Networks of Credit and Commercial Society: An Empirical Analysis

Social relationships are crucial to successful commerce. They are able to overcome the two factors that most contribute to the success of trade: good information and the prevention of cheating. These two criteria, together with the possibility of profit, determine if repeated transactions occur. Social embeddedness theories of trade answer the question why a merchant would trust another merchant, whose actions might be beyond direct control or punishment. In pre-industrial times, the world did not have an integrated market and information travelled slowly. Trade did not yet shape the world, but was embedded in a society arranged on personal ties such as kinship or religious affiliation. Social ties, cultural norms and values were shared. In such a familiar world, a trader could reasonably predict commercial behavior of another merchant.[1] The fact that modern commerce was based on impersonal market exchange seems to suggest that the social embeddedness thesis is only valid for pre-industrial times. Historians have come up with institutions that were invented to replace social relationships in commerce, relying on the pursuit for self-interest by the rational individual.[2]

Different scholars argue, however, that social relationships remain crucial in answering the question of repeated transactions.[3] Trade is a form of human interaction, and a theory explaining its organization based solemnly on self-interest seems hard to sustain. Game theory, institutional economics and network analysis all have in common that they analyze solutions for the problems of monitoring behavior through information and the punishment of cheaters.[4] In order to assess

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[1] See for instance POLANYI, Karl. *The Great Transformation – the political and economic origins of our time* (Boston: Beacon Press, 1944), GRANOVETTER, Mark and SWEDBERG, Richard. *The Sociology of Economic Life* (Boulder: Westview Press, 2001) and ZAK, Paul J. (Ed.). *Moral Markets: the Critical Role of Values in the Economy* (Princeton; Oxford: Princeton University Press, 2008).

[2] WILLIAMSON, Oliver E. *Markets and Hierarchies: Analysis and Antitrust Implications – A Study in the Economics of Internal Organization* (New York: The Free Press, 1975).

[3] Important arguments in favour of the importance of social structures with regard to commerce can be found in GRANOVETTER, Mark. "Economic Action and Social Structure: The Problem of Embeddedness", in: *The American Journal of Sociology*, Vol. 91, No. 3 (November, 1985), pp. 481-510, GAMBETTA, Diego (Ed.). *Trust: making & breaking cooperative relations* (Oxford, New York: Basil Blackwell Ltd., 1988) and INGHAM, Geoffrey. "Some recent changes in the relationship between economics and sociology", in: *Cambridge Journal of Economics*, Vol. 20, No. 2 (March, 1996), 243-275.

[4] For a game-theoretical approach, see GREIF, Avner. *Institutions and the path to the modern economy: lessons from medieval trade* (Cambridge; New York: Cambridge University Press, 2006). Institutional economics was developed in WILLIAMSON, Oliver E. *Markets and Hierarchies: Analysis and Antitrust Implications – A Study in the Economics of Internal Organization* (New York: The Free Press, 1975) and NORTH, Douglass C. *Institutions, Institutional Change and Economic Performance* (Cambridge, Cambridge University Press, 1990). Some publications by authors that can be seen as exponent of historical network analysis are TRIVELLATO, Francesca. *The Familiarity of Strangers – The Sephardic Diaspora, Livorno, and Cross-Cultural Trade in the Early Modern*

the validity of the claim that social relationships are important, commerce has to be analyzed taking their conclusions into account. This can only be done by an analysis of the solutions applied by merchants to overcome their problems. The social foundation of trade becomes especially relevant when considering the rising cross-culture nature of trade, and its international expansion after sea routes opened up to both Asia across the Cape of Good Hope and to the New World.[5] If social ties are so crucial, what to do with commercial transactions between people who might not share such relationships? This question becomes all the more poignant because it is often the rise of international trade that has become central when explaining our modern economic system.

Historically, different analyses have been made to explain the rise of modern society. First, there is a discourse on changing mentality and self-reflection, containing issues about fragmentation of the self, multiple identities and rationality. Recently, different scholars have linked the idea of self-awareness to the process of modernity. Marshall Hodgson, Chris Bayly and others have described thinking processes and the perception of one's self and the other in that framework.[6] They attribute individuals or human groups with a higher degree of agency, since it is this awareness that helped to shape the world they were living in. Secondly, there is also an economic aspect: the rise of modern and impersonal market exchange. Both discourses overlap, not in the least in the pivotal role given to cross-cultural interaction in both types of analysis. Meaningful encounters with strangers led to a changing self-perception and awareness of the surrounding world. Secondly, stable and long-lasting commercial relationships with strangers contributed to the development of a commercial culture that became more and more recognized by merchants across the globe.

In recent literature on trade, the concept of commercial trust has become important. Different historians attempt to add human agency to their analysis, and commercial interaction between

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Period (New Haven & London: Yale University Press, 2009), HANCOCK, David. *Citizens of the world – London merchants and the integration of the British Atlantic Community, 1735-1785* (Cambridge: Cambridge University Press, 1995) and MARKOVITS, Claude. *The Global World of Indian Merchants 1750-1947; Traders of Sind from Bukhara to Panama* (Cambridge: Cambridge University Press, 2000).

[5] Authors such as Jerry Bentley and Philip Curtin have pointed out the relevance of cross-cultural commercial interaction in explaining global historical change. BENTLEY, Jerry. "Cross-Cultural Interaction and Periodization in World History", in: *American History Review*, 101 (June 1996), pp. 749-770, CURTIN, Philip D. *Cross-cultural trade in world history* (Cambridge; New York: Cambridge University Press, 1984).

[6] BAYLY, C.A. *The Birth of the Modern World* (Malden, USA; Oxford, UK: Blackwell Publishing, 2004), pp. 9-12. HODGSON, Marshall. *Rethinking world history – Essays on Europe, Islam, and world history – edited, with an introduction and conclusion by Edmund Burke III* (Cambridge; New York: Cambridge University Press, 1993). p. 314.

people on a large-scale has become one of the most focused-on historical topics, especially when its explanatory relevance in narratives about the origins of our globalized world is considered. Models of network analysis often preserve a central place for the concept of trust, as a necessary condition for long-lasting (and cross-cultural) commercial relationships. As such, social and cultural explanatory factors become very important. This shift is clearly inspired by an inter-disciplinary agenda and draws from sociology and anthropology. These human-based, socio-cultural analyses of economical processes such as trade stand in contrast of classical explanations that rely on the *homo economicus* model, in which long-lasting and international commerce is explained is Trust, however, is not an undisputed concept.[7] Trust is an important concept, but it is often used in a conceptual manner, without adding much historical evidence to show that trust was important. The establishment of trust through social and cultural ties between merchants who worked far apart from each other remains a qualitative argument, and it remains an object of discussion between believers and non-believers. One of the main problems is that the major tool merchants used to build a stable commercial relationship between one another, business correspondence, does not lead itself easily to an analysis that can be quantified. However, one of the most recurrent elements in a merchant's correspondence can be turned into an object of study that is quantifiable. The most frequent type of transaction that can be found in trade letters has to do with finance and credit. Very regularly, credit was given or demanded.[8] This tied merchants together, and showed their creditworthiness, perhaps the most important aspect of commercial reputation. John Smail wrote that "the networks of credit…created a community of merchants who identified themselves to each other."[9] In a time when most transactions, especially international ones, contained an element of delayed payment, it was crucial that one could count

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[7] Not only is it difficult to measure trust, it's role is also sometimes undermined by the idea that commerce based on rationality and self-interest does not need trust.

[8] As was for instance the case for credit on behalf of travelling acquaintances.

[9] SMAIL, John. "Credit, Risk, and Honor in Eighteenth-Century Commerce", in: *Journal of British Studies*, Vol. 44, No. 3 (July, 2005), p. 445. Smail advocates for the treatment of credit not as an abstract factor of production or consumption but as an aspect of a merchant's everyday life. He also incorporates it into a discourse of commercial virtue. For a case study linking credit and reputation, see ZAHEDIEH, Nuala. "Credit, Risk, and Reputation in Late Seventeenth-Century Colonial Trade", in: JANZEN, Olaf Uwe (Ed.). *Merchant Organization and Maritime Trade in the North Atlantic, 1660-1815,* Research in Maritime History No. 15 (St. John's: International Maritime Economic History Association, 1998), pp. 53-74. See also HOPPIT, Julian. "The use and abuse of credit in eighteenth-century England", in: COLEMAN, D.C. and MCKENDRICK, Neil. (Eds.). *Business life and public policy: essays in honour of D.C. Coleman* (Cambridge: Cambridge University Press, 1986), pp. 64-78. Credit has been mostly analyzed in the framework of consumer credit and ideological opposition to it, which was mostly religious. Credit as a form of merchant connection relying on trust has been less thoroughly researched. For an example of the first, see GELPI, Rosa-Maria and JULIEN-LABRUYÈRE, François. *The History of Consumer Credit: Doctrines and Practices* (London: MacMillan, 2000).

on a creditor's promise. The whole system of credit was built around promise. When merchants visited towns where a correspondent of theirs had contacts, the correspondent would write to his contact asking to provide a credit line for the future visitor. It was a very common type of service and when fulfilled, it added to good reputation, since it was not only proved to the merchant who had asked, but also to the unknown trader who received the credit line. The correspondence system allowed in this way for third parties that were unknown personally to at least one of the correspondents to enter a web of credit. When merchants used other traders as agents conducting commodity sales or purchases on their behalf, these agents wrote about creditworthiness of potential business partners. A lot of information about commercial reputation of others circulated amongst internationally interconnected webs of commercial correspondents.

This interconnectedness between merchants who knew each other and strangers, insiders and outsiders, was vital and can also be observed in innovations linked to the bill of exchange.[10] During the eighteenth century, the bill of exchange became negotiable through the practice of the endorsement. When this practice became generally accepted by merchants, it contributed to a *modus trafficandi* that grew and that developed itself towards modern market exchange. The road towards modern economic development in commerce included the shift from a familiar world of trust to a more anonymous society of merchants and financers, brought about by the development of international commerce. What is particularly interesting is the connection between new financial practices and reputation. Endorsements imply the writing of names on the back of a bill. In that manner, a whole group of merchants could become connected through a bill, without them necessarily knowing one another, and each signature meant explicitly putting trust in credibility of the previous.[11] I think this is but one example of how the concept of anonymity became ever more central and how trust control mechanisms became more and more regulated and de-attached of specific personal links. Other informally agreed-on business customs developed themselves, not in the least thanks to expanding international trade that came to incorporate more and more

[10] This credit instrument has been studied mostly on a technical basis, in explaining its origins and functioning. Works by Raymond de Roover might be somewhat dated, but still provide the best body of literature when trying to understand the technical aspects of bills of exchange. This only shows the need to update such literature. DE ROOVER, Raymond. "What is Dry Exchange? A Contribution to the Study of English Mercantilism", in: *The Journal of Political Economy*, Vol. 52, No. 3 (September, 1944), pp. 250-266 and especially DE ROOVER, Raymond. *L'évolution de la Lettre de Change XIVe-XVIIIe siècles* (Affaires et gens d'affaires IV)(Paris: Librairie Armand Colin, 1953).

[11] With writing 'explicitly', I want to stress that the signature can be seen and discussed by others, as part of a wider, largely informal 'commercial society' that is based on a form of common business language, as it can be traced not only through bills of exchange but also through business correspondence.

merchants of different cultural backgrounds. I believe this is central in understanding the development towards modernity and that this link of two seemingly opposite concepts is perfectly captured in the title of Trivellato's latest book, *The Familiarity of Strangers*.[12]

As the endorsement shows, personal reputation became more embedded in a system, a 'culture', and ways of rating such reputations became more and more normalized and unified, also because of the large volume of business correspondence. This was partially a response to an expanding international level of commerce: people trading with each other rarely met in person, and it was not uncommon to trade with people belonging to diaspora communities. Much literature has been published on diaspora communities, their integration in host societies and the consequences of their social and cultural adaptation. The Jewish experience may serve as an excellent example. The eighteenth century, again, forms a vital period. For the first time, the migration of Jews from Eastern Europe became bigger in number than those from Southern Europe, the Sephardim. At the same time, many successful Sephardic merchants were already second or third generation. The Sephardic diamond merchant Joseph Salvador considered himself to be English, but he wrote sometimes in Portuguese, refused to put New Testament paintings in his Sussex country house due to religious constraints and had family members that were baptized. His nephew died in the struggle for American independence. Often, such merchants have been described as cosmopolitan. This is essentially seen as modernistic and brought about by commerce. I do not totally disagree with this, but I feel there is more to it than an open mind or a feeling of internationalism. I think the diaspora experience put questions of belonging on the table that had much deeper consequences for modern culture, and that the idea of multiple identities will prove to be not only historically accurate, but also very useful in the construction of a bridge between cultural and economic modernity.

Credit was one of the most important elements connecting merchants from different backgrounds. The way it circulated but was also negotiated through information in letters about creditworthiness and reputation based on past behavior implies the existence of a merchant community. It is also in this sense that reputation retained its importance, not only as a negotiable commodity between merchants already involved in durable relationships, but also as negotiated in a larger sphere, that of merchants in general. As such, credit strings truly lay at the heart of

[12] TRIVELLATO, Francesca. *The Familiarity of Strangers – The Sephardic Diaspora, Livorno, and Cross-Cultural Trade in the Early Modern Period* (New Haven & London: Yale University Press, 2009).

commerce, especially as they became less and less attached to concrete, singular transactions. Credit was not only a matter of tying a mercantile community together, it was also crucial as a concrete mechanism in business. In the last part of this paper, I want to use two examples, both connected to the eighteenth-century diamond trade, to show the important contribution an analysis of networks of credit can make to our historical knowledge of the development of modern market society.

The first example has to do with the operations of an eighteenth-century English merchant that had settled in Antwerp. James Dormer traded in a variety of goods, but diamonds were his most important commodity. He was not a big player in the diamond business, but did have some very good contacts and reached at different points to an exclusive commercial position as seller of Brazilian diamonds. The firm of Berthon and Garnault was Dormer's main correspondent in Lisbon. They acted as his agents in the purchase and sales of diamonds. Purchases were not made frequently, although they did occur at several points. The purchase of rough diamonds depend on supply, and hence on the arrival of ships from Brazil and Goa in the port of Lisbon. Even then, it was not easy to buy uncut diamonds, since the Brazilian stones were all managed by a commercial monopoly. Much more common were the sales of diamonds. Between 1749 and the dissolution of their partnership in 1756, Berthon and Garnault were able to sell Dormer's diamonds on a regular basis. Most buyers that can be identified were Portuguese, with the exception of the firms of Sebastian and Manuel Vanderton and of Colfs and Vanpraet, traders with family ties in Antwerp.[13] Only eleven Portuguese names appear. Berthon and Garnault did not look for buyers themselves. They worked with a set of brokers that they employed whenever diamonds arrived from Antwerp.[14] The main task of the broker was not just to find a buyer, but also to reach an agreement on the sale. First of all, a price per carat had to be agreed on, a process of negotiation that could take different weeks. This price also depended on the form of payment. Essentially, a buyer could pay in three different manners: with ready money, meaning a direct payment in cash, on credit, which was called 'on trust', or in truck, meaning the buyer gave

[13] According to a Brazilian author, the Vandertons were Dutch Jewish speculators. LIMA JÚNIOR, Augusto de. *História dos Diamantes nas Minas Gerais* (Rio de Janeiro: Dois Mundos, 1945), p. 106.

[14] See for instance Felixarchief Antwerpen (FAA), IB1652, Berthon & Garnault to James Dormer, Lisbon, 11/06/1748 "... we on the spot sent for two of our principal broakers that way for em to look out…" More examples are easily found throughout the correspondence.

diamonds in return.[15] If a buyer was willing to pay ready money, the price was lowered. For his services, sometimes vital, the broker received one per cent of the value of the sale that he managed to make.[16] The broker, who was generally Portuguese, was the direct link between the buyer and the seller, who did not always physically meet. The broker was to consult both parties and to deliver the latest offers made on either side. It was important for Berthon and Garnault to have brokers they could trust, for often the success of a sale laid in their capacities to find trustworthy buyers. Apparently, the Portuguese merchants did not pay brokerage.[17] It was perhaps a way for foreign merchants to bind brokers closer together to them, since they were in other ways probably closer to the buying clientele, with whom they often shared their nationality. As can be seen in the following table, by far the most transactions were conducted on credit, making the role of the brokers even more important.

	Sales	Direct	Direct (Unknown)	Total Direct	On Credit (Paid On Time)	On Credit (Paid late)	On Credit (Unknown)	Total On Credit
Number	37	5	5	10	3	15	9	27
%	100	13,5	13,5	27	8	40,5	24,3	72,8
Carats	1200,25	97,625	123,75	221,375	122	589,75	267,125	978,875
%	100	8	10,5	18,5	10	49	22,5	81,5
Value (Rs)	15919200	1447675	1207200	2654875	2662650	7296175	3305500	13264325
%	100	9	7	16	17	46	21	84

Table I: Types of Payment for Diamond Sales by Berthon and Garnault[18]

In terms of monetary value, the percentage of transactions conducted on credit is the highest: 84 per cent. Credit payments could take different forms. It was not uncommon that monthly payments were made. Otherwise, the whole sum would be paid at a stipulated time, which could

[15] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 28/04/1750. Diamond transactions in the form of truck did not seem to have taken place, but this letter makes it clear that it was an option that was always under consideration.

[16] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 15/07/1749.

[17] "as the Portugueeze here pay no broak.ge and the strangers do by Custom 1 p%" FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 19/08/1749.

[18] This data comes from an analysis of the correspondence between James Dormer and the firm of Berthon and Garnault. Two transactions have been excluded, since they were not expressed in carats; the sale of eleven stones in 1750 and the sale of the diamond ring in 1752. This does not change the conclusions drawn from the table. When different parcels of diamonds are sold on the same day to the same merchant, under the same conditions of payment, they are considered to be a part of one sale. The two unknown categories involve sales of which a payment date is not known. In some instances, however, no mention is made ever after of payment, and a period was never stipulated, suggesting they were direct payments. As such, they were included in a category of direct payment (unknown). Other transactions mentioned a date of payment and the promised period, and therefore they are included in a category 'on credit'. Since it is not known whether these promises of payment were fulfilled on time, they constitute a third category next to the 'on time' and 'too late' categories.

be one or more months, the longest period noted was five months. Sales were conducted on credit, and often Berthon and Garnault did not have direct contact with the buyer, meaning they had to trust their brokers. It was also common that they searched information about the buyer, and that they were only willing to sell when his character was trustworthy and his reputation good. When they sold 15.25 carats of polished rose diamonds to a Silvestre José de Moura, they assured Dormer that he was a "man of very good reputation."[19] Paulo José Brabo, to whom they sold different times, was "reputed a thorough honest man (thô not rich)."[20] Brabo often made monthly payments, and was often too late, but Dormer's agents kept faith in him, and at different times they continued to sell to him even when he was still indebted to Dormer. The problem was that there were not always buyers ready to become engaged in transactions, which were often based on the arrival of the Rio fleets. It was also difficult to get the price that Dormer wanted, so when they had found a buyer that had lived up to expectations in the past, a delay in payment was sometimes accepted as the lesser evil.[21] Sometimes they refused offers based on reputation alone. In 1752 a buyer had made a good offer for a parcel of diamonds, and he had an honest name. Unfortunately for him, he also had the reputation for being very slow in paying. Berthon and Garnault decided to decline the offer.[22]

Inevitably, the system was not always water-tight. An honest reputation was not always enough to ensure payment within a decent time period and such a mistake could lead to a long process of the recovery of outstanding debts. The whole sales mechanism was largely based on credit. This was realized by contemporary writers, such as Turgot, who wrote that commerce existed by the virtue of credit.[23] Table I shows that this is a very just claim, and that this system formed the heart of commerce. The dependence on credit tied the mercantile community together, and payment instruments such as the bill of exchange were the physical expression of these ties. The bill of exchange also showed the interconnectedness across a wide area, since it involved four parties in two different places. Since bills could also be endorsed, they could involve more parties and more places. The valuation of these strings of credit was based on trust, meaning the punctuality of the payer, but also indicating the belief that he would indeed pay. Since all

[19] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 27/10/1750.
[20] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 19/06/1753.
[21] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 23/04/1754 "...we sell this Man tho' he pays but slowly because he's honest & secure, and other ways gives a good price, when at same time we dont find any other buyers that will come nigh our prices…"
[22] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 06/06/1752.
[23] TURGOT, A.R.J. *Mémoires sur le prêt à intérêt et sur le commerce des fers* (Paris: Chez Froullé, 1789).

merchants were connected within different strings of credit, the system of trust did not always work, since it relied on information provided by other traders. Ideally, other traders would be honest and a merchant's reputation would be just. This was not always the case. It was often not clear who was indebted to whom, and merchants could falsely attribute an honest reputation to somebody that owed them money, in order to spark transactions that would eventually lead to their reimbursement. Berthon and Garnault were fully aware of the fact that people looked out for their self-interest and were sometimes prepared to deliver false information. One particular passage in a letter to Dormer shows this awareness in a very clear way, and is emblematic for the considerations behind a possible sale:

> it is well that you had noted the sale of the 4 Papers of your Diamonds which we sold to Pedro Affonço Ribeira, and hope with you that he will be punctual in the payment since said sale no opportunity for making any more has offer'd, there is a great many goods in town and hardly any money, so that good People dont care to engage until they know little more or less what to depend on of the Rio fleets arriving, and as this is not to arrive before January from the middle forward they differ ingaging doubtfull buyers there are enough, but we dont want to give em your goods and then be dunning of them years and years for the payment, we know People that some of them owe to that have debts of some years standing, and they give them an excellent character, but as it is to entice others to sell them, and endeavour by that means to be paid themselves, we dont trust to any of their informations, on the other hand whilst we have your goods in hands they are safe, so shall continue in our old scheme of endeavouring to sell when at trust only to such who have a very good reputation, both of honesty and punctuality.[24]

The possible lack of accuracy of information coming from a limited number of sources could be compensated by consulting different sources. On one occasion, Berthon and Garnault wrote to Dormer that they had talked to fifty persons of different firms to obtain information about a partnership that Dormer had asked them about.[25] This number in itself might not be very significant, but it adds to the idea of commercial community and the importance of reputation in it. Reputation was a form of currency that circulated within the mercantile society, and information was gathered from different sources to obtain a more accurate picture.

A second example showing the importance of an analysis of credit relationships in order to study long-distance trade is the Brazilian diamond crisis of 1753. On the sixteenth of January 1753, shortly after the signatures had been put on the contract, the Rio fleet entered Lisbon with money,

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[24] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 12/09/1752. Since the passage refers to different aspects that influenced trade and is very clear, it is quoted in its entirety here. The argument about the importance of the arrival of the Rio fleet, supplying both money and new goods, as well as the arguments about information, honesty and punctuality return often when a sale is considered. It is why this passage can be seen as the perfect example of the different elements that were important with regard to diamond sales.

[25] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 09/03/1751.

diamonds and promissory notes payable to merchants that had made investments in the diamond mines. The investment money was used to pay the slaveholders and to pay for technical equipment and the bills were to be paid out in Lisbon by the local representatives of the contract holders, the so-called *caixas*, with the proceeds of diamond sales.[26] The foreign firm of Sebastian and Manuel Vanderton was one of Brant's important business contacts. According to Dormer's Lisbon agents, they were a 'chief limb of the Brazeel contracters', and Vanderton bought 'all that comes to his hands.'[27] When there was talk in town about the involved parties of the new diamond contract in 1752, they wrote to Dormer that rumor had it that the Vandertons were involved, a rumor that they did not believe.[28] It seems that the Vanderton firm was the major buyer of rough diamonds shipped on the fleet that had arrived in January 1753.[29]

The bills that had arrived on the same ships were issued by Caldeira Brant. When presented for acceptance, the Lisbon *caixas* made an official protest and refused to pay.[30] To make things worse, Sebastian Vanderton, who had purchased diamonds on credit, had pawned many of the stones he had bought to different firms in Lisbon. The *caixas* had done the same thing with several parcels of diamonds and they were indebted with private merchants but also with the Portuguese government. The consequence of the protested bills was that the diamonds belonging to Caldeira Brant's contract could not be sold. This put the diamond trade to a standstill and the lack of circulation of money paralyzed the whole trading community of Lisbon. A court decision put the pawned diamonds up for public sale, but they were sold for very low prices and a new diamond crisis occurred.[31] The authorities decided first to deal with Caldeira Brant. In February 1753, the king sent a letter to the judge in Tejuco, wherein he stated that Felisberto had abused the terms of the monopoly contract by selling diamonds illegally.[32] One month later, a large parcel of contraband diamonds was discovered in the port of Lisbon. The authorities concluded

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[26] Arquivo Público Mineiro, Secção Colonial (APM-SC), Belo Horizonte (Brazil), Códex 1, ff. 173r-77r., *Condizóes para a extracáo dos Diamantes aprovada pello Senhor General Gomes Freire de Andrada*, 20/06/1739.

[27] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 22/12/1750.

[28] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 07/03/1752.

[29] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 28/08/1753.

[30] Biblioteca Nacional Lisbon, Colecção Pombalina (BNL-PBA), Códice 695 (ff. 306-80), *Deducçaó Compendiosa dos Contractos de Mineraçaó dos diamantes; dos outros contractos da Extracçaó delles; dos cofres de Lisboa para os Payzes Estrangeiros; dos perigos em que todos laboravam e das Providencias, comque a elles occorreo o senhor Rey Dom Jozeph para os conservar,* S.d., f. 318v-319v. The *Deducçaó Compendiosa* is a manuscript on the diamond trade, and it was most likely written by the marquês de Pombal.

[31] BNL-PBA, Deducçaó Compendiosa, ff. 320v-22v.

[32] BNL, Códices e Fundo Geral dos Manuscritos, Mss. 71, No. 8, *Ordem Régia ao Ouvidor do Serro do Frio sobre abertura de Devassa contra descaminhos praticados pelo contratador de Diamantes, Felisberto Caldeira Brant*, 22/02/1753.

that such an operation could not have taken place without the complicity of the contract holders and Brant was imprisoned.[33] In April, Berthon and Garnault informed Dormer about the 'recherche tres rigoureuze' that was taking place. According to them, the whole affair would 'occazioner des terrible embarras surement au Brezil' and perhaps create more problems in Lisbon.[34] Three weeks later, people were still being interrogated and people were hoping the Rio fleet would sail quickly again, so that also the circulation of news and the Crown's decisions would be known on both sides of the ocean.[35] The firm of Sebastian and Manoel Vanderton, which was partially responsible for the crisis, remained in difficulties. According to talk between traders, they had stopped all their payments, but they tried to maintain their reputation: 'they feed their creditors with the hopes that when the Rio fleet will come the King will put em in a condition to pay what they owe and at same time, take in of courze the pawns that many of them have had laying in their hands for years.'[36]

The 1753 crisis shows the existence of direct financial links between Rio de Janeiro, Minas Gerais, Portugal, England and the Netherlands. These links cannot be put simply in terms of a governmental relationship between state and colony. They existed on a less formal basis: that of interdependencies within merchant society. Further, an analysis of the financial ties between merchants reveals that the Brazilian diamond trade was not a simple matter of colonial commodities that found their way onto European markets, where they were bought and sold by European merchants. Traders active in Rio de Janeiro made important investments in infrastructure in the Brazilian diamond mines, amongst them were merchants born in Brazil, but also foreigners such as the Dutch entrepreneur João Hopman.[37] It is an example of how networks of credit were crossing the Atlantic in the eighteenth century, and contributed to a globalizing tendency in international commerce. The important involvement of Brazilian entrepreneurs in Rio de Janeiro and at the diamond mines in Minas Gerais indicates that this tendency was not just

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[33] Furtado, J.F., 'O labirinto da fortuna: ou os revezes na trajetória de um contratador dos diamantes', in E. Nodari, J.M.Pedro and others, *História: fronteiras*, Vol. I (Florianópolis: XX Simpósio Nacional da ANPUH, 1999), p. 317.
[34] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 24/04/1753.
[35] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 15/05/1753.
[36] FAA, IB1652, Berthon & Garnault to James Dormer, Lisbon, 31/07/1753.
[37] Arquivo Nacional da Torre do Tombo (ANTT, Lisbon), Real Extracção dos Diamantes das Minas do Brasil, Livro I: *Diário das contas do 6° contrato dos diamantes de que são contratadores o sargento-mor João Fernandes de Oliveira e seu filho o Desembargador João Fernandes de Oliveira. Caixa administrador geral no Serro do frio o mesmo desembargador e Caixa administrador em Lisboa, José Francisco da Cruz Alagôa, José Rodrigues Bandeira e João Henriques de Sousa*, 1764-1774, *passim*.

brought about by European merchants, but relied on economic development on both sides of the Atlantic.

In studying strings of credit and the business in bills of exchange, the informal merchant community becomes tangible. It is my conviction that merchant relationships in the eighteenth century can be situated between local and personal exchange and modern market society, possessing elements of both. I also believe the evolution of credit mechanisms towards negotiability is one of the elements that gave rise to merchant capitalism. The example of the 1753 crisis shows that the roots of this economic development were not exclusively European. It is by studying mercantile credit relationships that one can see the change towards our modern market society. Technological innovation in finance was accompanied by a changing commercial mentality, enabling the growth of international and cross-cultural cooperation.

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