

Walking (the respondentia) Walk; instrument for trade finance in the Early Modern global trade

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Respondentia in the title is evocative of the name of the main square in the front of all European factories in 18th Century Canton and that of the main thoroughfare between Fort William and the Hoogly River in Calcutta. The name of such preeminent surrounding of central loci of European commerce in Asia is interesting and curious to reflect in the context of the financial history of early modern global trade. This paper argues that it was a basic characteristic of this contract across markets and nations until the 1800s what explains its prevalence and persistence in financing of long-distance trade. Drawing mostly from references available in (an admittedly a bit aged) historical literature on different trades, it is possible to look at the contract with anew with the glasses of monetary issues. In an international trade lacking a cashless means of settlement and a common standard for precious metals across markets, trade meant dealing with different monies and diverse means of payment; thus performing with “foreign money” added another risk to the better known mercantile and navigation hazards. (Carriere 1970)). Respondentia allowed to hedge against another, often overlooked, risk in overseas commerce of the period: the currency or exchange risk.

Thus, this essay documents the use of respondentia in a variety of trades that Europeans and non-Europeans alike carried outside Europe. Although Charles Lockyer (supercargo of the EICo in the 1710s and source of Bob Allen’s assumptions) advised that “a man of an honest character silver wants money at *Bottomree, or Respondentia* to what port soever), respondentia appears to be the contract for trade finance most widely used – or more ubiquitous - in long distance maritime commerce in the early modern period. Known worldwide by various names (*correspondencia, cambio marítimo, riesgo marítimo o de mar* in Spanish; *risco or ganho de mar* in Portuguese, *pret a la grosse aventure* in French, *bordermerije or bomerie* in Dutch and respondentia in English; it was also called *nagamame* in Japanese and was probably similar to the *muzarbat or the awak* among indian sarraffs (Haider 2019). By its scope, it was indeed dominant in the global commerce of Europeans - outside Europe for the most part. This contract shared some particular characteristics across markets, agents and trades over the Atlantic, the Pacific and the Indian oceans: it was a free private arrangement among disparate mercantile agents in remote locations. A covenant that enabled long distance exchanges while the whole risk fell on the “lender” and specifically established the species (foreign currencies) with which the capital invested was to be paid back.

It has been long known to scholars of the Mediterranean commerce from the later Middle Ages and in the conventional historical literature who consider it a derivation of the *commenda* and is often associated with other instruments like bottomry and sea loans ((Hoover 1926, Sayous 1927, Pryor 1977, Gonzalez De Lara 2001, Williamson 2010)). Its French iteration caught the attention of early French economic historians and the English translation has often assimilated both names according to economic historians who mostly reflected on its waning importance later in the 18th century and the replacement by the maritime insurance policy in Northern Europe ((Cunningham 1761, Emerigon 1827, See 1924, Steckley 2001, Ebert 2011, Leonard 2012). Unlikely a suspect of Anglocentrism Charles Carriere (Carriere 1970 p231) qualified the *respondentia* use as “*technique menue et archaïque de credit commercial*”. In this light, both instruments (*respondentia* and bottomry) have been defined, albeit arguably not quite rightly, as a loan cum insurance which persisted in those markets that missed the “financial revolution” ((DeRoover 1946), (Dickson 1967, Carriere 1970, Neal 1991, Neal 1993),(Neal 1991)) Whereas bottomry loans were securitised on the ship “or the kill”, i.e. the bottom of the ship, in the *respondentia* case security was placed on the goods on board and eventually on the (whichever) assets of the person(s) who took it. Securitization by pledging the ship to a commercial transaction was still common practice in Europe – and England in the early 17th century (Steckley 2001). Thus, most historians have considered the bonds or contracts as a mix of insurance and capital¹; however the payment of principal, interests and premium would happen only if the return of the ship had been successful² ; Otherwise, lenders lost all. However, with the fast expansion of global overseas trade after the 16th century, the security was increasingly separated from the principal, and in the 18th century was overwhelmingly a lien on the merchandise aboard.

In addition to the Spanish trade in the Pacific and Atlantic discussed below, the contract appears in the businesses of the Portuguese in Japan, of the Dutch and English companies, and later the Danish and Swedish ones in India and China, and that of their captains and other private merchants’ deals with South Asian agents. Even later comers and freer North American merchants like the Messrs Jackson and Lee of Massachusetts used *respondentia* in the business in India (Porter 1937). This highlights the central common features of *respondentia* – one of which was the specification of the currencies for the repayment. Thus, the section delves in the “terms and conditions” of the contract across the trade: namely, the premia; the time component of the transaction – or lack thereof; the maturity and conditions, securities and collaterals; the means of enforcement and jurisdiction agreed; the coverage of the risk and management of the losses. Broadly, it brings a comparative assessment of the mechanisms that carried this mode of trade finance over different jurisdictions, agents and legal frameworks for so long.

¹(To names one) Drawing on Perkins (1994 p 283) “In effect, the interest charges applied to the loans served as the premium for providing insurance coverage” Van Dyke (2011 p45) state that “the loans would be repaid if the foreign ship made it safely back to its home port. If the ship was lost at sea, the borrower was not obliged to repay the loan or interest. That was the insurance element at work” He also argues that “rates were higher for coastal trips because it exposed the vessel to more hazards” p 47) In p 52 Van Dyke equates bottomry loans to *respondentia*. Van Dyke 2005 p151 repeats the confusion. For the Spanish trade Carrasco González (1995, p. 81; Herrero Gil, 2005-2006

² and agents (if were owners of the ship) might deduct freight costs from the debt; this deduction was more frequent when the lender was the sole owner of the cargo.

Because of the very nature of the instrument [-a one-off, termed, and non-negotiable between private principals and agents], little robust quantitative information remains to systematize trends in the premia and amounts involved – unless there was a rare case of institutional lenders, which are discussed below. However, the qualitative evidence is abundant, as historians have widely recorded it in the scholarship of the particular trades, but always separately and in isolation. Various and disparate interpretations – in addition to the insurance component- argue for the convenience to avoid usury laws and interpret the “high interest rates” as arising from high risks and uncertainties of the long distance trade, the scarcity of capital and even the exploitative nature of the financing³. This literature nevertheless allows drawing evidence for the broad general analytical argument posed here – which is novel to the historiography on the history of early modern trade finance. It emphasises two interesting findings across national agents and exchanges over the three oceans, and the south China seas: One, the “high interest rates” were rather premia which in the 18th century rarely went over 40-50% in all markets; Premia were roughly similar in allegedly different trades, and very similar agents contracted at different rates depending on the trade involved - somehow independently of the capital endowments available, the business model, the length and dangers of the journeys and even the national origin of the parties. Another feature is common, i.e. a generalized decreasing trend in premia overall by the later 18th century. Arguably, this reflected the reduction in super-profits in merchandise trade and of arbitrage in dealing with silver monies as this trade peaked – as it was indeed the trend for silver exports to China and Asia globally. At that point in time – by the 1780s-, there were many more agents trading in American and Asia waters than ever before with different modes of organization and availability of working capital; from the chartered companies and “country traders” of Europeans nations including individual free-traders from the US. Arguably, a larger, more frequent, and “freer” commerce in Asia and America increased competition among Europeans curtailing opportunities for arbitrage in specie and bullion and in so doing lowered the rate of return of the respondentia worldwide. At the same time, silver coins minted in America were exported to Asia in record volume, fostering a growing standardization of an international means of payments. Both developments contributed to the ongoing convergence in the fall of the respondentia returns -and incipient integration of markets. Effectively, both premia and opportunities for arbitrage ought to coevolve in a falling trend for intermediation costs.

A Spanish thing?

“There is a difference in the forms, or terms of respondentia as well as bottomry bonds, in use at different places: —The Spanish forms are in general well adapted to the nature of these transactions, as it is in Spain that they are more frequent than elsewhere, and better understood. —The general form of the respondentia, in use at Cadiz, is similar to that of the

³ Torri (2018) considers respondentia a kind of maritime insurance which freighters were “forced” to take “which made respondentia rates to soar”; He points at insurance rates for any other (non descript) routes were 9-10% for a round trip, “the rates on goods sent to the Gulfs on the onward voyage were 28.5%” For Torri since Surat chief and the Bombay governor monopolised the right to give respondentias they “forced” it upon merchants. P 116-17

bottomry bond except in the clauses which specifically relate to the goods, instead of the ship” Weskett 1781

«Au XVIII^e siècle, au niveau des négociants, grosse aventure (*respondentia*) signifie, avant tout, Cadix». (Carriere 1970)

Spaniards in the Atlantic trade used *respondentia* -or *riesgo de mar*, for the money invested in a one- way journey from Europe (to be paid in America), less frequently a two *riesgos* in a return trip from Spain. The security as it fell on the goods on board or the personal guarantee of other individuals who were not on board.⁴ The transaction was notarised by a public notary -as most of private documents in Spain, as evidence of good faith and some delimitation of claims and cessions⁵. The direction of the capital was, originally, from Europe to America in the form of consumer goods and by the later 17th century the flow also originated in Peru, as it has been documented for deals in the Portobello fair (Panama), further into Seville and beyond the peninsula (Suarez 1995). Lamikiz (forthcoming) estimates that a quarter of the amounts lent to the Atlantic trade between 1760-85 -at its peak- were originated in Peru⁶. According to Spanish historian Miguel Bernal, who studied a selection of such contracts from the summaries in the notaries registers over 250 years; in Spain, in particular, they allowed “a 33%” (a third extra) gain when the exchange involved specie for paper bills back in Spain. Another scholar found that “the majority of these loans included an operation of change”⁷.

It was unknown in Spanish America where multiple form of associations (one-off companies – limited partnerships-, in consignment, direct sale by a representative agent with powers of attorney, etc)- that existed in different places substituted the use of cash and other fiduciary means of payment – as indeed cash was nature of the trade. Spain and Spanish America performed with the same monetary units – although the value of the value of the peso minted in Spain was ‘cried down’ with the reforms of 1686 which separated the national (minted in America) from the provincial (minted in Spain) coin following the debasement of the circulating copper money in the Peninsula in the mid 17th century -which brought considerable disorder to markets in Spain and the colonies. The same contract was

⁴ This section follows Xabier Lamikiz research on the *riesgo de mar* in the Atlantic trade; however the essay has considerable differences in the interpretation of the nature of the contract nature and the implications. He considers that the “*premia* “naturally” varied with the capital availability, the distance to destination, the length of time of the loan and the possibility of a war occurrence”. The potential risks listed and covered in the contract in a formulaic manner were “of the sea, wind, land, fire, friends and enemies and other unfortunate events at sea which might affect the vessel (Bustos, 2005, p. 405). Quoted by Lamikiz (forthcoming)

⁵ The role of the notary was slightly different than that of the 18th century France (Hoffman et al 1995). There is no evidence that they matched borrowers and lenders either in Spain or America. They did not necessarily overcome asymmetric information but rather established the legitimate claims and means to solve it.

⁶ Del Valle Pavon mentions an individual’s lending on *respondentia* bond in the order of a quarter million pesos issued in Mexico.

⁷ Bernal offers no more than a speculation about the gap between exchange rate for the Spanish American peso and the price of the coin in Spain. (Bernal 1992). Another example appears that the conversion of Mexican coins and pillar dollars (of 8 reals) to pesos escudos (of 10 reals) fluctuated between 3 and 4% in 1709 to 6 and 8% in 1716 AHPC, prot. núm. 2.400, fol. 347-390. (Carrasco Gonzalez 1996 p96)

used in the Spanish commerce over the Pacific, despite a very different organization of the trade. Whereas over the Atlantic – either on fleets of private merchants until 1740s or by individual private ships thereafter but freighted by the mercantile guild (*Consulado*) in a 3-months journey; or as in the Pacific – confined to one very large (or two smaller) single ship for the round and hazardous trip from Manila to Acapulco which lasted well over a year, Spanish commerce used the very same contract. It served to re-export Asian and European textiles, and Spanish iron, quicksilver and foodstuff to America, in return for silver in both routes.

The same contract was also present in financing expansion of European trade outside Europe, particularly in Asia. Scholars of the different particular trades in Asia mention it repeatedly for instance in the trade of the Portuguese in Nagasaki, Goa, and Macao in early 17C (Gipouloux & Oka 2013, Oka 2001, Boxer 1963, Dos Guimaraes Saa 2003) and the 18th century (Souza). In the first half of the 18th century, English “country traders”, Armenians, Malabars at the service of the EICo and even French merchants from Pondicherry borrowed at Manila under *respondentia* for their intra-Asia trade, which eventually terminated in China (Quiason 1971). Premia ranged from 16% and 40% - and according to the Madras council the Dutch seemed to have no activities in what appears to have been a very liquid market for the Eurasia commerce.

In the 18th century the French used it in commerce with India (Dermigny 1961), and with America (Sayous 1927, Carriere 1970). *Respondentia* (*pret a la grosse aventure*) was the instrument used in the deals of merchant houses which re-exported textiles or freighted slaves to the French Caribbean and South America (Chamboredon 1995, 2015) or traded silver to India for piece goods (Dermigny 1959, 1961). These financiers channelled private savings from Europe into the Atlantic, like that those of Voltaire⁸, even to the slave trade, under *respondentia* contracts like the Nimes’ house of Gilles freres et Forniers freres, or Solier et Cia from Aveyron – which operated in Cadiz, Geneva, Lausanne, Ostend, Bordeaux, and Marseille in the second half of the century⁹. They linked northern and central European manufactures -specially of linen and silk – with consumers in the Caribbean and Spanish America via Cadiz. In the same way that Dutch private traders did it in Cadiz and beyond to the River Plate in 1660s (Everaert 1971, Freeman 2020) or the Genoese trade to Peru in the 18th century Peru (Brilli 2022).

Danish and Swedish merchants started using the contract in their deals in Canton as early as 1734 (Swedish) and 1737 (Danish) and in India later (Morse 1926, Furber p 130-33,141¹⁰, Van Dyke 2005 fn 34 p 226). English and Dutch “country traders” businesses in India and China (Tomlison 2002, Van Leur 1967) in the following decades and even Boston merchants in Asia in the 1800s (Porter 1939); specially if dealing in partnership with locals as in Madras (Arasaratnam 1979, Watson 1978). *Respondentia* funded the business of EICo

⁸ Monsieur Voltaire invested funds in House of Gilles & Forniers freres (Chamboredon 2008)

⁹ Although Dermigny’ study covers mainly protestant merchant houses in France and the contract was used extensively by protestant bankers in Geneva 17C-18C (Luthy 1970) there is nothing which can sustain the alleged preference for this type of contract as means of bypassing the usury laws.

¹⁰ Furber points at the captains’ preference for *respondentia* bonds payable in London over bills for remittances; both instruments were alternatives and seemingly after 1780s they started indicating the price of the coins or the exchange rate at which the principal was to be reimbursed in London. (Furber 1948, p 141)

captains and supercargoes between 1740s and the 1760s (IOR) and the company itself lent and borrowed under this scheme (IOR, Torri 2018 p 115-16). It served to acquire Spanish dollars at Manila, Mokha or Jeddah (Nadri 2008 p69) for deals in Canton (Morse 1926 vol V, 73,111, 149) and as means of remittance of profits back home rather than by buying bills of exchange issued by the company¹¹, (or preferably by the other companies, Danish, French or Dutch) – but payable in Europe; or on goods freighted on the private ships traders to Copenhagen, Ostende or Lisbon (Dermigny 196¹²) Former employees of the East India company engaged in different businesses with locals in Asia used *respondentia* to finance other transactions and deals in different ports, yet *premia* differed and does not seem to reflect the relative availability of loanable money at the place and time (Davies 2012)(Prakash 2007 for Surat) ¹³

Whereas most of the cases cited were private deals, there were a few relatively large Institutional lenders of *respondentia*; like the Jesuits who borrowed in Japan for the early trade in China (Oka 2001), the Portuguese Senate of Macao for trade in the India Ocean and China (Guedes Cosme 2020 p137; Subrahmanyam 1995 p 318-19). Probably the largest and most specialised provider were the pious or legacy funds (*Obras Pias*) of Manila that received consistent flows of coined silver from Mexico which channelled to finance the Manila galleon. The funds were administered as investments funds by the Casa de Misericordia of Manila and the religious orders -to a lesser extent- throughout the 18th century (Rivas Moreno 2022). These loans funded the subsidiary Asian commerce from China and Coromandel, importing the goods that fed the Galleon re-exports to Mexico (Yuste 2019). Chinese merchants had access to funds as well, with either Spanish or Chinese guarantors (*fiadores*). As in the case of the French merchant houses, sums involved were relatively smaller and spread over various ships than the usual contract among Spaniards merchants; in the case of Chinese borrowing in Manila there were several deals for the same junk – which seems a diversification strategy of the principal. Ruiz Stovel (2022) suggests that these small loans were “seed money” – i.e. an advance of about 10% for the commitment to deliver goods to the lender in the next season. They also notarised the bilingual contracts with the Spanish notaries and could

¹¹ Private merchants and EICo captains lent money to be remitted to Europe even when rates were very low, (did the gain from the exchange rate of the Spanish dollars in England?) English at Bombay lent money to merchants Europeans and locals trading with China on bills payable in Europe Nadri (2009) p 69. Morse reports of an offer to lend (Spanish coins) to the EICo in 1764 Macao at 25%; the company then was moving to the use of bills at 90 days (instead of 180) and an exchange of 5s6d a 10% premium on the rate the company used the invoice the coins and 30% of the par value in London (Morse 1926 p 115). In 1770 (EICo) had “lent at *Respondentia* Thirty five Thousand Pagodas to be paid to you in Spanish Dollars at the rate of 15 for 10 Pagodas; Silver is not procurable at any rate” (p 149)

¹² “For deals with profit in India as in the levant, it should be done with the silver, either in bars or in coins, which would allow to coin the different species of rupees. Which is to say that the route to India goes through Cadix”. P124. Between 1726-1769 a total of 758 ships and 72% of the 460 million livres tournois were in Spanish silver coins (Dermigny 1961 p 122) Dermigny estimated that European exports of silver to Asia between 1708 to 1801 was equivalent to the money in circulation in France c 1,282 million of livres tournois p 124

¹³ Interestingly, Davies also quotes 9% as customary annual rate of interest in Surat and mentions of *respondentia* taken there by former EICo employees to procure textiles for export in the early 1730s, for which they paid to 16-20% (Prakash 2007 p 222, Davies 2012, pp 214-5)

appeal to the Spanish officials in the case of a dispute, where “their own Chinese language commercial documents would have been insufficient” (also Van Dyke 2011, pp 34-35)¹⁴

Spain overseas trade; “a fountain of silver”

Between 1760 and 1785 only, Cadiz notaries registered 28,333 *respondentia* and bottomry loans. Takers had obliged themselves to pay back 152,188,026 pesos of which around 75 per cent were in the form of *respondentia* loans – this was peak value of the *respondentia* use, which has started early with the mid/late 16th century in the Atlantic¹⁵.

In 1810 Tomas de Comyn noted that a Manila merchant

“is entirely different from the one in Cadiz or Amsterdam. Without correspondents in the manufacturing countries and [without] advice of the favourable variations in the respective markets; without brokers and even without regular books; He seeks advice from the Curia and the notaries .. his contracts are made out on written on stamped paper and his bills or promissory notes no other than long and diffuse writing or bonds, of which the dates and amounts are kept in the shape of bundles .. a contract registered in the (notarial) acts .. if the articles wanted are in the market, they are purchased up with precipitation and paid for with the monies the shippers have been able to obtain from the administrators of pious and charitable funds [*Obras pías*] .. yet, accustomed to gain at the fair of Acapulco, notwithstanding so many impediments and the exorbitant premiums paid for the money let, these merchants follow the strange maxim of risking little or no property of their own.” (Comyn 1821, 70-72).

In Manila, the iteration of the *respondentia* contract, the *correspondencia a riesgo de mar*, was the single financial instrument used by merchants trading on the Manila-Acapulco galleons, and subsidiary trades in Asia. As vehicle for the capital supply, the contract was part and parcel of Manila capital market; it was a financial adaptation of charitable legacy funds (*obras pías*) originated in America (Mexico in particular) and managed in Manila by local institutions which evolved into highly capitalized institutional investors – a quasi very liquid investment fund for the merchants described by Comyn above. The largest of these institutional lenders, the Casa de la Misericordia, annually regulated the premia in *respondentias* specific to each destination, which was followed by a growing number of similar financial outlets ran by religious orders or even private merchants. About 2 to 4 million Spanish American silver pesos (50-100 tons of silver) transited through Manila to Asian markets on a yearly basis, and the bulk of it as the principals and premia to *respondentias*. It was also a

¹⁴ A rare commercial case from 1800 pitting a Spanish merchant against a Chinese passenger-merchant sought to keep his hypothetical Chinese *fiador* from leaving Manila for China, but he was let go since no documents proving this relationship could be produced. (Ruiz-Stovel, 2019).

¹⁵ The total for 1760-1825 were 33 999 transactions that financed imports for over 184 million pesos over 2,489 ships. (Bernal, 1992, pp. 387-388). The contract was known in the Catalonian Mediterranean much earlier and steadily increased (in values and numbers) through the 17C. There is no realistic way for an individual to reconstruct the issuance and notarization of the surviving contracts in Seville & Cadiz as registers for the 17th and 18th century go over the tens of thousands (or more).

notarized contract that formalized cooperation among (mostly) Manila' merchants, attracted other Europeans to Manila (Quiason, 1978 Cheong) and enabled Chinese procurement of import goods inside China. The legal features of the *correspondencia* bound lenders and borrowers into a limited partnership of sorts. Under the monitoring of Misericordia, individuals who failed to repay were excluded from future transactions and access to this cash but did not stop the trade or change the way to finance it. Non-Spanish, Manila-based traders, such as Armenians and Luso-Asians, also draw capital under *correspondencias* in their dealings with Spanish associates. There is also some evidence that this instrument was used by Chinese to advance cash on good to be delivered later by Chinese junk traders at Manila, with Hispanized Chinese residents stepping in as guarantors. Thus, exceptional liquidity at Manila fostered a diverse cross-cultural trade, especially on the intra-Asian trade, which had risks, transaction costs, and returns that differed from those of the galleon trade to Acapulco; so premia for Spanish merchants headed for China that were less than half those applicable for trans-Pacific voyages.

The contract

In a 1783 book dealing extensively with the *respondentia* or *prêt à la grosse aventure*, the French lawyer Balthazard-Marie Émérigon contended that “the *contrat à la grosse* is adopted in all maritime places. It is neither a sale, nor a partnership, nor a loan properly so called, nor an insurance, nor a monstrous compound of various contracts. [...] It has a character and attributes of its own. [...] *It is different from all other contracts. It forms a special kind of contract*”. (Emerigon 1781 389 emphasis mine). So, what sort of contract the *respondentia* was? Was it a securitized loan or a risky investment?¹⁶

Historians have interpreted the contract in various and ambiguous way; most of them have made it to the bottomry drawing from the description of commercial and legal books as it presumably involved part of lending and part of insurance. However, the loan was increasingly void of collateral other than the goods themselves. In some cases, usually when issued by Europeans the collateral were the freights of the shipowner. In advancing goods for cash (or other goods), it resembles a sort of private limited partnership (*mutum*) with a particular allocation of gains and losses and independent of the results of the trade¹⁷. As the rate of the premia was established *ex-ante*, it should be considered an upper bound rate at which borrowers were willing to pay for capital. As the contract mobilised capital for long distance trade with which procure silver and turn over in the order of months and even years, and silver (and mostly Spanish silver specie) was necessary to further trade in Asia, the contract appears more alike a venture capital. Yet, when looking into the currency component of the contract in the clause that specifically determined the specie on which it was to be reimbursed, *respondentia* also looks more like a forward swap, as it dealt with spot and future prices. It clearly helped to finance early modern trade among economies performing with different cash means of payment and a means to raise working capital for

¹⁶ Monetary historian of Mughal India N Haider saw the insurance as evolving from “bottomry-insurance loans (*an inverse respondentia contract* in which the travelling merchant would deposit a sum with the person who shared the risks) and *cambium* (money-changing)” Haider fn58

¹⁷ In these regards *respondentia* was different from the more traditional Mediterranean *commenda*.

long distance maritime trade in the period. In any of these regards, it was clearly an “importer” type of finance that furnish working capital and avoided currency risk costs- (i.e. realised profit from arbitrage) – when dealing in silver prices and prices of silver with foreign coins with an absence of a monopolistic monetary institution.

Usually (and everywhere) the loan was timed from the date of the ship departure to a defined period of time after the arrival to destination – in some cases a matter of days, more often between one and three months. The destination port was not always specified – or defined broadly in the case of the Atlantic trade- or included other ports of call on transit as was frequently done in the intra-Asia trade. Respondentia over the Pacific did not consider other destination than Manila. Yet, the premium does not related to the time length of the journey. Additional (and separate) interest were surcharged for delays beyond the time of arrival, as it was customary in EICo lending; in the Spanish Atlantic commerce surcharges appeared only later in the 18th century¹⁸. Indeed, premia seems more specific of the exchange in question than the length of time the assets were on course to the destination. as seen in the table below premia were not primarily determined by maritime risk, the length of the voyage or the capital costs.

The contract was non-negotiable or transferable, so there was no secondary market of respondentias (until very late in the 18th century in the Spanish Atlantic) hence it did contribute little to expand liquidity. All risks fell squarely on the lender as it was repaid at return; and if the loss was complete as in the case of shipwreck borrowers were exempted from paying back. Unlike insurance that a premium is paid *before* the ship left port and the insured receives reimbursement if a claim is filed by a third party, in the respondentia the principal is advanced and nothing is paid if losses are equal or exceed the principal partial losses from jettison when the ship had been in danger, fire or proven negligence of the captain were apportioned according to the best practice in the trade in question, either some form of General Average or – in the Spanish case – by the *averia* which was managed by commercial guilds at the port of departure.

There was no collateral – unlike the bottomry which placed it on the ship “bottom”- other than the goods of boards and in most cases by guarantors of the borrower. Lenders might – and did in specific cases-, insure the capital invested – if the loan (mostly in goods) was registered with authorities before departure. The required registration of goods and their value before departure conflicted with the practice of freighting goods in bundles that skipped the eye of tax collectors. This form of tax avoidance precluded the use of insurance in the Spanish trade in both oceans. This trade off should be factored in the relative “modernity” and efficiency of each trade. The outcome was that investments were spread through many smaller amounts and preferably in various ships – rather than a consolidated bigger sum (Bernal 1992, Chamboredon) to minimize the risk but which did not favour economies of scale. See table Y. Repeated transactions among the same parties seem more the exception than the rule; however, the persistence of the contract to finance trade in this manner does not indicate a prejudice to the continuation of the commerce.

¹⁸ According to Lamikiz In the Lima route the period to cancel the loan was 6 month after arrival, delays thereafter were charged at 0.5% monthly interest rate – which was the customary rate for overland trade.

Table Y Number of annual respondentias registered at notaries in Cadiz 1650-1700

(ref: A: 'lenders' / givers; D: "borrowers / takers".

Valor en pesos	1650		1660		1670		1680		1690		1700	
	D (a)	A (a)	D	A	D	A	D	A	D	A	D	A
Hasta:												
500	25	14	60	46	30	20	78	37	103	67	11	19
1.000	11	11	30	29	11	12	59	38	71	51	7	2
2.000	8	10	30	39	17	15	56	42	76	65	6	8
3.000	7	5	18	13	12	18	27	20	29	30	3	5
4.000	1	4	9	13	6	4	11	19	31	23	2	5
5.000	—	1	3	6	4	6	13	11	19	19	1	1
6.000	1	—	3	2	3	8	15	13	13	9	—	5
7.000	—	—	2	2	2	2	5	6	10	8	—	—
8.000	—	1	3	1	4	2	3	4	6	4	2	1
9.000	—	—	—	1	2	2	6	3	2	7	1	—
10.000	—	—	2	1	3	3	3	1	5	8	—	1
15.000	2	1	5	4	7	4	6	7	11	12	—	1
20.000	—	—	2	1	—	1	10	9	9	5	—	1
25.000	—	—	3	1	2	3	3	3	4	3	—	—
30.000	—	—	—	—	1	1	5	—	4	7	1	—
35.000	—	—	1	—	—	—	2	2	3	3	—	—
Mas de												
35.000	—	—	1	2	2	1	7	14	5	5	2	1
Total . . .	55	47	172	161	106	102	309	229	401	326	36	50

(a) Acreedores: «A». Deudores: «D».

Source: Carrasco Gonzalez, 1996 Appendix A.1

Yet, in all “national” cases of trade studied, the contract clearly specified the monies of the return¹⁹ -which for some it was a mean to avoid usuary laws; however very often the contract established the final sum to be reimbursed without distinguishing the principal and the premia. Yet, the specification of the type of money or coins for the repayment repeated. Historians have considered respondentia as a very “high interest loan” (CR Boxer) reflecting the hazards of the navigation and the time of the journey. However, in the quite comparable Spanish overseas trade to Veracruz or from Acapulco to Manila the rates were similar despite the differences in the organization and times at sea. Moreover, premia were frequently different for different transactions in the *same* ship²⁰. So, premia neither did reflect the risks of the routes or the length of the journeys. Without a time-component, the premia could not perform as interest rate, or price the opportunity costs of money. Money lent at respondentia paid a premium ex-ante defined as a fixed rate of return, which appears to be more related to the actual or expected rate of return of the trade. The occurrence of war is ambiguous. French historians point at rates overshooting in that context; however, the effects of war are not visible in the case of Manila, shown in the graph below. Clearly the British occupation of Manila in 1762-64 might have disrupted business (and did significantly

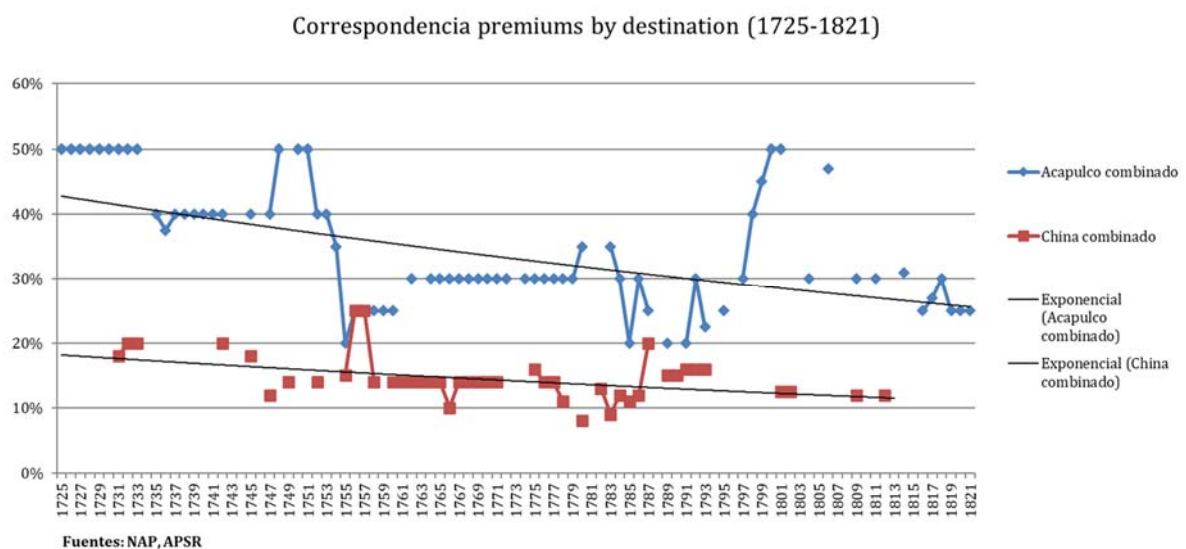
¹⁹ “Almost all products in Canton, for example, were paid for with foreign silver coins, and not with Chinese currency. Therefore, the exchange rates and alloy content of these coins need to be known before we can compare prices. The Dutch used an exchange rate of 1 piaster to 0.74 taels, while the Danes used 1 piaster to 0.72 taels; the Dutch and Danes normally used a silver standard of 94 touch but we would need to know whether there were differences in the alloy content of silver in those years, which would, of course, affect the purchase price” (Van Dyke 2011 p 43)

²⁰ At least in the Spanish Atlantic case Lamikiz (forthcoming)

as the flow of silver interrupted) but premia did not seem to capture particular effects from the military incidents. In this case, in fact, premia seem inverse to availability of liquidity.

Premia rates were sticky over time and seemingly not always dependent of the (navigation and commercial) risks. They appear to be more contingent to the marketplace of destination and their transactions costs. Arguably, they could represent the costs of arbitrage between currencies -namely the currency risk premia involved in deals with instrument which performed (or allowed the clearing) in any other local monies. Premia were comparable – if not the same- across different lenders (see table). Because these were deals between private parties which ended with the conclusion of the journey – or the loss of the ship – very little serial data persists. Furthermore, premia rates tended to vary by voyage or type of goods freighted not by period of time (and in the case of Chinese bonds they were possible to extend with additional but separate interests). In all the cases where interests were charged for delays beyond the agreed period after arrival the monthly rates moved around .75% in Surat or 1% in Cadiz; thus, premia seem to have had little relation with time or the conditions in the local market. I have not been able to reconstruct series of any kind of premia. Fragmented information is available from institutional lenders – like to the investment funds in Manila.

Respondentia premia in Manila 1725-1821



Source Rivas Moreno (2022)²¹

In sum, the premia varied according to the trades. The table below displays the most often quoted rate for different routes and lenders summarised here:

ROUTES

- EICo Canton, 35%, Misericordia Manila 40%, private Cadiz 40%,
- Private Amsterdam-Cadiz 25% (17C) Cadiz-Atlantic 60-40%, Manila-Pacific 40%, Manila- Amoy 30%, to Canton 40%

²¹ I am very grateful to JJ Rivas Moreno for sharing this unpublished data from his PhD dissertation

- Manila & Macao to Coromandel 12-15%
- Macao to China 12-16%

TREND (Decline) by

- (Japan in 1620s) Pacific (1780s/90s) (Atlantic 1780s) (Peru 1790)
- (British India disappeared in EICo 1760s, but persisted among English private, Danes and Swedish involved in China trade until 1800)
- Still US merchants used it in the 1800s.

Table X selected respondentia premia in the three main trades

TRADE REGION ORIGIN	PREMIA	DESTINATION	SOURCE
INDIAN OCEAN			
EICo @ Madras			
1710s	20-25%	China	Lockyer 1711
	40-45%	China & Persia	
	16-18%	Bengal	
	16-18%	Achen	
	20%	Batavia	
	20-25%	Pegu	
	35-40%	Batavia and Surat	
	30-35%	Manila	
	25-30%	Surat	
	35-40%	Surat & Persia	
1710s	30%	Mocha	Lockyer 1711
EICo @ Calcutta			
1715	30%	Manilla	IOR
1737	18%	No place	IOR
1742	32%	id	IOR
1745	35%	id	IOR
1751-52 ²²	16%	id	IOR
1696 London	10%	To Calcutta	IOR
1703 Calcutta	30%	To Calcutta (Armenians)	IOR
Calcutta	8%	To Batavia	
1752 Calcutta	16%	To China	
1781-83 Calcutta	50%	To London (proceeds inclusive of interests)	Tomlinson (2002) app I p 1785

²² Respondentia accounts ceased or disappeared by the 1760s. India Office Record IOR India Office Records and Private Papers 1756-1763 IOR/L/AG/1/1/20/f.144(1), IOR/L/AG/1/1/17/ff.84,245 1735-42 and various years

1708 Madras	15-18%	to Calcutta	Lee Saxe (197 p13-14) ²³
Calcutta	55%	To Surat (“wartime”)	
1703 Surat	35%	China	Davies
1705 Surat	35%	China	Davies p 149
1709 Madras	45%	Bengal	Davies 2012 124
1710 Surat	40%	China	
1717 Surat	30%	China	
1706 Surat	30%	Mokha (round trip)	Davies 2012 145
1750/51 Surat	15%	Mokha (round trip)	
1762 Surat	18-22%, 28% ²⁴	Bombay	Davies 152
1730s	16-20% ²⁵	Bombay procurement of textiles	Prakash (2007)
1730s Surat	14-16%	Bengal	Prakash (2007)
1744 EICo Calcutta	26%	To Canton	Morse V p2
ATLANTIC			
Spanish Atlantic			
17C	From 12 to 90%		Bernal 1992
1611-19	Mode 25,50, 100 %		
1648-58	Mode 60,100,20%		
1658-61 Dutch merchants in River Plate	15-25% <u>60%</u>	Amsterdam-Cadiz <u>Cadiz- River Plate (3 months)</u>	Freeman (2020)
1690s Cadiz ²⁶	12%	Genoa round trip	C Gonzalez p 94
1690s Cadiz	16-20%	Amsterdam round trip	C Gonzalez p 94
1680 Cadiz	70%	River Plate	C.Gonzalez 1996 p95
1690 Cadiz	42%	Veracruz round trip	ib p 95
1681-95 Seville	Mode 60%,100% 25%		
1661 Seville			
1657 Seville	50-110%	Buenos Aires	Lamikiz 2022
1767 Cadiz	30-35%	Buenos Aires	Lamikiz 2022

²³ Respondentia and bills were often used to trade diamonds – particularly in the early-mid 18C- and in the case of the bills they fixed the exchange rate largely taking the gold pagoda largely over the market rate. Lee quotes deals at 13s6d per pagoda when the “book rate” was 9s6d. Lee Saxe (1979 p 14). Also captains and supercargoes traded their gold as security of the respondentia from the Company IOR/E/1/32 ff. 19-20v 1743

²⁴ Deals to Mokha involved capital which was partly lent in London for the purpose (Davies 2012 p 149) All deals by Bombay merchants Mr Holford (ib 152) the customary interest rate was 9% per annum for most of the 18th century.

²⁵ Deals by Cowan & Lowther with textiles for exports in Bombay -which seems rare in the historiography.

²⁶ Additional interest for delays beyond arrival as a monthly 1%

Nimes 1748-1763 ²⁷	38-49% round trip	Guinee- Buenos Aires	Chamboredon 2014
Nimes 1762	18-20% to 30%	At Cadiz to go to America	Chamboredon (2010)
Cadiz 1751-65	30-65%	Lima	Lamikiz forthcoming
Cadiz 1773-1786	16%	Lima	id
Cadiz 1790s	12%	Lima	id
Cadiz 1779	12-17% one way	Lima	id
Cadiz 1779	30-33% round trip	Lima	id
Boston 1811	24.1/2	Bengal & Bombay	Porter 1937 p 859
PACIFIC AND CHINA SEAS			
1627 Nagasaki	30%	Macau	Oka 2001 p4
Spanish Pacific			
Manila Misericordia 18C throughout	40%	to Acapulco	Falling after 1780s
Manila	25-30%	to Amoy, Canton	
Manila	15%	to Java	
Manila 1765-66	30%	To China (Chinese takers)	Ruiz Stovel 2022
1717 Manila	30%	to Canton via Madras	Quiason 1966 p 85
1742 Madras	21%	To Manila	Quiason 1966 p 86
Macao	12-16 %	to China, Coromandel	Souza
1750 Macao ²⁸	20-25%		Dos Guimaraes p50-51
Macao	40%	“to Chinese” China	
1763-84 Macao	20%	No place	Cosme
1750-80	25-30% 48% (if extended another year)	Canton	Van Dyke 2011 p44-45 ²⁹
	30%	Manila (Chinese junks)	id
Canton 18C	40%	South East Asia (junks) ³⁰	Id invariant with destination
Canton 1760s	25- 30%	To Danish / Swedish	Van Dyke 2005 p154
Macao 1760s	13-15%	(Portuguese) to Danish for Canton	

²⁷ The House of Gilly frs (1740-1756) became Gilly freres et Fornier freres (1757-1767) charged interest over the premia for the delays in the settlement of the *pret a la grosse*

²⁸ The premia for respondentia for deals overland were 10%, and 16-20% if the taker were Chinese.

²⁹ A monthly 1.25 to 1.5% interest was added to the premia if there were delays after the arrival (Van Dyke 2011 p 45)

³⁰ Van Dyke highlights that unlike foreign ships junk bottomry rates did not vary with the destination (Van Dyke 2005 p 152) yet they spread the risk in similar fashion though many small sums and in different ships.

IMPLICATIONS AND FURTHER QUESTIONS

The discussion and findings above present several questions that the current financial history literature cannot properly address: Why would merchants with the same legal culture use dissimilar instruments? And why merchants from different legal and institutional backgrounds would use the same instrument? Was a cashless system of payments necessarily an inferior design when trade was more profitable in specie (gold/silver coins) as it was in the East?

As early as in 1628, the EICo Council at St George in Madras, was already clear about differences in the prices of silver in circulation and stated that

longer.' In response to a demand from Bantam, they dispeeded thither on November 12 the *Mary* and the *John*. Account of their lading. Should the Company determine to revive that trade, it would be advisable, instead of sending rials thither direct, to forward them, in the first instance, to Surat, where they might be invested in goods that would produce 100 per cent. profit or more at Bantam. A ship should also be dispeeded direct to Masulipatam (as is done by the Dutch) to purchase goods and then go on to Bantam ; ' for upon these two factories will and must your sotherne trade be grounded, if ever you meane to reape proffitt thereby.' Another

Source: [President Wylde and Council at Surat to the Company, December 31, 1628 1] {O.C. 1286} in Foster, W. *The English Factories in India, 1618-1669*, Oxford, Clarendon 1909 vol 1624-1629 p 307

This excerpt showcases the deals with silver in India thereafter. Similarly, in 18th century Canton "Advances to the Hong were made using a combination of silver and import goods, or paid entirely of silver *coins*"... "The majority of the advances, usually at least 80 percent, had to be in silver coin. .. sometimes the money was given eight months in advance" (Van Dyke 2011 p 41 emphasis mine). The silver specie at that time was ultimately a re-export from Spanish America

Thus risks from the exchange in different silver specie or deals in different prices for the same specie as described above caused a sort of currency risk; which was ingrained in the monetary diversity in the world economy. Specially (but not only) in South Asia and South East Asia – where silver coins were received by tale rather as a commodity money. This was crucial when silver specie was the preferred (by large) and most used means of exchange in the early modern international economy (an issue underpinning the well-known gold/silver ratio disparities that favoured Europeans as intermediaries). To this great variety in the monetary setting of extra-European markets, especially of India the case of China – as the ultimate destination point of European and intra-Asian long maritime commerce- stands out. Although China performed with silver and copper coins, the empire never minted silver or

gold³¹; thus, did not have a par value for silver and relied on foreign silver coins. Foreign coins were priced at market values by private shroffs (and money changers/lenders) who certified the weight and touch (fineness). In turn, although India did cut coins (mostly of silver), silver was imported. The Mughal forbade the circulation of foreign coins other than their own silver rupee coined in their mints; In India the *sarrafi* – money changers and lenders- established the value of the foreign coins which had to -and could be -be converted into rupees the imperial mints given the Mughal free minting policy (Nadri 2009 p 70, Haider 1996, 1999)³². Yet, rupees had different value according to the year and mint of issue and their content of fineness varied largely [see table appendix]. Indeed, the multiplicity of coinage in India, including that the minting at the ports controlled by English East India company – also precluded the establishment of a silver standard in India - which did not have uniform coins and standard until 1835 – based on the sterling standard.

The tables in the appendix are from “The Madras Commercial Ready Assistant” and help to illustrate the great variety of coins in circulation in extra-European markets, especially of India, China and America. [see Appx The Madras Commercial Assistant (1818)

Thus, a great deal of the exchanges with Asia involved cash or “ready money” as named at the time as specie and bullion and from the mid-late 17th century the silver imported there was coined silver for the most part, a supply that expanded with the inflow of foreign coins produced at world record levels in Spanish America. Clearly, “foreign” silver improved the terms of trade of Europeans in Asia. As Asian economies performed with currencies of multiple metals, gold, silver, brass or copper the exchange rate between currencies was sensitive to price tradable goods and returns³³.

The variety of coins in multiple sovereignties worldwide – from large empires to small principalities or port cities with seigniorage in Asia – circulated widely beyond the realms of origin via the intense intra-Asian trade, creating further exchange risks for mostly price takers European merchants (Deyell 1987, Haider 1996, Haider 1999, Haider 2019). Even European nations struggled to establish a uniform coinage, a stable monetary regime or to introduce their metropolitan currencies into their possessions. In this context, the *respondentia* contract allowed minimising the prejudice from receiving payments in untrustworthy domestic currencies - prone to variations from debasements; but it also allowed the capture any possible arbitrage between the gold, the silver, and copper prices of goods locally as in the exchange of different types of metal-based monies. Using bills of exchange did not make that proviso as the clearing was done in local monies; the same facility that made it negotiable at whichever rate of exchange and discount inside Europe. Instead, the *respondentia* specifically prescribed the monies with which the initial outlay of capital ought

³¹ Provincial mints cut copper coins as small denomination and private silversmith produced ingots of the finest touch/ standard - but of very diverse weight and size- which were used in large value transactions and payments of some taxes.

³² Nadri also indicates that these bankers / money changers dealt with *hundis* (in Surat) or bills of exchange as means of transfer money over places

³³ China -the largest economy of the period- who largely attracted Europeans trade did not mint silver or gold as coinage; thus it did not have a standard on which to set an official parity and exchange rate between metals and for foreign coins; so silver in Asia were mostly carried on free market prices. India in 1835, after the creation of the EICo single mint there was no single standard.

to be reimbursed at maturity. Yet, as the contracts were non-transferable, non-negotiable they did little to enhance liquidity in chronically specie-short Asian markets, but they bound contracting parts in a more certain return than otherwise and make pricing more relatively predictable. This “disadvantage” did not preclude its use however, and arguably explains the persistence of the contract.

The text below – from the EiCo correspondence at Madras’ fort of St Georges gives a snapshot of the issues merchants regularly faced to price their goods and returns. Clearly there were problems but opportunities as well in the arbitrage with different coins and metals. It is also clear that both the silver rupees and gold pagodas were far from the commodity monies economic historians tend to assume (Mayhew 2014/19)

13. THAT notwithstanding a head of Batty is open'd on the DeveCotah Books for the difference between the real Exchange of Rupees at that Settlement and the price at which they are invoiced yet you have in some Instances credited yourself in Cash for Rupees paid away even at higher Rates than the Invoice Price altho' in reality the Exchange was much less by which you have made a considerable Gain, for Example, In the Month of June 1754, 12000 Rupees are receiv'd at DeveCotah and invoiced at the usual rate of 350 Rupees for 100 Pagodas, the Current Exchange then being 388 Arcot Rupees for Pagodas 100, the difference between those two Exchanges is wrote off to Batta; but in the same Month Batta paid in Rupees to Seapoys carried to the Credit of Cash at the Rate of 320 Rupees for 100 Pagodas, so that a Gain is made here of 68 Rupees on every 100 Pagodas which is near 22 $\frac{2}{3}$ Cent.

Source: Records of Fort StGeorge Diary and Consultation book vol 85 1943) May 1756 p 130

Thus, in a trade where silver coins impacted the barter terms of trade of Europeans in Asia the contract that established the specie in which the investment was to be repaid seems more suitable than bills – which were not accepted outside the control of the companies and by private agents in Asian markets until much later when the silver standard of the Spanish American coin had disappeared (Irigoin et al 2022). In this light, respondentia was efficient to settle trade in these markets as it eased the “currency risks” that different monies placed upon prices and exchange rates. Thus, the contract permitted a mitigation of the transaction costs in the absence of an acceptable international monetary standard. In this context, the abundance and quality consistency of the Spanish dollar throughout the 18th century conformed nearly a widely acceptable means of remittance for Indian and Chinese exports to Europe and sustained Eurasian trade. Equally, since that silver specie was to be imported from Spanish America by means of private trade only, Spanish and other European merchants took recourse to the same instrument to settle their exports to the New World.

So, bills were not a perfect or efficient substitute – unless there was a monetary authority or institutions which could set the value to the foreign coins. In most of Europe, foreign silver coins were received by tale, other than Britain where they were received by weight according to the par value with the sterling standard. Although since 1796 the Company started receiving the Spanish coin by count in their business with China (Morse 1926 III 280-281). Within Europe bills greater efficiency enabled the substitution of precious metals for cashless means of payments when prices fell within import/export bullion prices plus transactions costs. In Asia (at least in China) this process proved to be very slow (Irigoin

et al 2022). Hence, this efficiency made them the “preferred means of remittance” within Europe. So, the circulation and acceptance of bills was far from complete within some regions of Europe, and even for all Europeans who traded in Asia and America still traded with silver – actually a great deal of the original use of the bills in the Company trade with private traders used bills to pay for purchases of silver coins in China³⁴. Bills came late to the Eurasian trade outside of the companies’ own businesses. English and Dutch private merchants did not use bills but *respondentia* in their international trade when silver was involved.

Historians of the Spanish trade on Atlantic find that the use of *respondentia* started declining by mid-1780s (Lamikiz forthcoming). Locally there was a chain of bankruptcies caused by the glut of American markets- a problem which was also evident and probably more acute in the Pacific trade. With the increasing “liberalization” (sic) a trade which was indeed more than direct than ever before, foreign merchants started premium insurance business (Baskes 2013³⁵); also the composition of trade moved to agricultural commodities and commercial crops – a symptom of changes in the terms of trade brought about by losses in the purchasing power of silver as was known until 1800. With the increasing presence of British and US merchants on the shore of South America trade became much more direct prejudicing the rents of Spaniards intermediation; foreign merchants houses established at the ports and started financing export and imports trade cutting significant intermediation costs to the exchange of silver using silver for the vanishing silver standard³⁶. Paper instruments and bills started circulating beyond the ports (where they were issued) and the stabilization of the pound vis a vis silver in 1816 and the return to gold standard, which gave greater stability to Atlantic monetary markets. This occurred at the same time that the standard of the Spanish American silver coin fragmented with the region’ independence from Spain and multiple and diverse silver coins replaced the steady Spanish coin (Irigoin 2009). British merchant bankers started substituting silver for bills in the Asia and the Atlantic commerce using bills issued on London. In turn local merchants took on fiduciary means for deals inside Spanish America markets using cheques and IOUs denominated in now diverse local currencies (Pérez Herrero, 1988).

(preliminary) Conclusions

These monetary issues call the attention on other important aspects of this contract which adds to the so-called the “fundamental problem of exchange”(Greif 2000, Trivellato 2014, Halevi et al. 2014). As a rule – more than the exception- this contract bound individual agents from different national, ethnic, legal and religious backgrounds acting freely in rather

³⁴ EICo Supercargos and captains remuneration in 3 forms 1) allowance in company stock, 2) loans at *respondentia* for 30 months at 26% in the 1740s – bills on Bengal in rupees from 1786th [Morse 1926 II p 318 quotes “*respondentia* as a loan on the security of a ship’s lading repayment being conditional on the safe arrival of the cargo at port of destination”

³⁵ The contemporary insurance rate for the route Cadiz Lima in 1779 was 5.5% whereas *premia* had fallen to 12% (Baskes, 2013, apéndice C).

³⁶ Any disruption in the mining and minting of silver from the Spanish American Independence did not have effect in the quantity of silver produced as in the quality of it – with interesting implications for the world economy which are not yet well researched (Irigoin 2009).

open markets -which lacked a capable monetary authority- and crossed states, companies and communities. Yet trade and respondentia continued and extended globally. Although the appeal of the contract was receding together with the reduction of arbitrage profits brought about by the growing international commerce – and thus the reduction of profits for those privileged intermediaries of silver flows between America, Europe and Asia. Thus, the nature of the enforcement of the contract terms and to solve arising disputes in this context is relevant. In most cases, seemingly as a rule, the parties deferred to the local authorities and customs of the place where the contract was signed – transcending the national or ethnic origin of the parties; notwithstanding it involved a journey over various ports and different marketplaces. In the 17thc the Japanese Shogun kept the sous-captain (or second in command) as security of the contract signed by the Portuguese. Dutch lenders in the 17C “excluded the risk of confiscation by Spanish King” from their bond as a way of passing the risk of expropriation to the borrowers, hence they will not be exempted if that was the cause of the losses – e.g the corruption of colonial officials had not worked (Freeman 2020). The EICo offered the jurisdiction of its court to all sort of merchants for the litigation of claimants – for a fee (Quiason 1966). Whereas in Spanish Atlantic the Consejo de Indias performed as the court of last appeal for claims affecting lenders in Spain, the local guild of merchants Consulado settled the disputes³⁷. In Manila, however, disputes were settled by an ad-hoc council of local authorities and vested interests like the investment funds – the Consulado only organised in 1769!. The capture of the Covadonga galleon -laden with silver mostly as returns of the original respondentias – in the 1743 by English admiral Anson triggered a protracted dispute between local lenders and borrowers which was settled by the parties (Irigoin 2016)³⁸. Disputes in Portuguese Macao were settled by the Senate of the city, which was in turn vested in the trade finance and in the intra-Asian trade the local custom and best local practice (*Ius Mercatoria*) was frequently the norm. Contracts by the Chinese did not feature any special provision as trade outside the Hong was not legal. In the Spanish world notaries established the legitimacy of contracts, the jurisdiction of the Consulado where the loan originated (if registered), and also the prelation of creditors and regulations in case of bankruptcy. In practice there was a casuistry before local authorities who acted ex-aequo et bono but notwithstanding the lack of efficient institutions, did not preclude the continuation of the trade. Only in 1873 the *Ordenanzas de Bilbao* -ch 23, 13 & 20- codified the differences respondentia had with bills and insurance premium in the Spanish trade. Indeed, the arrangement between private individuals seem to have had a lighter touch from states and ethnic or religious communities as necessary third party. There was a different degree of intervention in establishing and enforcing these contracts that what the literature has ever considered.

Yet because it was “rational” and “efficient” in this context, the (likely) extraordinary rates of return -higher than the contemporary customary rates of interest charged on customary activities might have lowered the high risks, and because it was profitable for both

³⁷ Consulados in Spain (post 1660) reform anticipated the job of the more modern General Average. It is noteworthy that most of maritime traffic originated in the peninsula not in America.

³⁸ Administrators of several legacy funds, including the Misericordia, created a legacy to recover the bad loans of borrower and frigate owner Matías Suárez, showing the worth of these legacies as investments. Cuenta en cargo y data . . . 1755, Manila, NAP, SDS, 19165, fols. 576r–628r;

parties, mutual benefits precluded skirting and cheating and explain the apparent iteration of its use generating trust - so trade continued despite obvious inefficiencies³⁹.

Establishing a more conclusive characterization requires proper empirical research, which is beyond the scope of this essay. However, as institutional solution the voluntary cession of rights to claim or pledging to the local jurisdiction by private parties of very different extraction – and irrespective of the origin or source of the capital- seems remarkable. Ghulan Nadri has shown inter-community “inter-personal interests determined course of action” rather than inter-community interests and reputation (Nadri 2007 p 80) or colonial rules mandate. These characteristics seem common in other trades studies here.

The FPE has been well defined by North, Greif and others; scholars have reflected on the institutions, companies and communities actions to mitigate the information and monitoring costs that prejudiced the continuation of trade. However there has been less to no attention to another cost which was ingrained in the transaction costs of long distance exchanges among early modern economies carrying transactions with their own and -like China- often foreign monies; and moreover lacked the regulatory institutions and capacity to manage the price of foreign silver and exchange rates; or even a mint!, like China. As those monies could be of different metals and were clearly of different weight and size varying with the endowments and the balance of trade, the multiplicity gave way to the complementary of coins of different metals and the substitution in the silver means of payments -at the same time.

In these (monetary) regards Respondentia was “efficient” to overcome uncertainty and reduced currency risk in commercial returns. It was crucial in markets with multiple (gold and silver) currencies. A cash system of payment was not necessary inferior when exchanges were profitable in specie, and arbitrage was ultimately a substantial source of profits. Thus Europeans, from the most financially “revolutionized” economies used respondentia in their deals with “others” who were no subject to same monetary standard and lacked the institutions with which to clear the financial market. Genoese and French in Cadiz as bridge to America or Asia, Dutch and English – and even North Americans – in Asia used respondentia while it was a good way to mitigate the uncertainty of exchange and currency risks. This does not only explain the geographical spread but also the persistence over time. the instrument performed for that long because there was room for arbitrage until there was an international standard which could operate as an “anchor” and offer monetary stability. The Spanish silver peso had the potential of extraordinary endowments, but Spain lacked the capacity to lay it. Coinage was practically in the hands of locals in America and was destroyed by exogenous political shock in the wake of independence in the producing countries (Irigoin 2009,2020). There were no institutional arrangements which fixed the price of foreign coins and par value of foreign specie and bullions like that of the Genoese bankers in control of the fairs, the Bank of Amsterdam and the travails of the England’ mint – and Newton’s tariff for mint pars. The relative abundance of silver (purchasing power vis a vis Asian demand) raised the opportunity costs of imaginary monies and copper cash as small change was non-existent in Spanish America. Instead, relatively freer transactions in money markets with multiple

³⁹Making this combination of slack and scarcity – inherent to early modern economies - another example of what Albert Hirschman’ explained in *Exit and Loyalty*.

coins performed as a floating exchange rate regime instead. The lack of a nominal anchor was clearly a risk, but it was also a huge opportunity to gain from arbitrage. While rates of return were extraordinary, they offset the losses from high risks, until the competition that the expansion fostered bit in the rents of those intermediated the trade.

The article aims also to help a discussion of the efficiency and quality of lesser-known instruments, and of the determinants of the financial and monetary institutions at the core of the Financial Revolution narrative. The long life *respondentia* enjoyed, and its use by agents who arguably were familiar with other more efficient instruments, and yet contracted finance with this ancient, “backward” instrument invites to a closer exploration. Private bills drawn in London appeared late in the China trade by the 1820s - to finance of US merchants when the settlement of their trade was no longer accomplished or feasible in cash ((Cheong 1978, Irigoien 2009)) and boomed in the private British trade in India after the 1830s. Asian markets persisted in demanding (or pricing higher) silver for their exports well into the 19th century. Similarly, bills on London incrementally appeared in the South American trade only after the 1820s. Both Asian and American traders remained “fixated” with cash as means of settling the trade beyond 1800. These were alternatives available to bills for agents’ settlement of long-distance commerce – of their own and as carrying trade – and bills and *respondentia* coexisted for a long time; casting a shade of doubt on the canonical idea of efficiency in the instruments that organized the commerce within Europe. If bills were known since the 15th century why were they not used elsewhere? Even within Spain the transportation costs of paper (bills) was higher than that of bullion still in the 17th Century ((Alvarez 2005)). *Respondentia* was not more or less efficient by design as was contingent to the nature of the exchanges in which private bills particularly took very long to be accepted. Indeed, it seems to have been a rational and efficient vehicle to finance trade across distant markets performing with different currencies, institutions, even legal frameworks and religions. The contract thus was contingent on the institutional structure of money markets, namely on the monetary capacities of different economies and nations to “govern money”⁴⁰ – rather more than in the nature of their political institutions ((Palma 2018, Karaman 2020)). This essay calls attention on what might be defined as the “governance of money” in some markets -rather focusing on the lack thereof which as argued favoured the prevalence of the “inferior” *respondentia*. The development of a cashless means of international payment was a long process that evolved from Italy to the core of northern Europe first and only much later extended to the world market in the 19th century and came to fruition finally with the Gold Standard along with European capital and her financial services. Even the development of the international monetary system based on gold backed currencies was a protracted process in Britain itself; it took yet another century to reach –never completely- the large silver producing countries like Mexico and Peru as the largest economies in Asia, as China and India, which remained on a silver standard until the early 1900s. Then a more stable

⁴⁰ **Caveat:** this might resound to Bloch, Einaudi, Cipolla and Van der Wee well know ideas about the functions of money and the separation between unit of account and measure of value as between imaginary and physical, commodity monies. Although relevant, this is a discussion of secondary order to issues of trade finance the essay wants to emphasise; and which will demand a considerable extension to address properly.

monetary system in Britain allowed for the expansion of more efficient financial instruments for long distance maritime commerce displacing the *respondentia* and installing premium insurance all of which contributed to greater market integration in the international economy. ((Chilosi and Frederico 2015)). Meantime, and for a long century and a half, a multitude of silver (and gold) coins coexisted with subsequent problems for the integration of markets. In that context the *respondentia* thrived along with the inflow of coined silver from Spanish America in reducing the risks / arbitrage super-profits from monetary diversity.