time was not enough of a shock to seriously disrupt Gradis' partnership with his chains of expert correspondents; going through neutral places, the sugar he took charge of on account of the Saint-Domingue planters would still find its way into Europe. The risk-mitigating capabilities of these chains were tested at their utmost during the Revolutionary Wars, which in this respect were quasi-total wars. But even then the most nimble operators managed to maintain at least some of their activities.

27 To sum up, managing information and qualities through expert networks created almost ready-made monopolistic positions, which could be used to fend off competitors and extract a surplus profit from hapless producers and consumers. The way these two groups were managed would require another paper as long as this one. But a common theme was that no information on the state of the markets was provided to them, and more often than not they ended up bearing all the risks and reaping few of the profits of the trading chains. Insiders and outsiders were firmly kept separate, and the frontiers between the two groups were defined by access to information (and credit chains, another important component of network solidarity). Of course, precisely because it was absolutely vital to keep the information away from non-cartel members, later historians would have a hard time observing this process at work. The traces we do find are usually small pieces of a larger puzzle, of the kind I have presented here. But my hypothesis is that this almost wholly unobserved process, which underpinned both European merchant expansion and its domination, possibly as a ruling class, throughout much of the early modern era, makes it imperative to differentiate "insider" trading from "outsider" exchange, if only because in the first case, the players were usually acting in concert as groups, and the result should probably be analyzed with the tools of game theory rather than as the result of the confrontation between supply and demand curves.

*

28 As I hinted at in the introduction, with the proper theoretical tools, the various ways in which exchange between insiders differed from exchange with outsiders (producers on one hand, customers on the other) in the early modern era and in many areas controlled by European imperial powers could probably be reconceptualized to fit them within the standard narrative of economic transactions, as confrontations of supply and demand curves mediated by prices. For instance, one could requalify the price mediation I described as a game-theoretical interaction between two monopolies, an analysis similar to the ones developed for industrial organization. This reinterpretation would miss the point, however, which is to underline how far the daily operations of an early modern merchant were from our 21st-century ideas on cost, bargaining and price formation. Among many other peculiarities, prices were a negligible topic, because any extra cost could and would be passed to consumers as long as it did not shift the demand curve significantly, and also because negotiations centered, not on which price to ask for, but on which quality to settle upon – the price would be deduced thereafter from customary scales of quality/price pairings, factoring in temporary exogenous shocks, as well as the distribution of profit upon which the various quasi-monopolies involved had managed to find an agreement. Relative cartel power was much more important in this process than any intrinsic characteristic of the good exchanged, and indeed early modern merchants did not compute their "net profit" very often; the maintenance and expansion of their control over various market segments was the real goal, and it could not be measured as a monetary value. Maussian quid-pro-quos were frequent, in which one business partner would provide valuable information, or suffer a short-term loss, in order to reinforce a link which would bring richer rewards in the long run. Investment in networks was highly socialized, and was infinitely more important than the monetary value of the actual invested capital in this or that venture. As a consequence, a simple balance-sheet approach with a bottom-line was utterly inadequate when assessing the value of a given transaction – a lot of other considerations came into play (Gervais, "Why Profit and Loss Didn't Matter").

29 This was true also to a certain extent with outsiders, but much less so. Mutual interest did not exist, dissimulation was the rule, and actual costs were put forward, in a way which much more closely resembles the theoretical model of a confrontation between supply and demand curves. But precisely, this is not where most of the profit was generated; monopolistic surplus extraction along the trading chain was far more lucrative, and while early modern merchants did pressure their suppliers and gouge their customers, they spent much more time organizing opaque market segments and dividing the spoils of monopoly among themselves. Occasionally, they would also try to consolidate their control over a given activity through a chartered company – a self-governing body politic usually endowed by the sovereign with the privilege of exploiting an exclusive monopoly, locally or regionally. But this happened only in rare cases involving either transcontinental efforts at penetrating closed markets, as with the various East India Companies, or temporary State action to promote a given activity, be it luxury manufactures, banks, or turnpikes and canals. States gave away these charters only gingerly, and for good reason; given the power already vested in any given merchant cartel, turning it into a permanent organization enjoying a State-sanctioned comparative advantage over all its rivals was justified only in very specific circumstances, usually a context of extreme uncertainty which would prevent regular merchant groups from attempting the venture the sovereign wanted launched. And

once the path was cleared, these companies tended to wither away as State support faded, except if they could reinvent themselves as *de facto* voluntary local cartels, as the East India Company succeeded in doing for a time (see e.g. Blair; Freyer; Gervais, "L'entreprise privée comme privilège d'État"; Handlin and Handlin; Hovenkamp; Hurst; Maier; Erikson for the EIC; and for a different reading, ascribing a specific importance to corporations as agents of globalization, see e.g. Pettigrew and Veevers).

30 Thus even chartered companies should probably be understood as the most visible and formalized (and also a rather atypical) expression of a much more general drive for merchants to organize collectively together whenever possible, and use the power of the State to further their own commercial expansion and capture new market segments. Indeed it could be argued that the early modern era was characterized by this focus on monopolistic trade – an "Age of Commerce" which was a specific political economy, with merchant intermediaries at its core. This very defined social group, which could be described as a ruling class in the Marxian tradition, used a specific tool, control of market accesses in a world of segmented markets, to ensure their economic domination over the rest of society, and kept doing so from the lower Middle-Ages to the mid-19th c. or so. Their unique economic strategy was closely linked to European expansion overseas, and to a certain extent prompted it. Certainly, the imperialist ventures launched by European powers from the 15th century on had all in common to be business ventures as well, very much structured as a grab for an hitherto independent market segment, to be captured and brought under the tight control of a select group of insiders; one could even go back to the Fourth Crusade and the rise of Venice, and argue that the Italian City-States were first and foremost institutionalized and militarized commercial ventures. At any rate, and whichever starting point one chooses, the resulting society was fundamentally different from the feudal order which had dominated Europe earlier, with a much more prominent role for both the State apparatus and the merchant class.

31 The other important point is that this trade-based process of profit making was fundamentally different as well from the productivity-based, wage-dominated industrial capitalism that developed from the late 18th or rather 19th century on. Speaking again in Marxian terms, we should postulate two different modes of production, or whatever one wants to call them; the industrial revolution was indeed a transition, not just the accomplishment of some ingrained trend towards a more efficient capitalism, and brought about a significant break with earlier profit-making practices as we have described them here. Profit became calculable, and was tracked closely, as were costs and productivity; monopolies and insider trading, which formed the very air earlier traders breathed, rather suddenly became unfair practices which were eventually made illegal (think of the shock a Hollingsworth would experience upon discovering that firm rules prevented his friend Douglass from giving him proprietary information on the coffee market in New York; think of Gradis finding out that he could be dragged into court for having misinformed his investors...). Innovation in the production sphere was the main source of profit, not market segmentation and monopolistic behavior. And of course quality standards have become ubiquitous, and nobody finds strange that they should be made public as much as possible.

32 This in turn implies that maybe we should stop labelling the whole period from 1500 to the 21st century "capitalist", as is normal practice among the members of what could be called the historical economics school (see e.g. Allen). Such a "long" chronology of

capitalism is found in Marx's discussion of the Money-Commodity-Money nexus as much as in Weber's study of its "spirit,"[16] with both arguing that it finds its original roots in a greedy impulse already present in Antiquity, and illustrated by Aristotle's concept of chrematistic. Unfortunately, even this chronology glosses over major differences in the relationship to capital, profit, credit, and exchange, to a point where the overarching label may lose all significance, at least from an historian's viewpoint. Geoffrey Hodgson's compromise proposal of multiple capitalisms (Hodgson), while attractive, still does not do justice in my view to these deeply rooted differences. Separating the "Age of Commerce" from modern industrial capitalism and granting the early modern era, or what we can perceive of it, the status of fully independent political economy, would in many ways fit better the evidence we have today than relegating the period to the status of support act in the drama of capitalist growth, to which it would be a mere introduction. Similarly, this separation would lead to a reassessment of the industrial revolution as the fundamental break its contemporaries held it to be. There would remain unsolved issues, such as whether non-European traders applied similar strategies, or not, and if not, whether pointing out this specificity would not be tantamount to resurrecting the Eurocentric, Whiggish economic narrative of superior "Western" efficiency. And what of the broader social context? Even if there was something specific to "European" merchants (whatever "European" could mean), what about other elites, such as the nobility, or landholders? And of course structuring early modern European expansionism around a core process observed economically does not mean it was only an economic process; it could have varied legal, social, political and religious dimensions depending on local relationships between the merchant group, or class, and the rest of society... Still, it is worth keeping in mind that early modern merchant exchange was indeed a very peculiar activity, which requires specific conceptual tools in order to be understood. I believe that filing it away under "merchant profit" as a mere variant of "capitalist profit" simply won't do; more time-specific analyses are in order here.

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NOTES

1. Industrial organization models would still need to be modified to become applicable, though; for instance they conclude that oligopolistic markets cannot operate only on the basis of reputation, at least for markets where investments are comparatively large (Tirole 34), even though this is precisely what can be observed among the merchants we study.

2. Most of the examples used hereafter were presented and studied in detail in articles I have published over the past few years; see the relevant references in the footnotes below.

3. The discrete accounts were: "Farines" (Flour); "Eaux-de-vie" (Spirits), "Vins achetés" (Purchased Wines) and "Vins de Talance" (Wines from Talance); "Sucres de n/c" (Sugars, our account), "Sucres & cafés pour compte de Divers" (Sugars and coffees for diverse accounts, "Indigos de n/c" (Indigo, our acct.) and "Indigos p Cte de Divers" (Indigos for diverse accounts). Three other specific merchandises were tracked through a separate account ("Bois de campêche de n/c", "Sucres", et "Sucres bruts"), but no transaction took place on these accounts in 1755 (Abraham Gradis, *Journal*, 1 June 1755-26 October 1759, 181 AQ 7* Fonds Gradis, AN Roubaix; see also Gervais, "Mercantile Credit" 706).

4. Appleton ended up being one of the founders of the factory-based textile industry at Waltham and Lowell in the 1810s and the 1820s.

5. Nathan Appleton. Letter to Samuel Appleton, 17 September 1813. Box 2 "General Correspondence, etc. 1791-1814," Folder 25, "1813." Ms. N-1778 Appleton Family Papers. Massachusetts Historical Society, Boston, Mass.

6. Enoch Story [in London]. Letter to Levi Hollingsworth. 19 August 1786. Box 30, Folder 1. Series 1.a. "Incoming correspondence" [hereafter "Hollingsworth Incoming Correspondence"]. Fund 0289 Hollingsworth Collection. Historical Society of Pennsylvania, Philadelphia (Pa.). Transcription Louis Bissières.

7. John T. Ricketts. Letter to Levi Hollingsworth. 1 January 1787. Box 30, Folder 1. Hollingsworth Incoming Correspondence. Transcription Louis Bissières.

8. Solomon Maxwell [in Port Penn]. Letter to Levi Hollingsworth. 22 December 1786. Box 32, File 8. Hollingsworth Incoming Correspondence. See Gervais 2016 for a more thorough exploration of this case.

9. McCusker 45 note (i).

10. Abraham Gradis, Letter to Mr. d'Inteville, 27 May 1755; Letter to Mademoiselle de Rochechouart, 6 June 1755; Letter to Mr. La Caze, 11 June 1755; Letter to Mr. d'Inteville, 20 June 1755; Letter to Mr. d'Inteville, 12 July 1755. Correspondance, 181 AQ 57* Fonds Gradis, French National Archives, Roubaix [hereafter "Gradis Correspondence"]. I analyse this case more in depth in Gervais 2015.

11. Abraham Gradis, Letter to Luker de Nantes, 11 June 1755; Letter to Luker de Nantes, 15 July 1755. Gradis Correspondence.

12. Abraham Gradis, Letter to Portier Frères [in Nantes], 13 August 1755. Gradis Correspondence.

13. G[eorge] Douglass, Letter to Levi Hollingsworth, 22 December 1786. Box 32, File 7. Hollingsworth Incoming Correspondence

14. Abraham Gradis, Letter to Mlle de Beuvron d'Harcourt, 26 July 1755. Gradis Correspondence.

15. Abraham Gradis, Letter to P. Boni [in Hamburg], 22 August 1755. Gradis Correspondence.

16. Marx 248-57; Weber 17-27, 42-43, 89-92, 159-63, 172-74, 180.

ABSTRACTS

While market exchange is usually assumed to be taking place between a buyer and a seller within a discrete transaction, early modern merchant practice departed from this model in crucial ways. Because of highly segmented markets and a lack of freely available information on both product

qualities and customer tastes, economic agents had to rely on networks of experts, which led to a deeply asymmetrical distribution of information and high barriers to entry. Consequently, as illustrated in a few case studies drawn from Bordeaux and Philadelphia and from the transatlantic and local trade in sugar, coffee, flour, and various local staples in the Eighteenth century, most local markets at the time may have been characterized by strong oligopolies and oligopsonies made up of merchant intermediaries, which dominated smaller operators. Analyzing transactions in isolation does not make much sense, therefore, since these transactions were always dependent on this larger confrontation.

L'échange marchand est habituellement présenté comme impliquant un acheteur et un vendeur dans une transaction prise isolément. L'échange marchand Moderne se différencie significativement de cet archétype. Des marchés très segmentés et la difficulté d'accéder à l'information sur les qualités de produit et les goûts du consommateur contraignaient les acteurs économiques à recourir à des réseaux d'experts, ce qui générait une importante dissymétrie d'information et de très fortes barrières à l'entrée. Une série d'études de cas menées sur Bordeaux et Philadelphie, pour le commerce local et transatlantique du sucre, du café, de la farine et autres produits de base au XVIIIe siècle illustre le fait que la plupart des marchés de l'époque semblent avoir été dominés par de puissants oligopoles et oligopsones, s'affrontant et dominant les petits opérateurs. Analyser une transaction isolément n'a donc pas grand sens, puisque chaque transaction discrète s'inscrivait dans ce genre de confrontation plus large.

INDEX

Mots-clés: Marchands, économies de l'époque Moderne, marché, modes de production, XVIIIe siècle

Keywords: Merchants, early modern economies, Market exchange, Modes of production, 18th century

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