Chapter 1

Introduction: Risk and Uncertainty

Risk was pervasive in early modern, oceanic commerce. At virtually every juncture of a long-distance venture, merchants encountered risks that threatened to sink their investments and generate painful losses. This ever-present danger was even reflected in the basic language of trade: to engage in a commercial transaction was expressed in Spanish as *correr un riesgo*, "to take a risk." Given the prevalence of risk, it is not surprising that early modern traders were deeply aware and profoundly concerned about the many dangers that their business dealings might face and dedicated considerable energies to reduce or accommodate them. Despite the centrality of risk in governing commercial behavior, however, historians of the Spanish empire have virtually ignored its role.[1] This book seeks to rectify this omission by elevating risk and uncertainty to the center of analysis. Not only does this approach require the exploration of new issues, but analyzing familiar topics through the lens of risk management produces wholly different perspectives about the activities and behaviors of Spain's Atlantic traders.

Merchants engage in business with the goal of making profits. Risk represents an obstacle to the success of mercantile ventures, an event or danger that has a potentially negative consequence on the outcome of business deals. If not for risk and uncertainty, merchants could develop commercial strategies confident that all scenarios were known and that no surprises would arise. In classical economic theory entailing perfect

competition, "practical omniscience on the part of every member of the competitive system" is assumed. Entrepreneurs operate from positions of perfect knowledge in which "the future will be foreknown." Under such theoretical conditions, commerce would benefit from stability and predictability. In reality, however, business is always conducted with some degree of risk and uncertainty. Economic actors are not omniscient.[2]

In the early modern world, risk and uncertainty were pervasive, especially in long-distance, transoceanic trade. The central argument put forth in this book is that much of the commercial behavior of Spanish merchants should be understood as their responses to the ever-present riskiness of trade. Economic historian Peter Musgrave has argued that it is impossible to understand the early modern commercial world without considering the centrality of risk and uncertainty. In their efforts to mitigate risk, he argues, early modern merchants often engaged in "odd economic behavior," adding that "without [considering] uncertainty and its consequences, much of the economic and social history of the pre-modern world is, if not completely inexplicable, at least deeply mysterious."[3] To understand the behavior of Spanish imperial merchants, the historian must take into consideration the tremendously uncertain conditions under which they operated.

Early modern Spanish merchants did not accept passively the business climates that they encountered. Instead, they sought to shape or influence commercial environments and institutions. The Atlantic world was fraught with risks, any one of which could derail a merchant's plans or even devastate his financial empire. As a consequence, merchants engaged in risk-reducing strategies, developed risk-mitigating institutions, and sought whatever means possible to reduce the uncertainty and ambiguity that pervaded early modern trade.

Economists make an important distinction between risk and uncertainty. According to Frank H. Knight, an early twentieth-century American economist[4] whose pioneering work emphasized their difference, risk was "a quantity susceptible of measurement" whereas uncertainty was "unmeasurable." A risk was a phenomenon whose probability could be computed, allowing economic actors to pass it onto others, to buy protection against such a risk.[5] The Atlantic world mercantile community, for example, had some sense of the frequency of shipwrecks. While any individual accident was unpredictable, the law of large numbers[6] allowed the computation of the probability of a ship sinking. Knowing the probability of any one ship becoming lost in a shipwreck allowed shipowners to pool

their risks so as to convert the danger into a fixed cost. Rather than bear the entire (albeit small) risk of having one's vessel wrecked, shipowners could eliminate the risk altogether by paying a small premium determined by the probability of a shipwreck. As such, no shipowner would suffer a total loss; instead, the cost of the premium would be known in advance. The consolidation (pooling) of risk is most often accomplished through the acquisition of insurance in which traders pass onto a company or partnership the risk that they prefer not to endure themselves.[7] By purchasing insurance, shipowners and merchants reduced significantly the riskiness of their ventures.

Far more problematic for economic actors, Knight argued, were unmeasurable risks, nowadays termed in the economics literature "Knightian uncertainties." These risks occur without any predictable pattern and thus cannot be addressed through insurance or other pooling mechanisms. "Business decisions," for example, "deal with situations that are far too unique, generally speaking, for any sort of statistical tabulation to have any value for guidance." To weather these risks and profit from his ventures, a businessmen had to rely on his judgment (experience, risk tolerance, business acumen, etc.) to guide his decisions. Obviously, merchants' judgment was highly imperfect and variable. Two veteran early modern merchants might employ their vast experiences to assess the multitude of factors that affected a potential deal and yet make wholly different decisions. The issues were so vast and unpredictable that merchants could not measure with much precision the probability of a venture's success. Put differently, long-distance trade entailed a notable element of gambling. Each transaction was distinct, the variety of influencing factors numerous, and its outcome thus uncertain. Merchants anticipated that their successful ventures would outweigh their failures, but the probability of success of any individual transaction was impossible to determine. Trade was uncertain.[8]

There are several ways to deal with risk and uncertainty. Again, measurable risks can be passed onto a third party, notably an insurer. Knightian uncertainties, however, were by definition too unpredictable or unique to be quantified and thus eliminated by finding others to assume them, to accept a payment to take them on. Long-distance commerce entailed many uncertainties that could never be eradicated, but merchants did attempt, with varying success, to limit their impact. While their unpredictability made them uninsurable, they could be minimized or reduced. No matter how greatly a trader sought to avoid risks and uncertainties, however, they

were inevitably central factors determining the success or failure of long-distance trade. No merchant could ignore these factors.

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This is a book about the ways in which merchants of the Spanish Atlantic world sought to deal with the endemic risks and uncertainties of long-distance commerce. Risk management (here understood to be the totality of efforts, individual and systemic, that aimed to reduce risk and uncertainty) was vital to the business decisions of long-distance merchants. Indeed, this book argues that managing risk was the principal concern of international merchants and that many aspects of Spanish imperial trade practices can only be understood fully when examined through the lenses of risk and uncertainty.

The riskiness (both measurable and unmeasurable) of early modern, Atlantic world trade arose from a multitude of factors, all of which a prudent merchant needed to consider. One major source of uncertainty resulted from the poor information that merchants inevitably possessed in the planning and execution of their business activities, an issue examined in Chapter 2. As Knight explains, "the fundamental uncertainties of economic life are the errors in predicting the future and in making present adjustments to fit future conditions."[9] One way that traders sought to reduce the uncertainty was by increasing their knowledge of the business and political climates that affected their interests. But good information was difficult and expensive to obtain in the early modern world as news traveled slowly and imperial politics were anything but transparent. As a result, business was most often conducted with only limited knowledge of relevant factors, what economists refer to as "bounded rationality," contributing greatly to the uncertainty surrounding long-distance trade, and complicating the already difficult judgments merchants were forced to make about the future. Few activities exhausted more of a merchant's time than writing letters to all corners of his business empire, trying to reduce the imperfection of his information. Knowledge of commercial and political conditions throughout the Atlantic world helped merchants penetrate the fogginess in which they engaged their trade. Although merchants understood the importance of good information, the communication technologies of the day were underdeveloped, especially so in the Spanish empire, resulting in the sporadic and slow movement of intelligence. Information received from the other side of the Atlantic was better than none, but it was always dated and might, if no longer accurate, even lead a merchant to make costly, ill-advised decisions. Long-distance trade moved

at a snail's pace and required decisions about unpredictable markets and unknowable circumstances well in the future, and "the longer it is, the more uncertainty will naturally be involved."[10] Even the best informed long-distance merchants operated largely in the dark.

Imperfect information increased greatly the costs and risks of doing business. One of the greatest dangers emerged from unpredictable and changing market conditions. Merchants guided their commercial decisions on reports they received regarding existing supply and demand in markets throughout the Atlantic world and beyond. But given the slow movement of information and goods, market conditions could change radically between, for example, the dispatch of intelligence from America, its receipt in Spain, and the corresponding shipment and arrival of goods back to America. The danger of market risk plagued all early modern merchants, no matter from where they operated their businesses.

The cost of conducting business is influenced by the political, legal, economic, and cultural institutional framework in which such economic activities are undertaken. According to Nobel laureate Douglass North, institutions "determine transaction and transformation costs and hence the profitability and feasibility of engaging in economic activity."[11] These institutions, however, are not fixed. Indeed, institutional economists predict that when faced with elevated risk and other costly obstacles to economic growth, economic actors will design new (or adapt existing) institutions or economic practices to lower costs, reduce risks, and make feasible economic activities that would otherwise be too dangerous or expensive to undertake. "The major role of institutions in a society is to reduce uncertainty by establishing a stable (but not necessarily efficient) structure to human interaction."[12]

Merchants responded to the uncertainty of market risk, sudden fluctuations in supply or demand, by either creating new or adapting existing institutions. Chapter 3 examines market risk in the Atlantic world as well as the institutional responses designed to reduce such risks. Merchants throughout turned to economic institutions to lower the frequency or severity of market shifts. One institution that merchants outside of the Spanish empire relied upon heavily to reduce commercial risk was the vertically integrated trading company—for example, the English, Dutch, or French East India Companies, the Royal African Company, or the Hudson Bay Company. By concentrating trade in a single entity with sanctioned monopoly privileges, merchants benefited by exercising more direct control over supplies in distant markets, allowing them to reduce the likelihood of sudden saturation of markets. Trade became less volatile

and risky, and thus more feasible. According to Knight, a larger business entity, such as a corporation, faces reduced risks due to "the extension of the scope of operations to include a large number of individual decisions, ventures, or 'instances.'"[13] Decisions and the intelligence informing them were aggregated, and thus uncertainty was lessened.

In the Spanish empire, monopoly trading companies did not develop for the most important routes. Instead, there emerged a complex array of regulations on commerce which had the consequence of performing some of the same risk-reducing functions as the chartered companies. Historians have failed to adequately appreciate these parallels; instead they have stressed only the negative, monopolistic aspects of the *Carrera de Indias*. Until commercial reform in the last decades of the eighteenth century, granting of trade licenses in Spain was tightly controlled and severely limited, restricting the total amounts involved in transatlantic commerce to quantities that could be reasonably consumed in the colonies. The number of open ports was also kept deliberately few. One explicit goal of regulated commerce was to match supply and demand, to prevent the glutting of markets. Until they were terminated in 1739 to Peru and 1778 to Mexico, the flotas and galleons that ran between Spain and the colonies helped to regularize trade, making supplies more predictable and reducing the degree of market risk. Limited licensing and organized fleets lowered risk by making trade less volatile. They functioned in a somewhat similar fashion to chartered companies in other Atlantic world empires.

Scholars have tended to view the regulated Spanish commercial system solely as a vehicle of the mercantile elite to garner excessive monopoly profits by excluding competition. Because this widely embraced view of the trade system is at odds, to some degree, with the risk-reducing rationale for regulation put forth here, it is also examined in Chapter 3. Monopoly, in this context, had two distinct features. First, monopoly was geographical; the Andalusian cities of Seville (until 1717) and Cadiz (thereafter) enjoyed Crown-granted, exclusive access to the Spanish American markets. Similarly, legal ports in the colonies were limited to a choice few, Veracruz and Callao (Lima) being the most important. Seville/Cadiz became an international hub with all of the financial and commercial institutions necessary to facilitate transatlantic trade, a concentration of trade institutions that provided certain economic efficiencies. Wealthy merchants from all corners of the Atlantic world migrated to Andalusia to partake in commerce. While non-Spaniards were excluded from trading directly with the colonies, a perfectly comprehensible policy given Spain's mercantilist goals, there were no obvious trade barri-

ers to Spanish merchants of a certain size and wealth, assuming they relocated to Andalusia.

Spaniards from every region of the peninsula matriculated into the Andalusian *consulados*, the powerful merchant guilds of Seville and Cadiz. The dominance of Spanish-Atlantic trade by members of the *consulado* is a second monopoly characteristic identified by historians who argue that the wealthy *consulado* merchants exploited their political and economic power to earn excessive profits. Chapter 3 challenges this traditional argument, suggesting that there were far too many traders involved in Spanish imperial trade to have permitted even the largest and wealthiest to exercise monopoly and dictate commodity prices. Merchants engaged in Atlantic world trade were usually wealthy, and for good reason, but their individual interests trumped any class or institutional alliances that might have pressured them to collude on prices. In any event, there were too many of them to have functioned as a cartel. Wealth might have gained them a foothold in the commercial system, but once they entered, they faced considerable competition from similar traders.

Relative to its neighbors, Spain's continued decline throughout most of the eighteenth century led reformers to prescribe changes to the regulated Spanish commercial system. Indeed by the second half of the century, a Bourbon modernizing ideology that painted the commercial system as an obstacle to Spain's development had triumphed, making the *Carrera de Indias* a central target for restructuring. Initiated in 1765, the zenith of reform was the 1778 promulgation of *comercio libre* (free trade), which opened the Spanish imperial commercial system to many more ports and led the Crown to greatly increase the number of ships and volume of cargo licensed to trade in the Spanish Atlantic world. Chapter 4 examines the impact of trade reform. The 1778 legislation has traditionally been depicted as a singularly revolutionary transformation in Spanish commerce, one that led to a spectacular increase in transatlantic trade and the emergence of a more competitive, entrepreneurial class of traders. In fact, the period after 1778 has even been dubbed a "golden age" in Spanish trade.[14] All of these assumptions are scrutinized in this chapter. First, a new body of scholarship leaves little question that the actual growth of trade was a small fraction of that which historians have traditionally suggested. Deregulation of the commercial system did lead to commercial expansion, but nowhere near what has been accepted in the dominant historiography. Second, the still substantial growth of commerce after 1778 had both positive and negative consequences. Growing competition expanded trade, lowered prices for consumers, and increased Royal tax revenues, but also led to increasingly

volatile markets and a major surge of commercial bankruptcies in the late 1780s and turn of the 1790s. The argument developed in Chapter 4 is that the promulgation of *comercio libre* altered the institutional arrangements that had helped regularize supply and mitigate uncertainty in the pre-reform era. It would be incorrect to paint the pre-reform era as risk-free, but the Bourbon reforms dismantled several of the practices that traders had relied upon to deal with pervasive uncertainty. Believing that the new post-1778 commercial environment of free trade was too unpredictable, some experienced Spanish traders withdrew from Atlantic world commerce, reinvesting into ventures perceived to be less risky such as land ownership, silver mining, and financial services, including the provision of insurance. In short, Chapter 4 argues that to term the fifteen years following the introduction of reform a "golden age" is misleading. Trade did experience growth to the benefit of Crown tax revenues and, perhaps, consumers, but the end of regulated commerce also led to increased riskiness, the growing unpredictability of trade, and corresponding financial dislocations. While the ensuing bankruptcies might merely have reflected less competitive merchants failing to adjust to the new, more competitive environment, the start of the wars of the French Revolution and Napoleon makes difficult any such long-term assessment. The wars finished off many of the merchants who had managed to adjust to the new trade regime.

Widespread reliance on credit had always been one of the major sources of riskiness in early modern trade. Atlantic world commercial ventures almost invariably took years to complete. Goods had to be acquired, packaged, shipped, and sold, and then the process was repeated on the other side of the ocean before the original merchant recovered his investment and calculated his profits. One consequence of the prolonged nature of commerce was that merchants often turned to financiers to help sustain their businesses. The dependence on credit, perhaps, was fueled by the endemic shortage of minted coins in the colonies; few traders had the liquidity to pay for the imported wares they bought in bulk. The Bourbon commercial reforms of 1778 might have exacerbated the situation. First, the termination of the convoy and the *feria de Jalapa* (trade fair of Jalapa) in Mexico caused a partial withdrawal of many of the wealthy Mexican merchants from international trade. No longer did they descend to Veracruz with large amounts of cash to buy imported goods at the trade fair. Instead, the Peninsular *flotistas* (import/export merchants) increasingly sold on credit to less well-funded Mexican traders, tying up their funds for lengthy periods and exposing themselves to significant risks of default.

Second, liberalization of trade caused a flood of imports into America as more traders were granted licenses to carry products. In the 1780s and 1790s, international traders in all corners of the empire complained of the growing need to finance sales and to do so for longer terms to increasingly less creditworthy consumers. Extending credit always exposed merchants to the potential for losses due to debtor insolvency, but as the quantities of imports and the uncertainties of trade grew after 1778, importers were forced to finance more and more of their sales, incurring additional risks. Bankruptcies were the most glaring consequence. Chapter 5 explores the role of credit in Spanish Atlantic world commerce and the rising incidence of bankruptcy in the years following the introduction of *comercio libre.*

The experiment in free trade was abruptly interrupted by the outbreak of war in 1793. For the next two decades, Spain was engaged in nearly constant hostilities alternately with France and Great Britain. Napoleon's defeat in 1815 did not spell relief for the Spanish empire; Spain remained engulfed in war as its American colonies fought for their independence. Of course, even the start of free trade was delayed by Spain's involvement in the American Revolutionary War. During peacetime, merchants encountered a multitude of potentially costly risks; warfare introduced a host of different, and even more devastating, dangers. The nature of commerce changed dramatically during wartime as an entirely different set of factors and risks influenced merchants' business decisions. Warfare always interrupted commercial sea lanes, but nations at war also contracted privateers to attack the commercial vessels of their enemies. The danger of losses from enemy corsairs was the greatest risk that merchants faced during wartime, but war also led to losses as commerce stalled and merchants failed to get their goods to market. Chapter 6 examines the economic and commercial impacts of war, and especially its impact on risk. While the examples used come from the second half of the eighteenth century, many of the effects were equally suffered in previous wars.

Merchants eliminated some of the risks that they encountered by purchasing marine insurance. For a fee, they could insure themselves against losses sustained from shipwrecks, inclement weather, flooding, fire, enemy encounters, piracy, or corsairs. In the last decades of the eighteenth century, a flourishing industry in the underwriting of risk expanded in the port city of Cadiz, replacing what had been largely a foreign-dominated business. Dozens of insurance partnerships were established in the 1780s and 1790s, and Spanish merchants turned increasingly to these local financial institutions to obtain insurance coverage for their international

business dealings. Merchants paid insurance premiums and transferred to these companies some portion of the riskiness of Atlantic world trade. Ironically, the rapid emergence of this industry might have been partially the response to the escalation of market riskiness following the adoption of *comercio libre*. Some of the large merchants who had invested in the colonial trade withdrew from this increasingly unpredictable business, choosing to underwrite measurable (and more predictable) risk via insurance policies instead. Previously, Spanish merchants had either secured coverage abroad or obtained security through alternative financial instruments,[15] but now they increasingly acquired marine insurance directly in Cadiz. Chapters 7 through 9 examine the emerging late eighteenth-century Cadiz-based insurance industry. Chapter 7 focuses on the capital structure of these newly formed insurance partnerships as well as the business strategies devised to guide their operations. Firms consisted of financial partners who, in acquiring shares, guaranteed to assume any commercial risks underwritten. The typical firm subscribed forty individual shares of ten thousand pesos apiece for a total pledge of four hundred thousand pesos. Shareholders, most of them merchants themselves, agreed to share in the profits and losses of the underwriting business. Company charters outlined the firms' policies and strategies and offer a unique window into the perceptions of Atlantic world risk at the time. Chapter 8 provides a microeconomic analysis of nearly eight hundred insurance policies written in Cadiz between 1759 and 1818. A separate policy was written for each insurable event, whether the shipment of a cargo or the sailing of a vessel. Each policy stipulated in minute detail the particular terms—outlining the route, cargo, value, ship type, and premium, and usually appending additional conditions unique to the specific case. Insurance premiums, always expressed as a percentage of the insured value, were a function of the perceived (measured) risk and thus fluctuated with changing coverage or shifting circumstances. In determining rates, insurers considered a host of factors, including the nature of the item underwritten, the type of ship, the season of the year, and, most interesting to the historian, the political climate in all corners of the Atlantic world. Indeed, insurers developed ingenious ways to protect themselves against the unexpected outbreak of war or to discourage insured shipowners from acting recklessly. Despite their precautions and the extremely high premium rates that they charged during wartime, the insurance companies seem to have sustained hefty losses after 1793, shaking the foundations of the Andalusian economy and financial markets. The profitability of the firms and the financial stability of the Cadiz insurance industry during the wars of the French Revolution

and Napoleon are the topics of Chapter 9. As war-related insurance claims mounted, the companies strained to indemnify their losses, placing financial pressures upon their shareholders, who were called upon to cover the shortages. An examination of the lists of shareholders suggests that many of the partners held multiple shares in numerous firms, exposing themselves to dangerously high losses. Such concentration suggests that risk had not been adequately spread, leaving vulnerable the financial security of the Cadiz mercantile community.

Geographical Focus

This book began specifically as a study of the riskiness of trade between Spain and Mexico, a large topic in itself. In the course of research, however, this narrower focus became increasingly difficult to maintain and gradually expanded to encompass the entire Spanish empire and, in some aspects, the entire Atlantic world. In the introduction to an edited volume on the Atlantic world, historians Jack P. Greene and Philip P. Morgan make the obvious but too often ignored point that "events in one place had repercussions in others."[16] Along with other Atlantic world historians, Greene and Morgan argue that taken as a whole the various empires that surrounded and were active in the Atlantic comprise a cohesive and illuminating focus of study. Or as Alison Games nicely puts it, "the ocean . . . was the unique space within which goods and people were created, defined, and transformed."[17] The Spanish empire did not exist in a vacuum but was profoundly influenced by the other empires that operated in the Atlantic. "Imperial boundaries were permeable and there was considerable crossing of imperial lines."[18] Spanish imperial trade, for example, was but one stage of the international trade linking America and Europe. Most traded goods merely passed through Spain en route to the colonies or northern Europe. Commercial circuits transcended imperial borders. Trade legislation, *comercio libre* included, was most often designed and enacted with Spain's Atlantic world neighbors in mind, as a partial response to rising contraband, for example. Warfare, naturally, erupted due to conflicts between Spain and its Atlantic world enemies. For these and other reasons, this book became geographically much larger than originally envisioned.

Atlantic world history has enjoyed considerable scholarly attention in recent years, but historians of the Spanish empire have been slower than their British counterparts in widening their focus. Instead, Spanish American colonial history has largely been written with a local focus, only rarely expanding beyond the level of a single viceroyalty. Even Spain, the

"mother country," has often taken a back seat in colonial Latin American histories, existing in the background, a distant place from which edicts, often inappropriate or ignored, occasionally arrived to guide or irk the colonialists. This observation is by no means meant as criticism. In the past four decades the high-quality work of colonial Spanish American historians has provided a vivid image and profound understanding of the Spanish American world that Columbus's journey initiated. Historians' focus on the local is critical; one can hardly comprehend the interaction of empires without first expanding knowledge about each one individually. Atlantic world history is an attempt to enlarge and widen the scope of these more geographically focused studies.

To some degree Atlantic world history itself builds upon earlier historical schools that attempted to examine the broader implications and consequences of the interplay between the two sides of the Atlantic. The influential work of Alfred Crosby and others demonstrated the monumental effects on both sides of the Atlantic caused by the Columbian exchange, the movement of flora and fauna between the Old World and the New World following Columbus's voyage of 1492.[19] Blossoming in the 1960s, and building on the work of earlier economists such as Raúl Prebisch,[20] the dependency school embraced a global perspective designed to explain the disparity of wealth between the developed and "underdeveloped" worlds. While the broad claims of the dependency school have been increasingly rejected, this macro-approach and cross-oceanic focus was certainly an important precursor to the efforts of Atlantic historians.[21] Some of the best studies of the Atlantic world have been produced by scholars of the African slave trade. The notorious "middle passage" was, of course, the link between Africa and America and was critical in the making of the Atlantic world. A massive historiography examines the effects of the slave trade and slavery on both sides of the Atlantic.[22]

While Atlantic world historians have been influenced by many schools, their paradigm is clearly the work of Fernand Braudel, specifically his monumental *The Mediterranean and the Mediterranean World in the Age of Philip II*.[23] Just as Braudel's work broke away from the narrower focus on nations and empires to explore the entire "Mediterranean World," Atlantic world historians seek to write "history without borders," a "Braudelian Atlantic history."[24]

Atlantic world history, as it is now defined, is relatively young, but it has nonetheless begun to produce a wealth of new works, especially for the English-speaking Atlantic.[25] While recent studies have also made significant contributions to integrate the Spanish empire into the broader

Atlantic world history, the literature is comparatively slim. Encouragingly, in the last decade-plus excellent works have been published in a variety of different subfields of Spanish Atlantic history.[26]

Economic history is especially well-suited to examine the whole of the Atlantic world. By necessity, long-distance merchants, the focus of this book, dealt with their counterparts in other parts of the world. The market for commodities transcended imperial borders requiring constant communication with agents in other Atlantic world commercial centers. Spanish merchants specializing in the importation of colonial goods turned to commercial houses in France, Great Britain, Holland, or elsewhere for lines of credit, interlinking the finances and the fortunes of traders throughout the Atlantic world. Crisis in one region caused waves, or worse, in the others. The Atlantic world was an integrated market. Long-distance trade forced participants to operate beyond the boundaries of the nation or empire; leading Spanish merchants were indeed engaged in activities that encompassed the entire Atlantic world and beyond. Their far-flung commercial interests required merchants to engage in mercantile correspondence that reflected this geographical expanse; Cadiz-based merchants communicated regularly with mercantile houses in virtually every major port of the Atlantic world.

Spanish Atlantic merchants rarely specialized in the trade of a single colony or commodity. Instead they were generalists (diversifying trade and minimizing risks), shipping to whichever markets seemed to offer potential for profit, and buying whatever colonial goods were in demand in Europe. Spanish merchants procured, most often for reexport, silver and cochineal from Mexico, indigo from Guatemala, sugar from Cuba, hides from Buenos Aires, cacao from Caracas and Guayaquil, and silver from Peru, among many other colonial products. They paid for these imports with typical European exports—textiles, wine, liquor, and a host of other luxury items—produced in Spain or, more commonly, imported to Iberia from northern Europe and then reexported to the colonies.

Commercial exchange tied the Spanish colonies and their inhabitants into the wider world. African slaves in the Caribbean and Brazil labored on plantations, producing sugar for European consumers.[27] Indigenous Oaxacans tended and harvested cochineal for the markets of London, Amsterdam, and beyond.[28] Enslaved miners in New Granada collected platinum which found its way to the laboratories of British scientists.[29] Indians of the viceroyalties of Mexico and Peru produced the silver that permitted worldwide commerce to expand.[30] Indeed virtually every colonial region specialized in a commodity or two that linked its peoples to global markets and exchange.

Similarly, the Cadiz-based insurance industry underwrote risk for ships traveling to destinations in every corner of the world, whether in Spanish America, Europe, North America, Africa, or Asia. No matter where a ship sailed, underwriters had to consider factors that transcended Spanish imperial politics and economics. Events in British America, for example, affected the riskiness of commerce between Cadiz and Río de la Plata. Factors contributing to risk were rarely contained by imperial borders. Indeed war, the most destructive commercial hazard, was almost always international; the constant warfare of the late eighteenth century requires that a study of risk in the Spanish empire examine related issues in the broader Atlantic world. Even the wars of Spanish American independence that ended the period under study had international dimensions. Furthermore, insurance underwriting in Spain was not wholly independent from the same business in other Atlantic world ports. There were no regulations that prohibited Spanish merchants from obtaining their coverage in London or Amsterdam. As a result, the market for insurance was international, forcing Spanish insurers to compete with their rivals in other Atlantic centers.

While the examples employed in this book come from all corners of the Spanish-Atlantic world, Mexico still looms more largely than any other colony. The issues discussed are deeply influenced by the historiography on colonial Mexico. Furthermore, the discussion of politics, especially in connection to the liberalization of trade in the eighteenth century, remains more fully focused on Mexico.

Sources

Most of the research for this book was conducted in the Fondo de Consulados, located at the Archivo General de Indias (AGI) in Seville. The majority of this collection pertains to the Cadiz *consulado*, the merchant guild established in 1717 upon the relocation of the *Casa de Contratación* from Seville to Cadiz. Because of the *consulado*'s dominant role in the colonial trade, its papers were naturally central to this study. Virtually every sheet of its several thousand *libros* and *legajos* deals with economic issues, especially international trade, making it an indispensable source for the study of Spanish commerce. Primary information from other archives and other sections of the AGI were also collected and used in the research for this book, but the *consulado* sources were simply the most useful and relevant, meriting their special mention.

Among the responsibilities of the guild was to adjudicate commercial disputes. In this capacity, the *consulado* heard bankruptcy proceedings, one

source of materials for this study. In its oversight of bankruptcies, the guild came to possess the private papers of many merchants, from their letters to their financial records, principal primary documentation utilized in the writing of this book. Merchants wrote copiously to their commercial agents and allies, and their correspondence provides an astonishing wealth of information about commerce and the risk-management strategies of their authors. One illuminating aspect of mercantile correspondence is that it was intended exclusively for the private consumption of the merchant author and his addressee. As a consequence, these letters spoke with tremendous frankness, revealing commercial secrets that traders guarded with great care. Mercantile correspondence sought to inform and guide merchants' and their agents' commercial behavior and as such aimed for clarity, the goal being to provide unambiguously and precisely the extant conditions affecting commerce.

In addition to being a tribunal, the *consulado* was a merchants' association, protecting and promoting the interests of its members. In this role, the guild was regularly consulted by the Council of Indies on all matters economic, preparing *informes* (official reports) about a wide variety of issues. More generally, the consular officials maintained regular correspondence with various Crown ministers and others about issues of perceived urgency. These reports and letters were an additionally indispensable source for this project. Especially useful were the numerous reports prepared by the *consulado* of Cadiz, and its counterpart in Mexico, regarding the adoption and effects of late-eighteenth-century commercial liberalization.

The *consulado* was also vested with authority over the insurance industry. Among insurance-related papers deposited in the Fondo de Consulados were the charters of eighty-four insurance partnerships established at the end of the eighteenth century. These charters provide a wealth of information about the commercial factors that merchants perceived as risky at the time. In addition, the charters list all of the company shareholders and are thus a useful source in identifying and understanding the financiers behind the underwriting business. Also deposited in the *consulado* are many hundreds of insurance policies. Rich in numerical information, these policies permitted the construction of a massive database, allowing the quantification of risk to complement the more qualitative information discussed in other sections.

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Early modern commerce exposed merchants to a multitude of risks. The poor flow of information, slow transportation technologies, the uncertain

and changing market conditions, the volatile political climate, and a host of other potential problems plagued Spanish merchants and threatened to ruin their long-distance commercial ventures. This is a book that examines how merchants of the Spanish empire dealt with and accommodated these risks and uncertainties. Risk management was central to the economic planning of long-distance traders, and only by examining their economic activities and behavior in light of these strategies can historians hope to fully understand early modern trade.