Chapter 4

Bridges to the East: European Merchants and Business Practices in India and China

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Introduction

'At last, stepping on deck one morning, I had a first glimpse of the land of my dreams, the wonderland India.' As the panorama of Bombay 'seemed slowly to rise out of the blue sea', the Swiss merchant August F. Ammann felt that his 'heart's desire was gratified' by finally being allowed to travel to India.¹ In contrast to this emotional release the reason for Ammann's journey to South Asia in the year 1874 was rather mundane. He was delegated as an employee of the Swiss merchant house Volkart Bros. to settle problems at the firm's branch in Cochin which had resulted from a local merchant's incapacity to fulfil his obligations. Ammann's reminiscences of this voyage are indeed furnished with exotic details such as shooting excursions to hunt down crocodiles or tigers, strange religious customs and disagreeable encounters with scorpions and cobras. Between the lines, however, his report emphasizes the efficiency of the Indian economy and the skill and honesty of the mercantile community, but also the problems European traders faced on the subcontinent. It is therefore a valuable source of information on the operations of a European merchant house in South Asia.

The merchant house of Volkart Bros., the operations of which will be examined as a possible paradigm for European trading in the region, was founded in 1851 by the brothers Salomon and Johann Georg Volkart simultaneously in Winterthur, a small town in Switzerland near Zurich, and in Bombay. By the end of the nineteenth century, the firm had become one of the biggest merchant houses in South Asia. It exported raw materials from India to the European continent, Great to East Asia after the turn of the century, but also imported Western manufactured goods to the Indian subcontinent. The expansion of the firm's business between the 1850s and 1914 led to the foundation of four additional branches in India, besides Bombay, together with one in Ceylon and in London, as well as branches in Japan and China. In terms of its ownership structure, Volkart Bros. remained a family

¹ August F. Ammann, *Reminiscences of an Old V.B. Partner* (Winterthur, 1921), pp. 12–13. I would like to thank Robert Lee and Jürgen Osterhammel for their comments on an earlier version of this chapter.

owned and controlled company, with partners who came almost exclusively from the Winterthur merchant families of Volkart and Reinhart.²

Trading companies played – and still play today – an important role in creating a global market, since they possessed soft skills, such as knowledge about the reliability of business partners, local business practices and the products they traded, as Geoffrey Jones has pointed out.³ This knowledge and their ability to establish networks of trust with local intermediaries could reduce transaction costs and allowed trading companies to act as commercial bridges by bringing together buyers and sellers on different continents.⁴ The aim of this chapter is to examine how far the operations of trading companies were based on, or influenced by, cultural factors. But what exactly do we mean when we talk about culture in this context? One definition, perhaps an obvious one for a European merchant house such as Volkart involved in business in Asia, was the distinction between a European and an Asian cultural area, with the implicit understanding that, as a consequence, European culture was very different from that of Asia. Such a notion was expressed, for instance, by Rudyard Kipling in his famous 'Ballad of East and West' ('East is East, and West is West, and never the twain shall meet'). By proposing such an antithesis, European culture could be presented as rational and modern, whereas Asian countries constituted an archaic, mystical 'wonderland' where modern business principles had no place.⁵ From a trading perspective, there was an underlying assumption that European and Asian merchants had very different concepts of honesty, dependability and economic rationality, and it was exactly these cultural differences which made trading in Asia so difficult for the Europeans. However, several studies have challenged such a notion.⁶ Chris Bayly, for example, has shown that Indian merchants possessed skills such as

² August F. Ammann was made a partner in 1880. One year later, he married Emma, a daughter of Salomon Volkart: Volkart Archives, Winterthur (VA), Dossier (Doss) 2: Die Teilhaber II – August Julius Ferdinand Ammann, Partner 1880–1894. See for the history of the firm, Walter H. Rambousek, Armin Vogt and Hans R. Volkart, *Volkart: The History of a World Trading Company* (Frankfurt am Main, 1991); Christof Dejung, 'Hierarchie und Netzwerk. Steuerungsformen im Welthandel am Beispiel der Schweizer Handelsfirma Gebrüder Volkart (1851–1939)', in Hartmut Berghoff and Jörg Sydow (eds), *Unternehmerische Netzwerke: Eine historische Organisationsform mit Zukunft?* (Stuttgart, 2007), pp. 71–96.

³ Geoffrey Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford and New York, 2000).

⁴ Ibid.

⁵ For a critique of the notion of 'culture' as an attribute of distinct geographical areas with ostensibly homogeneous patterns of meaning, see Thomas Welskopp, 'Unternehmensgeschichte im internationalen Vergleich – oder integrale Unternehmensgeschichte in typisierender Absicht', in Hartmut Berghoff and Jakob Vogel (eds), *Wirtschaftsgeschichte als Kulturgeschichte: Dimensionen eines Perspektivenwechsels* (Frankfurt am Main and New York, 2004), p. 281.

⁶ Most explicitly by Jack Goody, *The East in the West* (Cambridge, 1996).

double bookkeeping and a distinct mercantile sense of honour at least from the eighteenth century onwards – skills which were very similar to those which were prevalent in Europe. Indeed, it was precisely these similarities which enabled the East India Company to build up business relations with Indian merchant houses and to penetrate the subcontinent economically.⁷ Moreover, similar processes can be observed throughout Asia, as Rajat Kanta Ray has pointed out. The economic expansion of Western merchants in Asia generally would have been unthinkable without the efficiency of the Asian bazaar economy and the cooperation of Asian merchants, who could provide credits and discount drafts, distribute goods or ensure the delivery of purchases.⁸

Rather than emphasizing either the homogeneity or distinct diversity of discrete cultural areas, the following analysis adopts a different approach which focuses on a more limited research agenda.⁹ As Max Weber pointed out, any human action, if it is to be regarded as social, has to be endowed with a specific meaning as a central point of reference.¹⁰ Economic transactions between European and Asian merchants can thus be interpreted as actions which were rooted in a distinct mercantile culture. Culture, in other words, acted as a basis for establishing mutual understanding and for building up relations of trust. It enabled European merchants to embed their transactions in the foreign Asian environment.¹¹ This type of mercantile culture can be interpreted as an informal institution, including conventions, norms of behaviour and self-imposed codes of conduct, which helped to minimize transaction costs.¹² It played a crucial role in world trade since formal institutions – contracts or laws – were often lacking or insufficient.¹³ However, culture alone could not guarantee the success of transactions between European and Asian merchants, as mercantile business took place in a macroeconomic and

⁷ Christopher Alan Bayly, *Rulers, Townsmen and Bazaars: North Indian Society in the Age of British Expansion, 1770–1870* (Cambridge, 1983).

⁸ Rajat Kanta Ray, 'Asian Capital in the Age of European Domination: The Rise of the Bazaar, 1800–1914', *Modern Asian Studies*, 293 (1995), pp. 449–554.

⁹ Such a limitation on one specific sphere of business is proposed by Welskopp, 'Unternehmensgeschichte im internationalen Vergleich', p. 283.

¹⁰ Max Weber, *Wirtschaft und Gesellschaft*: (Tübingen, 1972 [1922]), p. 1.

¹¹ For the argument that economic transactions are embedded in their social environment, see Mark Granovetter, 'Economic Action and Social Structure: The Problem of Embeddedness', *The American Journal of Sociology*, 913 (1985), pp. 481–510.

¹² Douglass C. North, *Institutions, Institutional Change and Economic Performance* (Cambridge, 1991).

¹³ Niels P. Petersson, 'Eine Welt des (Un-) Rechts. Globalisierung und das Problem der Verrechtlichung internationaler Wirtschaftsbeziehungen vor dem Ersten Weltkrieg', in Eckart Conze, Ulrich Lappenküper and Guido Müller (eds), *Geschichte der Internationalen Beziehungen: Erneuerung und Erweiterung einer historischen Disziplin* (Köln, 2004), pp. 93–112.

political context which the merchants could only influence to a small extent. Their business required a minimum of political and legal stability and was very vulnerable if an Asian merchant (on account of limited capital resources which was a general problem in the East) began to engage in speculative transactions which brought with them the risk of failure at a time of shifting or volatile markets.

This study is organized into three sections. The first one will point out why the reputation of a trading company was a crucial element in overseas trade. It will also describe the consequences for Volkart's business operations in India of infrastructural improvements in transport and communications, and demonstrate how the firm aimed to internalize within its own hierarchical structure the purchase of raw materials after the 1860s by establishing upcountry buying agencies in India. The second section will describe how and why Volkart relied on commercial networks with Indian middlemen, even after the opening of buying agencies, in order to embed its operations in the local economy. But relations of trust with indigenous merchants were not unconditional: they were underpinned by gathering information on their financial standing, as well as by formal institutions such as the commercial law introduced by the British in India. How important these institutions and the political stability under colonial rule were for the operations of a European trader will become apparent in the third section of this study, where Volkart's experiences in India will be compared with its operations in China, where formal institutions were lacking upcountry and where political and military conflicts increasingly hampered commerce after the 1920s.

Changes in the Indian export trade after the 1860s

When August F. Ammann joined the Winterthur head-office of Volkart Bros. in 1868 the methods of doing business were still quite simple: 'There were no departments in the strict sense of later times, ... nor were there any "tactics", ... either to be followed or to be changed, may be, within the hour', Amman recalled. 'Of course there was always plenty of work to do, but there was no hustling and bustling, except occasionally on mail-days, and a pleasant atmosphere of peace reigned over all.'¹⁴ The functions of the head-office were practically those of general agents for the Indian branches. It had to collect orders for Indian materials, including raw cotton, spices, coir yarn and fish oil, by stimulating European customers both by direct correspondence and with the help of their agents. Exports from India generally were done on consignment against a commission of 5 per cent until the end of the 1860s. The head-office also had to study the reports of the Indian branches on the state of the market for manufactured goods from Europe and to invite European manufacturers to send out consignments to India.¹⁵

¹⁴ Ammann, *Reminiscences of an Old V.B. Partner*, p. 8.

¹⁵ *Ibid.*, p. 8.

For exports of Indian raw material, a third party was involved in providing credits. If the goods were ordered by European customers, they had to provide both an advance and a payment guarantee from a European bank. As for the guarantee of product quality which a shipping firm such as Volkart had to give, it was, according to Ammann, 'as simple as it was harmless, being for all produce without exception "fair average quality of the season"'.¹⁶ If the shipper exported on consignment for an Indian merchant, the latter generally received an advance of the expected price from an Indian moneylender, a shroff. The shipper had to remunerate the shroff after selling the goods in Europe, and the shroff and the exporting Indian merchant had to make up the difference between the advance and the actual selling price.¹⁷

The good name of a trading company was a crucial feature in this line of business since transactions were based in large part on trust from the customer's side. If the European customer had no confidence in the trading company's ability to purchase merchandise of a satisfactory quality or if the Indian consigner doubted the honesty of the shipper, the transaction was unlikely to take place. The house of Volkart seems to have achieved a good reputation after a short time due to its endeavour to fulfil the contracts with its customers by all means and due to the commercial competence of the firm's founders. Before the opening of their firm, the two Volkart brothers had become acquainted by long experience with the peculiarities of mercantile trade and Indian business customs. Salomon Volkart had worked in various banks, merchant houses and textile factories on the European continent. His younger brother Johann Georg Volkart, who died in 1861, had become familiar with business practices in India through many years of work experience as a cotton-buying agent for the German trading firm of Wattenbach, Huschke & Co. in Bombay.¹⁸ These competences and, as Ammann claimed, 'good management and sound organization',¹⁹ enabled the firm to flourish and prevented it from becoming a victim of bad speculation which led to the failure of many merchant houses. Volkart soon opened up new branches in Colombo (1857), Cochin (1857) and Karachi (1861). Although Volkart remained very active as an importer of manufactured goods to India, the value of imports after the 1860s was surpassed by the rise of the export trade from India, as raw cotton exports became Volkart's principal merchandise for many decades. As was the case with other Indian cotton exporters, Volkart profited from the outbreak of the American Civil War and the disruption of the cotton trade with Europe between 1861 and 1865. Consequently the exports of Indian raw cotton more than doubled and profits of 30 to 40 per cent within a six month period became normal in the Indian cotton

¹⁶ *Ibid.*, p. 10.

¹⁷ Marika Vicziany, 'Bombay Merchants and Structural Changes in the Export Community 1850 to 1880', in Kirti N. Chaudhuri and Clive J. Dewey (eds), *Economy and Society. Essays in Indian Economy and Social History* (Delhi, 1979), p. 175.

¹⁸ VA, Doss. 1: B) Die Teilhaber, 1. Salomon Volkart.

¹⁹ Ammann, *Reminiscences of an Old V.B. Partner*, p. 7.

trade.²⁰ Volkart, as one of over 30 firms in Bombay involved in the cotton trade, increased its exports from Bombay from 56,000 bales in the 1859–60 season to an average of 98,000 bales during the Civil War (Figure 4.1).²¹

In the second half of the 1860s the export trade from India underwent a fundamental change because of four developments which all occurred at more or less the same time. The first was the establishment of telegraphic communications between Europe and India in 1865, which led to the introduction of firm offers for a range of commodities. European trading firms began to sell with the help of price lists, with selling prices based on current prices on the Indian market, as well as freight charges and exchange rates. Offers for consignment were increasingly difficult to obtain since, as Ammann put it, 'why, indeed, should intending buyers bind their hands by giving orders of which they could not foresee whether they would prove workable or not, when they could make sure of having the goods they were in need of by accepting the most tempting of the firm offers laid before them?'²² The owners of Volkart initially did not like this development at all, but since their competitors adopted the new system the firm decided to give it a trial and it gradually became the rule, although at first only for cotton.²³ However, this meant that purchasers did not have to grant advances anymore, but only paid at the moment their merchandise arrived in Europe. To counter the strain on liquidity, Volkart had to rely on credits from Swiss banks and British merchant banks. The availability of credits was facilitated by the fact that Salomon Volkart had been a founding member of the Bank in Winterthur established in 1862²⁴ and Volkart Bros. had opened an office in London in 1869 to improve its access to British merchant banks. As a consequence, from the mid 1880s onwards, the financing of the firm's business was managed by the head-office and the London branch, whereas previously it had been undertaken by the Indian branches themselves.²⁵

The second development was the acceleration of transport to Europe. The development of steamship lines and, in particular, the opening of the Suez Canal in 1869 reduced travel time to Europe dramatically, which had a significant effect on the Indian cotton trade. Continental spinners were good customers for Indian cotton, whereas their British competitors preferred American cotton since it had

²⁰ Sven Beckert, 'Emancipation and Empire: Reconstructing the Worldwide Web of Cotton Production in the Age of the American Civil War', *American Historical Review*, 109/5 (2004), p. 1415.

²¹ VA, Doss. 3: Bombay I, 4, Table of Events 1851–1961/2.

²² Ammann, *Reminiscences of an Old V.B. Partner*, p. 10.

²³ *Ibid.*, p. 10.

²⁴ The Bank in Winterthur merged with the Toggenburger Bank to become the Union Bank of Switzerland in 1912: Ernst Wetter, *Die Bank in Winterthur 1862–1912* (Winterthur, 1914). In 1998, the Union Bank of Switzerland merged with the Swiss Bank Corporation to become the United Bank of Switzerland, today one of the largest banks in Europe and one of the world's largest private banking and asset management institutions.

²⁵ Ammann, *Reminiscences of an Old V.B. Partner*, p. 4.

Fig. 4.1 Bombay Harbour, ca 1900. Photograph courtesy of the Volkart Foundation

Fig. 4.2 Bombay Cotton Market. Photograph courtesy of the Volkart Foundation

a longer staple and was better suited for the finer cloth woven in Lancashire.²⁶ Volkart Bros. was one of the very few cotton-exporting firms established in India by continental European owners and it began increasingly to export cotton using continental shipping lines to ports such as Marseille, Trieste, Antwerp and Hamburg which had taken a lead in establishing regular and large-scale exports from India to these destinations.²⁷ The overall proportion of Indian raw cotton exported directly to the continent (and not via Liverpool) had been less than 1 per cent before 1866 and less than 11 per cent between 1866 and 1870: by 1885 it had increased significantly to 60 per cent.²⁸

The third development was the construction of the Indian railway system after the 1850s, which allowed European exporters to bypass the indigenous merchants who until then had transported the merchandise to the coast. From now on European merchants were able to come into direct contact with dealers upcountry, something they had tried to do since the early nineteenth century, but had failed to achieve due to bad transport routes and the difficulty of providing upcountry agents with adequate sums of ready cash.²⁹ Volkart opened the first group of upcountry buying agencies in the second half of the 1860s, shortly followed by ginning and pressing factories for preparing the raw cotton for transport to Europe. By the end of the nineteenth century, big merchant houses had been able to establish overall control of the whole commodity chain, involving purchase of the raw material, ginning and pressing, and export to Europe.³⁰ As a result, the merchant's ability to select the cotton for purchase was considerably enhanced, which was crucial both for fulfilling the demands of European spinners and for hedging transactions at the Liverpool cotton exchange.³¹ The integration of upcountry purchase and the treatment of cotton in India turned out to be very successful for Volkart: the firm

²⁶ Thomas Ellison, *A Hand-Book of the Cotton Trade: Or a Glance at the Past History, Present Condition, and Future Prospects of the Cotton Commerce of the World* (Liverpool, 1858), p. 39.

²⁷ VA, Dossier 19: Winterthur II, 13. Write ups About the Firm by VB and Corrections thereto by JA.

²⁸ VA, Weisse Schachtel: Jakob Brack-Liechti, 'Einige Betrachtungen über den indischen B'woollmarkt aus älterer Zeit', 23 February 1918, p. 4.

²⁹ Bayly, *Rulers, Townsmen and Bazaars*, pp. 239–45.

³⁰ Kagotani Naoto, 'Up-country Purchase Activities of Indian Raw Cotton by Toyo Menka's Bombay Branch, 1896–1935', in Shinya Sugiyama and Linda Grove (eds), *Commercial Networks in Modern Asia* (Richmond, 2001), pp. 205–8; Rajat Kanta Ray, 'The Bazaar: Changing Structural Characteristics of the Indigenous Section of the Indian Economy before and after the Great Depression', *Indian Economic and Social History Review*, 25 (1988), p. 286.

³¹ For the emergence of the Liverpool cotton futures market, see Nigel Hall, 'The Liverpool Cotton Market: Britain's First Futures Market', *Transactions of the Historic Society of Lancashire and Cheshire*, 149 (1999), pp. 99–117. For an overview of the role of hedging in the global cotton trade, see Alston Hill Garside, *Cotton Goes to Market: A Graphic Description of a Great Industry* (New York, 1935), pp. 208–75 and 307–14.

raised its turnover considerably and by the late nineteenth century it had become the main exporter of Indian raw cotton, together with the Anglo-Greek firm of Ralli Bros. (Figure 4.2).³²

The fourth development was a result of the effects of the economic crisis in India after 1866. The Bombay cotton boom, which had been triggered by rising prices during the American Civil War, came to a sudden end with the cessation of hostilities. In the panic year of 1866 24 of the 31 banks in Bombay failed and many Indian merchant firms which had acted as shroffs for small exporting firms were ruined.³³ The crisis, together with technical changes and structural innovations in the export trade, pushed many Indian merchants out of business. They had insufficient capital to establish buying agencies, presses, gins or warehouses, and they lacked the business connections in Europe to finance their exports and to sell their merchandise. That is why Indian merchants who survived the crisis of 1866 either concentrated on domestic trade on the subcontinent or began to invest their capital in Indian industry. As a result, they became the pioneers of Indian industrialization at the end of the nineteenth century.³⁴ But the export trade from now on was completely in the hands of European – and after the turn of the century also Japanese – trading firms.³⁵

Embedding transactions within the Indian market

Even after the opening up of buying agencies and gaining control of the export trade, European merchant houses were obliged to adapt their transactions to local business structures. Firms such as Volkart Bros. still depended on excellent connections with Indian merchant circles. To be able to bargain with local dealers without an interpreter and to control the activities of their Indian middlemen, the European staff of Volkart had to be able to speak the native languages fluently. Thus, before they were sent overseas, they had to learn in Winterthur not only English but also the native languages of the country to which they would be sent.³⁶ But Europeans still needed traditional commercial networks for their expansion

³² *The V.B. News, Published by Volkart Brothers, Winterthur, and Devoted to the Interests of their Employees*, No. 9, December 1923, pp. 14–16.

³³ VA, Dossier 3: Bombay I, 4, Table of Events 1851–1961/2.

³⁴ Vicziany, 'Bombay Merchants and Structural Changes in the Export Community 1850 to 1880', pp. 187–8.

³⁵ Ray, 'The Bazaar', pp. 281, 285.

³⁶ Georg Reinhart, *Gedenkschrift zum fünfundsiebzigsten Bestehen der Firma Gebr. Volkart* (Winterthur, 1926), pp. 76–7. It is not clear, however, at what point in time this instruction in native languages became compulsory for overseas staff. At least August F. Ammann did not talk Hindustani when he came to India in the 1870s, but learnt it only during his stay at the Malabar Coast and later in Karachi: see Ammann, *Reminiscences of an Old V.B.*

in Asia. One of the principal problems of European merchants since the early nineteenth century had been to provide their upcountry agents with sufficient cash to carry out their purchases.³⁷ Local farmers and petty dealers refused to accept paper money or *hundis*, the drafts used in the Indian bazaar economy, and they often only accepted silver coins. Yet in many places upcountry banks either did not exist or were unable to provide buying agents with the required sums of ready cash until the 1920s. Sometimes Volkart used to send to the agencies silver coins in iron-bound cases accompanied by two trustworthy members of staff. In most cases, however, the firm relied on the help of local shroffs, who paid cash to local dealers on the order of the firm's agents.³⁸ The firm agreed to reimburse the shroffs at the Head Agency upon presentation of the receipts for their payments and to pay a certain commission for their services. When the firm made an exception and granted advances to the shroffs for paying local dealers, they had to promise to use them only for the purpose intended.³⁹ The shroffs had to be reliable and respected in their local community. In some cases, Volkart worked for several decades with the same Indian merchant house which took over the shroffage for a certain district.⁴⁰ The shroffs had an important advantage before the establishment of regular banks, as an instruction manual of the firm in 1912 confirmed: 'a bank will be no help to us in other branches of our business whilst an influential Shroff is able to and may do a good deal to influence dealers in our favour and thus facilitate our business in general.'⁴¹

For both the import and export trade Volkart relied on the help of native brokers, who were wealthy and reputable merchants either from the Parsi community in Bombay or from Hindu or Muslim merchant castes.⁴² For the import trade, indigenous merchants acted as guarantee brokers. Against a commission of 1.5 per cent, they guaranteed payment for the manufactured goods delivered to the bazaar merchants and procured orders for further deliveries.⁴³ For the export trade,

³⁷ Bayly, *Rulers, Townsmen and Bazaars*, p. 254.

³⁸ VA, Doss. 64: *General Regulations and Instructions for the Use of Volkart Brothers Up-Country-Agencies* (Winterthur, 1912), pp. 21–7; VA, Doss. 26: Finance/Exchange 1887–1977, 3. Inland Financing – Shroffage Agreements, For the Search of a Shroff in the Karachi Branch.

³⁹ VA, Doss. 26: Finance/Exchange 1887–1977, 3. Inland Financing – Shroffage Agreements: Shroffage Agreement between the Firm of Messrs. Volkart Bros. and the Firm of Messrs. Tulsidas Meghraj, 19 November 1928.

⁴⁰ VA, Doss. 26: Finance/Exchange 1887–1977, 3. Inland Financing – Shroffage Agreements: Karachi to Winterthur, 23 August 1928.

⁴¹ VA, Doss. 64: *General Regulations and Instructions for the Use of Volkart Brothers Up-Country-Agencies*, p. 25.

⁴² Charles A. Jones, *International Business in the Nineteenth Century: The Rise and Fall of a Cosmopolitan Bourgeoisie* (Brighton, 1987), p. 81; Bayly, *Rulers, Townsmen and Bazaars*, pp. 31, 163, 178–80.

⁴³ Ray, 'The Bazaar', p. 83.

Partner, p. 21.

brokers acted as intermediaries between local dealers and European merchants. Because of their important position as middlemen between European firms and local merchants, the brokers had to be absolutely reliable (Figure 4.3). August F. Ammann described in his reminiscences the head-broker of the Karachi branch of Volkart, Naomull Panjanmull, from the merchant caste of the Lohanas, as an 'honest man, wide awake and cautious': he was the hundi-broker for the local agency of the Bank of Bombay and had 'great insight into the financial standing of the native merchants'. This knowledge, as Ammann pointed out, 'was of great value to the firm'. The duty of the Karachi purchase broker, who assisted the head-broker in return for a small salary and a brokerage on all business, was to visit regularly the local cotton dealers in the bazaar, since after the opening of the upcountry buying agencies Volkart still regularly purchased cotton in the bazaars of the big coastal cities. If the broker could not come to terms with the bazaar dealers, one or two of the leading dealers were invited to the office for talks with the broker, the head-broker and the firm's maccadam or head-man (a respected Indian who was present at all dealings between the firm and the local merchants). At the end of their discussions, a special custom was enacted: the broker and the dealers gripped hands under the broker's scarf and exchanged 'mysterious signs', as Ammann put it, which confirmed that a deal had been struck. Then the broker again went to the bazaar and persuaded the other dealers to follow the lead of their elders.⁴⁴

Ammann's account can be seen as evidence that markets were not only commercial structures, but also social entities in which transactions had to be embedded, sometimes by means of cultural customs such as the 'mysterious' hand signals under the broker's scarf.⁴⁵ It is also clear that the exact meaning of this custom could not be deciphered by Europeans. The cooperation with the brokers was thus based on a relationship dependent on mutual trust. This trust resulted from the fact that the brokers possessed 'a good financial standing ... a shrewd business sense, a wide experience in the trade, good knowledge of the articles and the market conditions and, last but not least, sound judgement of character and ability to deal with all sorts and conditions of people', as was noted in *V.B. News*, Volkart's in-house magazine in 1922. The article also claimed that 'these qualifications coupled with absolute integrity secure [the broker] the confidence and esteem of the dealers and his principles alike'.⁴⁶ The brokers, in other words, possessed exactly the same characteristics which were also regarded in Europe as the key attributes of a scrupulous and honest merchant.⁴⁷

⁴⁴ Ammann, *Reminiscences of an Old V.B.*

⁴⁵ Granovetter, 'Economic Action and Social Structure'.

⁴⁶ *The V.B. News*, No. 4, March 1922, p. 17.

⁴⁷ Bayly also claims that similarities in business practices and sense of honour had facilitated cooperation between European and Indian merchants since the days of the East India Company and were crucial for the economic penetration of the subcontinent by the British: Bayly, *Rulers, Townsmen and Bazaars*, pp. 6, 229, 239–40.

Fig. 4.3 Volkart's Karachi broker. Photograph courtesy of the Volkart Foundation

The confidence of Europeans in their Indian shroffs and brokers, however, was not unconditional. In order to monitor the financial standing and the business practices of their middlemen, Volkart made periodical enquiries with various regional banks.⁴⁸ Moreover, these networks were not based on information alone, but depended on the additional stabilization provided by contemporary legal institutions. It is clear from Ammann's reminiscences that the staff of Volkart Bros. was closely integrated into British colonial culture through club membership, party invitations and participation in excursions, which he regarded as crucial for a 'European who expatriates himself to a country like India' in order 'not to fall into a state of moroseness, if not worse'.⁴⁹ From a business perspective, however, the legal institutions introduced in India by the British offered an important remedy if a contractor did not fulfil his contracts, as was evident from an incident which occurred at the Cochin branch in the 1870s and which ultimately was the reason why Ammann had been sent to India.

By the end of the 1860s, the available sources seem to confirm that Volkart Bros. was no longer dependent on providing advances to Indian purchasers in Bombay and Karachi.⁵⁰ On the Malabar Coast, however, business was still conducted on the basis of providing advances of between 50 and 75 per cent of the value of the merchandise, which had to be procured by the European customer when the contract was concluded with the shipper. In a booklet from 1873, Volkart informed its European customers that in the case of orders from their Cochin branch, the firm only vouched for advancement drafts, but not for the fulfilment of the delivery contracts. At the same time, the firm tried to placate its customers by emphasizing that 'a non-delivery of the purchased merchandise has never occurred', since they only ordered from 'solid and respectable merchants'.⁵¹

This system had worked rather well for several years and a very large volume of trade was conducted at the Cochin branch (Figure 4.4). But in 1873 the dangers of the 'rotten system of granting the contractors cash advances on signing contracts for the future delivery of merchandise', as Ammann put it, became manifest. In fact, Volkart had been obliged to make all their purchases in Cochin through only one contractor. Polikalagata Marakar, or Markar for short, was a Moplah⁵² and seems to have been the only merchant on site who could deliver the large quantities required by Volkart when a ship was anchored in the harbour waiting to be loaded. The Cochin branch of Volkart had granted Markar cash advances for his purchases from local dealers, since he was apparently not wealthy enough to use his own

⁴⁸ VA, Doss. 26: Finance/Exchange 1887-1977, 3 Inland Financing - Shroffage Agreements: Karachi to Winterthur, 17 September 1931.

⁴⁹ Ammann, *Reminiscences of an Old V.B. Partner*, p. 22.

⁵⁰ *Calculationstabellen Gebrüder Volkart Winterthur* (Winterthur, 1873), pp. 13 and 31 et seq.

⁵¹ *Ibid.*, p. 44.

⁵² Moplahs are the earliest known Indian Muslim community, having existed since the eighth century when Arab merchants converted them to Islam.

Fig. 4.4 Cochin backwater, 1874-75. Photograph courtesy of the Volkart Foundation

capital for such a purpose and no shroffs were available to give him credits. In the 1872–73 season the price of coffee in the local market suddenly rose. Markar, either because he had speculated on a decline or because his subcontractors had left him in the lurch, declared himself unable to meet his commitments unless further advances were granted. The local manager of the Cochin branch, A. Spitteler, granted him another advance without asking the head-office in Winterthur.⁵³ This enraged Salomon Volkart, who had been against paying advances for a long time and who had repeatedly expressed his scepticism about conducting the entire business at Cochin through a single contractor.⁵⁴ However, given the imminent arrival of the ships chartered for conveying the goods to Europe, the granting of another advance had been the only way to fulfil the firm's contracts.⁵⁵

It is remarkable that Spitteler, the local manager, was so intent on avoiding disappointing the firm's European customers. Yet world trade was (and is still today) inherently volatile and reliability was imperative for a merchant house like Volkart. The firm was anxious to create and preserve a culture of mutual trust with its European customers since many continental purchasers were concerned at the commercial risks of business operations in nineteenth-century India. For several years, Volkart had therefore been reluctant to mention that in the case of a contract failure the firm would be liable only for the advance payments and not for the purchaser's possible losses. In a letter to Spitteler in 1869, Salomon Volkart had underlined this dilemma: 'If we had rubbed their nose in this fact ..., we were certain that the purchaser would ask us why they should order if they were not certain that the contracts would be fulfilled.' In Great Britain, this problem seems to have caused less anxiety since everyone was aware of the legal position in world trade. But if the firm wished to conduct business on the European continent, Salomon Volkart concluded, the only possibility was 'to stick all the more to the fulfilment of the contracts'.⁵⁶ In other words, even if the legal position was in its favour, Volkart Bros. had to try its best not to let down its continental purchasers in order to maintain their trust. Therefore, it was very much in line with company policy for Spitteler to provide Markar with another advance to enable him to purchase the ordered merchandise.

After 1877, the Markar case was dealt with by the District Court of South Malabar, which ordered him to pay Rs. 392,990. When this sentence was confirmed by the Madras High Court one year later, Markar appealed to the Privy Council in London, but this was rejected in December 1880. Since Markar was bankrupt, his real estate was released as compensation to Volkart, but many of the premises had been neglected, were encumbered with mortgages or had already been sold. Thus

⁵³ Ammann, *Reminiscences of an Old V.B. Partner*, p. 19 et seq.

⁵⁴ VA, Doss. 1, A) Die Familie der Gründer, 3. Privat-Copierbuch 9 January 1867–25 August 1870: Salomon Volkart to Noelke, Winterthur, 15 October 1869.

⁵⁵ Ammann, *Reminiscences of an Old V.B.*

⁵⁶ VA, Doss. 1: A) Die Familie der Gründer, 2. Copy Buch Winterthur 27 March 1865–1867: Sal. Volkart to Spitteler, acting BM Cochin, 22 July 1869.

the income received by Volkart from the sale of Markar's property did not cover the considerable losses which the firm had incurred.⁵⁷ It is clear, therefore, that trading companies could not rely solely on formal institutions, such as the legal system, because their enforcement was time-consuming and the outcome of legal disputes was often insecure. Within such a context, traders had to try hard to base their transactions on informal institutions such as knowledge and trust, which had to be backed up by formal institutions as a last resort.

Business in Cochin temporarily came to an end after the Markar affair. In 1875 Georg G. Volkart, the son of Salomon Volkart, visited Cochin and decided 'on doing what should have been done long before', namely, as Ammann reported, on visiting 'the Coast-ports and on seeing himself what the conditions and business possibilities were in what had been up to then terra incognita for the firm's representatives at Cochin'. This trip, on which Georg G. Volkart was accompanied by Ammann, was a revelation. Ammann recalled their arrival in Tellicherry, a coastal town in the north of Cochin: 'The whole place was full of coffee and pepper, with crowds of Natives of both sexes sorting, garbling and packing the goods and a gang of coolies carrying the bags across the beach to the cargo-boats' (Figure 4.5). As a consequence, Volkart decided to open up an additional branch in Tellicherry, with Ammann as its first manager, and to begin to purchase both upcountry and on the coast in the north of Cochin.⁵⁸ Yet even at the new branch in Tellicherry the purchase of goods did not work without the help of indigenous middlemen. In 1886, Volkart established the Coffee Curing Works in Tellicherry to prepare coffee beans for transport to Europe, but it proved difficult to guarantee a sufficient supply of coffee and Volkart considered closing it again. Its long-term future was only assured when members of the Cooty family of Moplah merchants were employed as brokers. The sons of the family worked as buying agents upcountry during the season and became successful in supplying Volkart with enough coffee and other merchandise. This cooperation was so satisfactory that it continued up until the 1960s.⁵⁹

The long-lasting cooperation between the Cooty family and Volkart was by no means an isolated case. On the contrary, it was quite common, according to *V.B. News* in 1922, that the position of broker was 'handed down from father to son as a sort of inherited tradition'. Moreover, 'the fact that generations of the same family have been acting for us in this capacity bears testimony to the good spirit prevailing between the firm and the brokers'.⁶⁰ Be that as it may, the fact that several generations of the same merchant's family acted as brokers for the firm, and that the position of a shroff was often passed down within the same family, serve as further examples of how Volkart sought to embed its transactions within the business culture of India, where the family still holds an important place in

⁵⁷ VA, Doss. 7: Cochin, 4. The Marcar case 1870s.

⁵⁸ Ammann, *Reminiscences of an Old V.B. Partner*, pp. 31–4.

⁵⁹ VA, Doss. 9: Tellicherry, 2, Table of Events.

⁶⁰ *The V.B.*

Fig. 4.5 Cutting ginger. Photograph courtesy of the Volkart Foundation

social life and a family firm's reputation is a key factor in the public identity of individual family members.⁶¹ As Chris Bayly has observed, it was unthinkable for Indian merchants to make a distinction between the firm and the family, not least because they remained inextricably linked conceptually in the various Indian languages. Any economic decisions by a merchant's family were always made by considering their effects on the family as a social entity. Especially in successful years, for instance, a merchant's family made charitable bequests or sponsored religious feasts and rituals from the firm's profits. In this way, a family's reputation was enhanced and social networks were reinforced, which could be crucial in bad years since it allowed a family to accept credits from other merchants. The Indian merchant's household thus had a double function. It was both a profit-maximizing enterprise and a site where social relations based on honour and respectability came together as a means of supporting the family's business success.⁶² By employing the members of certain merchant families as brokers or shroffs over many decades, Volkart Bros. effectively used this mechanism to create a network of trust and to stabilize cooperation with its Indian middlemen.

Gaining ground in the Chinese market

The experiences of Volkart indicate that trade with India in the second half of the nineteenth century was a rather peculiar business which could not be conducted successfully without a distinct knowledge of products and local business practices and without building commercial networks with Indian merchants. However, the penetration of the subcontinent was eased by the British colonial government with the standardization of the currency, the establishment of uniform units of measurement, the adoption of formal landholding rights and the imposition of a colonial legal regime. In addition, the construction of the railway system significantly facilitated business for Europeans.⁶³

By contrast, trade with China was much more complex and cumbersome. It had not changed significantly even after colonial gunboat diplomacy in the middle of the nineteenth century had compelled the Chinese to open up their major seaports. Western merchants found it difficult to initiate direct contact with their Chinese counterparts and major impediments to direct trade remained, including the language problem, the complexity of the monetary system, the great variety of commercial practices and social customs, and the continued existence

⁶¹ Sudipt Dutta, *Family Business in India* (New Delhi, Thousand Oaks and London, 1998); Andrea Colli and Mary B. Rose, 'Family Firms in Comparative Perspective', in Franco Amatori and Geoffrey Jones (eds), *Business History around the World* (Cambridge, 2003), p. 351.

⁶² Bayly, *Rulers, Townsmen and Bazaars*, pp. 239, 375–81.

⁶³ Bayly, *Rulers, Townsmen and Bazaars*, p. 371; Lauren Benton, *Law and Colonial Cultures: Legal Regimes in World History, 1400–1900* (Cambridge, 2002).

of strong mercantile guilds. It was thus necessary for Western trading firms to employ wealthy Chinese merchants – so-called compradors – to work for them as middlemen. For their services, they received a regular salary and a commission of 1 to 3 per cent. The comprador was the head of the foreign firm's Chinese staff, which he recruited and controlled. He was also responsible for renting property and providing market intelligence, and served as interpreter and intermediary with local businessmen and banks. Last, but not least, he was responsible for the upcountry purchase of Chinese goods and the sale of imported merchandise to the Chinese, since European and American merchants were formally confined to Shanghai, Hongkong and other treaty ports until the First World War.⁶⁴ The strong position of the compradors posed significant problems for Western merchants who wished to do business in China. They often used their influence for their own benefit, for example by doing business on their own account and thus competing directly with the Western firms for which they worked, or they obtained a second commission from Chinese firms which wished to do business with the comprador's Western employer, which led to higher prices. Not surprisingly, overseas firms trading in China in the late nineteenth and early twentieth century often incurred a loss, whereas, in most cases, the comprador made a profit.⁶⁵

Volkart came into contact with China at the end of the nineteenth century in order to find a new marketing area for the huge volume of cotton purchased by the firm through its newly opened Indian buying agencies. The firm had established an office in Shanghai in 1878 which was very successful in selling Indian raw cotton to hand weavers and, after the 1890s, to the newly opened cotton mills. In 1901 it was transformed into a branch, which had to be closed again in 1908 due to staff problems and disappointing results. After the First World War, during which Volkart had registered huge profits, the firm made a new attempt to gain a foothold in China by reopening a branch in Shanghai in 1921 (Figure 4.6).⁶⁶ During all these years, Volkart did business solely with the help of compradors. When Georg Reinhart, a grandson of Salomon Volkart and a partner in the firm since 1904, visited the Shanghai branch in 1923, he was pleased to observe that 'the comprador, Mr. Woo, is a very nice man of refined Chinese culture. As far as decency of principles is concerned, we probably won't have any bad experiences with him.' Contacts with its Chinese staff were facilitated by the fact that a new Chinese bourgeoisie had emerged in Shanghai at the turn of the century and, as a consequence, many members of the Chinese upper and middle

⁶⁴ Yen-p'ing Hao, 'A "New Class" in China's Treaty Ports: The Rise of the Comprador-Merchants', *The Business History Review*, 44/4 (1970), pp. 446–59.

⁶⁵ Jerry L. S. Yang, 'The Profitability of Anglo-Chinese Trade, 1861–1913', *Business History*, 35/3 (1993), pp. 39–65.

⁶⁶ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 2. Table of Events.

classes possessed a Western education.⁶⁷ Georg Reinhart, for instance, mentioned in his report a Chinese staff member, Mister Teng, 'a very well educated man who speaks excellent German without ever having left China. He has been a teacher of language previously and he is the man who translates our cotton reports into Chinese.'⁶⁸

The operations of the Volkart branch in Shanghai, however, were rendered difficult since business customs in China were not compatible with payment practices established by the firm in Europe. In particular, the fact that Chinese cotton mills did not pay for their purchases directly at debarkation but only with a delay of 15 days was in direct contradiction to the firm's principles, which insisted on payment at the moment of delivery.⁶⁹ By sticking to this practice, Volkart had no chance of participating in the Chinese cotton trade on a large scale. For this reason, the firm's owners informed their branches in 1923 that they had decided to 'set up in Shanghai a company that is theoretically independent of our firm by calling on local capital', as they had done four years earlier in establishing a subsidiary in Osaka.⁷⁰ In 1924, the Fohka, Swiss Chinese Trading Co. Ltd. was founded in Shanghai with a capital of 500,000 Shanghai Taels. The principals of Volkart participated with 300,000 Taels; Z. K. Woo, the former comprador of Volkart's, with 110,000 Taels; and the rest was contributed by the Swiss manager of Volkart's in Shanghai and 12 Chinese businessmen from Shanghai and Nanjing.⁷¹

With the opening of the Fohka, Volkart pursued a strategy similar to many other Western firms after the First World War. After the decline of colonial power in East Asia and the simultaneous growth in the strength of the Chinese economy, it began increasingly to conduct joint ventures with indigenous partners.⁷² This enabled the firm, amongst other things, to profit from long-term credits for the import trade, which Chinese merchants obtained through their guilds.⁷³ But the domestic policy of China was not favourable to such cooperation and 1922 marked the end of the economic boom which had lasted since the beginning of the First World

⁶⁷ Jürgen Osterhammel, *China und die Weltgesellschaft: Vom 18. Jahrhundert bis in unsere Zeit* (München, 1989), pp. 245–6.

⁶⁸ VA, Rapporte von Herrn Georg Reinhart anlässlich seiner Inspektionsreise nach Indien etc. im Jahre 1923: Georg Reinhart, Shanghai, 2 Mai 1923.

⁶⁹ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 3. Correspondence: Winterthur to Bombay, 30 June 1921.

⁷⁰ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 2. Table of Events: Winterthur to Calcutta, Kopie an alle Häuser, 5 September 1923.

⁷¹ Swiss Federal Archives, Berne, E 2200.290 (Shanghai), Akz. 1, Behältnis 21, V.B.b. ancien 21, Fohka – Swiss-Chinese Trading Co., Ltd. (1924–1935): Minutes of the Constituent General Meeting of the Fohka Swiss-Chinese Trading Company Limited, Shanghai, 25 February 1924.

⁷² Jürgen Osterhammel, 'Imperialism in Transition: British Business and the Chinese Authorities, 1931–37', *The China Quarterly*, 98 (1984), pp. 260–86.

⁷³ Yang, 'The Profitability of Anglo-Chinese Trade, 1861–1913', pp. 43–4.

Fig. 4.6 Volkart Bros., General Office Shanghai, 1922. Photograph courtesy of the Volkart Foundation.

War. The economic crisis put the young Chinese republic to the test and led to increasing conflicts between provincial warlords and various political parties. The Fobka business suffered from this unstable situation and in 1927 it turned out that Woo had cheated the firm of about 100,000 Taels by not paying for a delivery of cotton which he had received from the firm.⁷⁴ This fraud was a direct consequence of the political troubles, since Woo had been unable to settle his debts, having had to pay protection money to a local warlord. But in addition to this, the business of the Fobka was ill-fated. Due to incautious transactions, it had suffered a loss of 3 million Swiss francs, which was why it was liquidated in the same year, with its business operations continued by a branch which was again completely owned by Volkart.⁷⁵

Soon after the reopening of the Shanghai branch, Volkart opened a new branch in Tianjin for the export of Chinese raw cotton to Japan, the United States, Europe and Australia and for the sale of imported Indian and American cotton to mills in northern China. Due to its extensive experience in the cotton trade and its worldwide organization, Volkart was able to conduct this business without the help of a comprador.⁷⁶ In the early 1930s, Volkart sent one of its Swiss staff members on an inspection tour to the Xihe district to investigate if it would be possible to establish an upcountry buying organization with ginning factories and presses similar to the one established in India. This staff member, the first Western merchant in many years to inspect the inland cotton districts, concluded that it would be sensible for foreign exporters to continue to buy cotton on the coast at Tianjin on account of the general situation which was characterized by insecurity, 'military occupations', bribery and harassment by 'generals and officials [and] the risks of transport to the seaport'.⁷⁷ Yet in 1936 Volkart began to open upcountry buying agencies in the north to purchase cotton for the mills in Shanghai. Prior to their opening, a Swiss staff member of Volkart's had been instructed for several years in Chinese languages in order to bargain with the local authorities and dealers. With the outbreak of Sino-Japanese hostilities in 1937, however, these agencies were closed after only one season.⁷⁸

⁷⁴ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 5. Notes by Staff Members who were in Shanghai: von der Crone (1938–54 BM in Shanghai) to Anderegg, 15 August 1978.

⁷⁵ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 2. Table of Events.

⁷⁶ VA, Doss. 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 5. Notes by Staff Members who were in Shanghai: Wolfgang Hegar to Anderegg, 21 December 1975.

⁷⁷ VA, Dossier 15: A: *Shanghai Informationen-Buch*, p. 96: Tientsin to Winterthur, 15 October 1933.

⁷⁸ VA, Dossier 15: The Far Eastern Organisation, I. Shanghai (incl. Tientsin etc.), 5. Notes by Staff Members who were in Shanghai: von der Crone to Anderegg, 3 September 1978; Werner Müller to Anderegg, 10 April 1978.

There are several reasons for Volkart's difficulties in entering the Chinese market. First, the distance between the Winterthur head-office and the subsidiary in Shanghai was very great. Whereas there was a significant degree of internal control amongst the various branches of the firm in India, it was considerably more difficult for the partners to control business operations in Shanghai. Secondly, the involvement of local shareholders in the Fohka led directly to an increase in transaction costs within the firm, particularly in relation to information acquisition and business control, while the principals of Volkart in Winterthur were more or less in the dark with respect to the actions and financial situation of their Chinese partners. Thirdly, business operations were adversely affected by the unstable political situation in China. Whereas the British colonial government in India provided stability and legal security, these beneficial conditions did not exist in China and the attack by Japanese troops put a definite end to Volkart's operations for nearly a decade.

Conclusion

As the example of Volkart's operations indicate, trade with Asian countries was highly distinctive during the nineteenth and early twentieth century. Credit was hard to come by and there was often no guarantee of payment security. European merchants, therefore, had to establish commercial networks with indigenous middlemen in order to embed their transactions within local markets. The creation of these networks was facilitated by the fact that the mercantile culture of Asia was quite similar to that of Europe – or at least there was no indication of different attitudes towards honesty or reliability on the part of Volkart or its Asian business partners. A similar attitude to business ethics facilitated cooperation between European and Asian merchants in the Age of Imperialism and enabled the construction of commercial bridges between East and West. The fact that these bridges were always in danger of collapse was not a result of cultural differences, but rather a reflection of an unstable socio-economic and political environment. The limited financial assets of indigenous contractors could lead to substantial losses, as Volkart was to discover in the Markar case. Volkart's response to this problem was to integrate upcountry purchases within the firm, but this involved amongst other things a reliance on local shroffs for the provision of credits for upcountry dealers and farmers. It is also clear that the operations of European merchants in Asia required a stable legal and political situation. Whereas Volkart Bros. was able to flourish in India, in part as a result of the institutional framework created by British colonial rule, the instability and turmoil in China during the 1920s and 1930s had an adverse impact on the firm's business operations and finally rendered them impossible. Although European merchants were relatively successful in creating commercial bridges to the East, they were helpless when armed conflicts broke out, such as the Japanese invasion of China, which inevitably disrupted commerce and trade.

Chapter 5

'To save the commercial community of New York': Panicked Business Elites in 1837

Jessica Lepler*

Introduction

'The great crisis is near at hand, if it has not already arrived', wrote New Yorker Philip Hone in his diary on 17 March 1837. After a decade of unprecedented prosperity, mercantile New Yorkers as well as their trade partners in New Orleans, London and elsewhere experienced increasing financial pressure during the early months of 1837.¹ Fearing that merchants would not honour their paper promises for specie, gold and silver coin, bankers and bill brokers had increased interest rates on commercial paper.² As a result, financiers on both sides of the Atlantic struggled to balance their accounts and maintain their liquidity. On 17 March 1837, one of New York's most extensive bill brokerage houses announced that it could not redeem its paper for specie. 'The banking house of J. L. & S. Joseph . . . stopped payment today', recorded Hone, 'and occasioned great consternation in Wall Street for their business has been enormous, and as it consisted principally of operations in Internal Exchanges, the merchants, jobbers, grocers, and other regular dealers are all implicated'³ Although unquestionably a member of the elite as a former mayor, bank director, landlord and leader of the Whig party, Hone himself was

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¹ Philip Hone, Diary, 17 March 1837, 12:425, New York Historical Society, New York.

² The Bank of England Archive, Rothschild Archive and ING/Barings Archive offer ample proof of this change in assessment of American creditworthiness. For the Bank of England's response to this crisis, see Ralph W. Hidy, 'Cushioning a Crisis in the London Money-Market', *Bulletin of the Business History Society*, 20/5 (1946), pp. 131–45.

³ Hone, Diary, 17 March 1837, 12:425.