

Introduction: Case Studies in Smallness

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We are inclined to believe that “bigger is better.” In economic life it is a sign of successful competition; the larger firms commonly exert market power, possess resources to cushion against adversity, and, in the extreme case, become “too big to fail.” Life seems sweet for the dominant firm. At any rate, it is the aim of most business enterprises to grow, gain market share, and come to dominate their industries. Business schools seek to teach their acolytes how to achieve these goals.

Yet, bigness is not without its problems. Many years ago I learned that the grocery business for which a friend worked had become the largest grocery chain in the United States. When I next saw my friend, I congratulated him on this achievement. He responded by saying that becoming “number one” was likely to be a curse, and that most of his colleagues saw things as he did. As the largest company in the industry, his employer would forever be in the public eye and become the focus of every grievance anyone had about food markets. Government agencies, consumer groups, trade unions, trial lawyers, nutrition advocates – these and many more interested parties – would now direct their energies to managing the affairs and draining the reserves of his company. Costs would rise and flexibility diminish. It would have been better, he observed, if his firm had remained number two, hiding behind the skirts of the industry leader. This happened long enough ago for his prophesy to be fulfilled. His company’s tenure as number one in its industry was neither especially profitable nor happy – nor long.

So perhaps the Schools of Business Administration should focus on developing strategies whereby firms can remain small, flying “under the radar”, cultivating profitable niche markets, shamelessly acting as “free riders”, interloping in the markets for which others pay the heavy costs of development and protection.¹ This book offers historical case studies of the “smallness strategy”. It shows how firms and family businesses in early modern Europe “lived by their wits” in the shadow of powerful mercantilist states and large joint stock companies, profiting as interlopers and niche-players in a trading world designed to make life difficult, if not outright illegal, for them.

1 On the free rider concept and its historical applications, see: Douglass C. North / Robert Paul Thomas, *The Rise of the Western World*, Cambridge et al. 1973, pp. 4-5; Mancur Olson, *The Logic of Collective Action*, Cambridge, Mass., 1965, 1971.

Early Modern Trading Companies

The first four essays of this volume concern national trading companies in Asia and the New World. Once the expansive monopoly claims of the Iberian powers were punctured, by the early seventeenth century, the Dutch and, later, the English dominated European trade with Asia while the English and, later, the French dominated the Caribbean and North American reaches of the Western Hemisphere. Histories of early modern intercontinental trade often confine themselves to these “market leaders,” but they all faced numerous competitors.² But, just what were these pesky competitors trying to achieve? Did they seek to replace the established powers as market leaders, or simply to find a trading niche in which they could profit in the wake of the conceded dominant players? Or, should we think of them as veritable “pirates of the Caribbean,” intervening where opportunity beckoned for a quick profit, with no hope of developing an enduring trading relationship?

In the Atlantic world, where the barriers to entry were relatively low, interloping was endemic. Ironically, it was the Dutch, who were the established market leaders in the Asia trade and a major force in nearly all European sea lanes, who found themselves honing their skills as privateers, smugglers, and illicit traders in the New World. VICTOR ENTHOVEN’s contribution describes the techniques used by private Dutch traders once the Dutch West India Company’s territorial strongholds in Brazil and North America were wrested from them between 1640 and 1664. From their New World toehold at New Amsterdam (and, continuing under the British rule of New York) Dutch merchants illicitly gathered up the tobacco from the Chesapeake for European sale and traded North American foodstuffs to the Caribbean plantations. By the early eighteenth century British control over these trades increased, but now another Dutch toehold, the tiny Caribbean island of St. Eustatius, functioned as the rendezvous for all manner of trade in contravention of the mercantilist laws of every European power in the region.³ Thus did the Dutch persevere as significant traders in New World plantation crops, as suppliers of trade goods and commercial credits, and, ultimately, as suppliers of the American colonists rebelling against British rule.

With only a modest territorial base for a plantation economy of their own, the Dutch, after the 1650s, “lived by their wits” in the gray zones of official mercantilism that enveloped the Atlantic economy. But this was not the only way to exploit the advantages of smallness. KLAS RÖNNBÄCK’s essay reveals the rather more dignified approach of the Danes, who acquired (fair and square, by the lights of European practice) three Caribbean islands (since 1917, the American Virgin Islands) and set about developing a slave-based plantation economy to supply the mother country with sugar and other tropical products. This was a mercantilist empire in miniature, and, according to Rönnbäck’s estimates, it succeeded in providing tangible benefits to all Danish participants: the planters and investors, the state, and the consumers of sugar.

2 For an effort to view European trade with Asia in a comprehensive context, see: Jan de Vries, *Connecting Europe and Asia: A Quantitative Analysis of the Cape-route Trade, 1497-1795*, in Dennis O. Flynn / Arturo Giráldez / Richard von Glahn (eds.), *Global Connections and Monetary History, 1470-1800*, Aldershot 2003, pp. 35-106.

3 For more, see: Wim Kloosters, *Illicit Riches. Dutch Trade in the Caribbean, 1648-1795*, Leiden 1998.

By staying out of wars, keeping protection costs low, and maintaining monopoly control over the domestic Danish-Norwegian market, the Danes made their little colonial empire a paying proposition.⁴ Danish political economy may have taught some valuable lessons to America's first treasury secretary, Alexander Hamilton, whose formative years were spent on St. Croix.

European trade with Asia was a different matter. Here the barriers to entry were substantial. Small-time interlopers were few, but the major trading companies, the Dutch and English East India Companies, faced competition nonetheless from a long succession of European challengers. The French, Danes, Austrians (via Oostende, in the Southern Netherlands), Swedes, and Prussians all launched national monopoly companies to trade in Asia via the Cape Route. Most of these companies, their "monopoly" status notwithstanding, amounted to very little. But a few found niches within the vast Asian market. They avoided the high overhead costs of their more imperialistic brethren and managed to profit through specialization and flexibility.

The Danish Asiatic Company, the focus of MARTIN KRIEGER's contribution, was Denmark's third attempt at launching a trading company in Asian waters. It succeeded where predecessor ventures had failed in large part because, by its founding in 1732, the China trade via Canton was open to all European traders on equal terms. Krieger relates how profits in China helped the Danes revive their long standing toehold in India, at Tranquebar, and to develop small trading factories elsewhere on the Malabar Coast, including in Bengal, in the immediate vicinity of British Calcutta. Just as Denmark's Altona sat adjacent to Hamburg in Europe, trading in the wake of its much larger neighbour, so Danish Serampore benefited from its proximity to Calcutta, serving as a refuge for private British traders seeking ways to repatriate their ill gotten gains. The Danes kept their heads down, but, as Krieger relates, they managed to construct a colonial world *en miniature* around their chief settlement.

The Swedes were new to intercontinental trading ventures when they established their Swedish East India Company in 1731, but they had – we would say today – a well-focused business plan. It was based on the experience of an earlier and very successful niche player in Asia, The Oostende Company, which had been brought to an end by political pressure from the British and Dutch on the Austrian government.⁵ The Flemish and Scottish merchants behind the Oostende Company found a less politically vulnerable sponsor in Sweden, and as LEOS MÜLLER relates, they set about reestablishing at Gothenburg their profitable trade in Chinese tea for delivery, via smugglers to the British market. At one end, China maintained Canton as an open port to all

4 Rönnbäck argues that Denmark's plantation economy benefited all parties (the African slaver labour excluded): the planters, the Danish state, the Danish consumer. He shows that Danish sugar prices converged on the British price over time, but it always remained far above the British price, which was itself elevated by protectionist measures. It would be useful to test a counterfactual: at what price would Danish consumers have bought sugar if Denmark had relied on the international market instead of maintaining its mini-empire?

5 On the Oostende Company, see: Jan Parmentier, *Oostende & Co.: het verhaal van de Zuid-Nederlandse Oost-Indiëvaart 1715-1735*, Gent 2002; K. DeGryse / J. Parmentier, *Maritime Aspects of the Ostend Trade to Mocha, India and China (1715-1732)*, in J. Bruijn / F. Gaastra (eds.), *Ships, Sailors, and Spices: East India Companies and their Shipping in the 16th, 17th, and 18th Century*, Amsterdam 1993, pp. 165-175.

Europeans; at the other British protectionism (and the cravings of British consumers) created tea prices far above the free market price, intended as a privileged preserve for the English East India Company. The Swedish company and its international backers exploited this opening, in the manner of international drug traffickers today, and enjoyed substantial profits. If Sweden had broader aspirations in Asia, nothing ever came of them, but so long as these market conditions persisted in Canton and Britain, and the Swedes stuck to their business plan, the company remained happily profitable.

All of these contributions show how the firms of small countries found ways – as interlopers and/or niche players – to survive and even to profit handsomely despite the laws and power of the dominant trading nations, or more correctly *because of the laws*, and despite the power, of the dominant trading nations.

PHILIPP RÖSSNER's contribution on the Scottish tobacco trade shows us another strategy, based on the adage "if you can't beat them, join them." When, in 1707, Scotland entered into union with the English crown, it effectively entered the heavily protected customs zone of what was now the British Empire. In the Atlantic regions of that empire, Scots merchants had the rights of English merchants.⁶ But Scotland had little capital and less mercantile infrastructure and experience. As Rössner describes in arresting detail, Scottish success in the new political construction depended on a business plan that both exploited their new opportunities and minimized the limitations of their relative poverty and inexperience. They focused with laser-like precision on the Chesapeake tobacco trade, whose major markets were located in Northern Europe. Their commercial innovation, the Scots factor/storekeeper permanently stationed at numerous river landings of the Chesapeake region, secured the goods, and their exploitation of prevailing British customs rules concerning re-exported goods allowed them to lower the capital costs of running the trade.⁷ Soon Glasgow became Europe's largest tobacco entrepôt. Union with England probably resulted in trade diversion toward the new duty-free English market, lessening Scotland's international commercial orientation. Perhaps for this reason, a single trading niche – the tobacco entrepôt – quickly came to dominate her foreign trade and helped develop the commercial infrastructure of Glasgow.

RÖSSNER's second contribution focuses on Scotland's struggle to (re)develop its herring fishery and its foreign trade more generally. It focuses on another aspect of smallness. Scotland was a minor player in the North Sea herring fishery even though the fishing grounds were near its coast. Its "smallness" in this case was the result of its technical backwardness: in the seventeenth century Dutch herring busses and its fish processing and preservation techniques set the industry standard. Is it not an advan-

6 In Asia, the London-based East India Company enjoyed monopoly rights. Scots could only participate, at best, indirectly, which helps explain their interest in the Oostende and Swedish companies.

7 See: Jacob M. Price, *Capital and Credit in British Overseas Trade: The View from the Chesapeake, 1700-1776*, Cambridge, Mass. 1980; Timothy H. Breen, *The Marketplace of Revolution*, Oxford et al. 2004, pp. 121-25. The Scots storekeepers in the Chesapeake, a region with but a rudimentary system of towns and ports, bear comparison with other examples of diasporic trading/retailing communities in more recent times, such as the Lebanese in West Africa and South Asians in East Africa. See: Philip Curtin, *Cross-Cultural Trade in World History*, Cambridge et al. 1984.

tage of the backward economy that it can appropriate the technology pioneered by the frontrunner and exploit the lower labour and other costs of its simpler, more agrarian society? This is a recurring theme in economic history, and what one usually finds – as in the case of the Scottish fisheries – is that the process of catch-up via technology transfer, so straight-forward on its face, is in fact difficult, indirect, and subject to long delay. The “backward” society has liabilities as well as competitive advantages, and overcoming these liabilities requires investments and innovations at home as much as it requires the transfer of knowledge and technology from abroad.⁸ In the case of herring, the rise of the Scots fishery came well after the Dutch had all but vacated its place as a herring exporter to Northern markets. Here, the Scots were not so much interlopers or challengers as they were chronological successors.

To return to our interlopers: Our authors tend to emphasize the pleasures and profits of being a scrappy, minor player operating under the nose of the dominant economic powers. But the life of the interloper was not always a happy one. Small creatures in a jungle of great wild beasts live in constant danger of being trampled, and some such fate – sooner or later – befell each of the nations in the examples we have thus far considered. Dutch interloping survived so long as its full suppression seemed impossible, but when the British saw their opening, in 1781, they crippled Dutch trade in the Caribbean, by training the guns of the Royal Navy on the smugglers’ redoubt of St. Eustatius. They reconfigured the topography of the island, known as the Golden Rock, as much as eighteenth-century ordinance was capable of and brought its commercial importance to an end. Denmark’s modest, correct, and neutral presence long sheltered it from the full force of its larger rivals, but when the Napoleonic wars forced Denmark to choose sides, the situation changed quickly and mercilessly. The same Royal Navy that had levelled St. Eustatius turned its guns on Copenhagen in 1801 and again in 1807, setting in motion events that gave the Danes little choice but to embrace smallness.

Less physically dramatic, but commercially even more final, were the events that eliminated the trading niches cultivated by the Swedes and the Scots. Britain’s Commutation Act of 1784, radically lowering the duty on tea, eliminated at a stroke the market on which the Swedish East India Company had depended. The colonial American’s rebellion against English rule revealed to the Scots the downside of union with their neighbours. Within a year of the battles of Lexington and Concord, Scotland’s foreign trade had collapsed. When smallness is not beautiful it often becomes humiliating.

Early Modern Trading Families

Four essays in this volume deal with family firms in international, and often cross-cultural, business environments. The family firm was the characteristic business unit of medieval and early modern Europe, and it remains important in many parts of the

8 A classic study of the “advantages of backwardness/penalties of the pioneer” hypothesis remains: Edward Ames / Nathan Rosenberg, *Changing Technological Leadership and Industrial Growth*, in: *Economic Journal*, LXXIII (1963), pp. 13-31.

world and in many sectors of the economy to this day. When compared to the joint stock companies and state enterprises of early modern times, family firms appear small and vulnerable. But, of course, joint stock companies were exceedingly few in number; family firms dominated the economic landscape in nearly all sectors. An essential feature of such firms was their profound dependence on institutions external to themselves. While the modern business enterprise seeks to internalize often substantial parts of the commodity, product, labour, and credit markets needed for its operation, the family firm commonly relied on guilds, fairs, commercial courts, informal bonds among tribe, kin, or co-religionists, and the commercial policies of territorial states.⁹ In the zones of fragmented sovereignty that covered much of early modern Europe, these institutions, alliances, and laws presented a varied landscape of opportunity and hazard. It was the task of the family firm to exploit the opportunities and side-step the hazards. Some of these firms became very large, multi-faceted and enduring, like the great family-based banking houses of Europe's financial centres. But most came and went: rising, falling, reorganizing, and reformulating themselves over time.

The family firm headed by John Parish offers an interesting example of the risks and rewards of trading in the interstices of the European state system. CLAUDIA SCHNURMANN introduces us to this Scot, long resident in the Free City of Hamburg where he lived in high estate and rose to the honourable position of consul of the recently independent United States of America. What brought this special honour to Parish? Was the appointment in recognition of his role as a pioneer in developing Hamburg's trade with the newly independent nation? Parish was pleased to be seen in this light, since it reinforced his image as a respectable merchant and leading citizen of his adopted city. But Schnurmann is sceptical, and uncovers evidence of a merchant whose fortune rested primarily on his illicit trade with the American rebels. Indeed, he supplied the rebels at least a year before the rebellion began (in 1775, at Lexington and Concord), which places both Parish and his customers in a rather conspiratorial light. In short, Parish did not pioneer commercial relations with a new nation; he supplied illicit arms and other goods to British subjects intent on overthrowing their colonial government. The position of consul was the reward of a grateful nation, yet it did not suffice to secure his enduring loyalty. Before fleeing Hamburg as Napoleon's army advanced on the city, Parish discovered new commercial opportunities that persuaded him to become pro-British. Clearly, we have here a merchant who lived by his wits, grabbing the main chance where he could. He professed a great love for his adopted city, and it is apparent from Schnurmann's account that Hamburg's status made his commercial activities possible. The city state cultivated a posture of respectable neutrality that kept a suspicious Britain at bay; even as the British crown's Hanoverian possessions lay, literally, across the river Elbe.

Another commercial consul, Zorzi Cumano, introduced to us by CRISTIAN LUCA, worked in a rather more difficult environment. In 1699 the Venetian Republic

9 The classic theoretical propositions on firm structure versus market structure are found in: Oliver Williamson, *The Economic Institutions of Capitalism*, New York 1985. Interesting applications to pre-industrial economic life are found in: Regina Grafe / Oscar Gelderblom, *The Rise and Fall of Merchant Guilds: Re-thinking the Comparative Study of Commercial Institutions in Premodern Europe*, *Journal of Interdisciplinary History*, XL (2010), pp. 477-511.

appointed Cumano, a Greek, as their consul at Durazzo (the modern Albanian port of Durrës), then part of the Ottoman Empire. By then the *Serenissima* had long ago ceded its dominance of seaborne commerce in the Eastern Mediterranean to the English, Dutch, and French. Seeking to circumvent the dominant trading powers by cultivating overland trade routes through the Balkan Peninsula, the Venetians had to deal with the various ethnically-based merchant communities that controlled particular commodities, trade routes and commercial centres of the Ottoman Empire. Specialized knowledge of these groups, friendships and alliances with their leaders, and protective understandings with representatives of the state were all essential for success in this environment. This appears to have been why Zorzi Cumano was important to the Venetians. And Venice, in turn, seems to have been important to Cumano, since the position of consul augmented his opportunities for private profit. His greatest legacy to his family may well have been securing their hold on consular offices for two succeeding generations. For the Venetians, their smallness in this era could not have been seen as beautiful. But, in their efforts to salvage what they could, they created new opportunities for profit among small merchants who could serve as the necessary intermediaries in a “balkanized” trading world.

We turn now from the mountainous Balkans to the mountainous Alps, with two studies of eighteenth-century trading networks that connected northern Italy, via the Brenner and Simplon passes, respectively, with the German and French speaking lands beyond. ANDREA BONOLDI’s contribution offers a very clear illustration of the importance to family firms of external, public institutions, and their vulnerability to the ebb and flow of the political environment. Bonoldi’s study relies on the trial records of the commercial court of Bolzano/Bozen. This commercial town south of the Brenner Pass held fairs whose regional importance was enhanced by the reputation of the commercial courts maintained by the town’s magistrates, to which merchants from afar could rely to adjudicate disputes and enforce contracts. Such an institution was as essential for small, alien merchants as it was advisable for a commercial town seeking to encourage and develop its trade fairs.

Fair, reliable courts were, arguably, of particular importance to Jewish traders, and Bonoldi’s study shows that Jewish traders, though few in number and with no influence in the elite life of the city, long made regular use of Bolzano’s courts. The Jewish traders came from many locations, but after 1770 a growing number came from a single, small place, Hohenems, in the Vorarlberg. In earlier times Jews had been expelled from many jurisdictions in the upper reaches of the Rhine, but, after 1605, gained the self-interested protection of the *Reichsgraf* (Imperial Count) of Hohenems. This lordly protection was an on-again, off-again thing, and even when tolerated, certain local trades were closed to the Jews. They specialized in long distance trade, which brought them to Bolzano. But, in 1765, when Hohenems came under the direct control of the Austrian crown, and the crown’s fiscal needs became pressing, the security of the Jews of Hohenems was enhanced. The community grew in size and vigour, and this is directly reflected in the frequency with which Jewish merchants appear in the court records of Bolzano.

Of course, periodic fairs, by then, were an “old fashioned” form of commercial life. They retained their importance where economic life was relatively simple and family firms remained dominant. And even Bolzano’s fairs receded to a more local-

ized function by the 1820s. But in their time, they were an essential institution for small businesses. Here is where the networks on which small traders depended were created, reinforced, and repaired.¹⁰

MARIE-CLAUDE SCHÖPFER PFAFFEN and GABRIEL IMBODEN turn our attention to the Simplon Pass, further west in the Alps, in order to dig more deeply into the organization of the trading and transport activities of a family firm founded by Peter Anton Loscho. This Italian set himself up in the remote, Swiss mountain town of Brig. From this seemingly unpropitious headquarters he organized an international trade connecting northern Italy with Swiss and French markets.

On an inter-regional scale, the firm traded in leather and fur and acted as a freight forwarder; on a regional scale it offered transport services and locally, it operated a retail establishment at Brig. One might be inclined to describe the Loscho business, and that of the many other Italian/Ticino family firms that operated in this corridor of trade, as unspecialized, doing a bit of everything and anything in a region of thin and limited markets. But this would surely fail to do justice to the interrelationship between these lines of business. The heart of the family business, moving goods across and through the Alps, depended on securing the seasonal services of the farm population along the route. The agrarian economy was not strongly market oriented, and neither bought nor sold on a large scale, so the offer of peasant labour – critical to the Loscho and their like – depended largely on the offer of appealing goods from outside. In short, the elasticity of the supply of labour depended on the offer of “incentive” goods in the local economy. Hence the Loscho’s *bottega* in Brig, well stocked with colonial groceries and a broad range of specialized products, should be seen as integral to the overall enterprise, rather than as a side line.

Credit was another issue that faced the firms such as that of Loscho. The retail business, just discussed, played a role in economizing on cash outlays, but the larger business surely depended on relationships of trust among the families of the Italian merchant diaspora of the region. Hence, Peter Anton Loscho steps forward at countless baptisms as Godfather to the children of his confederates and secures marriage alliances with them for many of his own thirteen children. A vast and dense patronage network formed the necessary social context in which family firms with limited cash resources, and limited direct access to commercial information could conduct their international trade. Being small meant attending to an endless parade of social obligations.

The final contribution, by IAN BLANCHARD, shifts the focus from the small family firms to the physical routes of their trade. The Great Silk Road, not a single land route but a complex network of routes connecting China with what we know as the Middle East and Russia, had at various times in the past been a critical artery of long distance trade. In the two centuries after 1650, the focus of Blanchard’s study, the Silk Road operated in the shadow of the much larger and dynamic Cape route of seaborne, European-dominated trade. The caravans plodding across the inland sea of grass, sand and mountains remained the province of traditional merchants. What Blanchard makes

10 On fairs see: Fernand Braudel, *The Wheels of Commerce. Civilization and Capitalism, 15th-18th Century*, Vol. 2, London 1982, pp. 82-94; Regina Grafe, *Fairs*, in Stanley Engerman et al. (eds.), *The History of World Trade since 1450*, New York 200, pp. 281-83.

vividly clear is how much these merchants depended on both external institutions (the *caravanserais* and fortified cities) and the physical environment. Cycles of aridity forces major shifts in the routes of trade, the costs of trade, and the risks of trade. Even substantial merchant bands, once they set out from civilized outposts, had their smallness impressed upon them by the unforgiving force of the physical environment. These merchants always had to live by their wits.¹¹

Conclusion

The joint stock company of the early modern era, as the precursor of the modern corporation, was characterized by its internalization of what for others were market-based contracts. Indeed, in the early modern era the larger companies active in the East Indies assumed state functions. They internalized their protection costs and acted both as princes and as merchants. The beauty of the small joint stock trading companies was their ability to avoid the costs of associated with this political role. They were “free riders”, and while political conditions allowed life was good for the small firm. But they stood exposed to any and every turn of the political winds, and, in time, they all suffered from this vulnerability.

The small family firms that formed the backbone of trade in nearly all theatres of European commerce came in all shapes and sizes, and they have not been entirely driven from the stage even today. They depended on institutions external to themselves and stood fully exposed to developments in the political sphere. For some, guilds, fairs, commercial courts, and municipal markets and banks sufficed to create a framework in which small size was not a great drawback. For many others, the absence of (some of) these institutions forced them to compensate via informal networks of trust based on kinship, friendship, and religion, reinforced by patronage and clientage. Here too, small size was compensated for by risk-reducing understandings. These understandings were neither costless nor eternal. But for the family firm that found a niche to exploit and a network of ties to secure information and enforce contracts, small could, indeed, be beautiful.¹²

11 On the Silk Road and its fate see: Morris Rossabi, The ‘Decline’ of the Central Asian Caravan Trade, in: James D. Tracy (ed.), *The Rise of Merchant Empires*, Cambridge et al. 1990, pp. 351-70.

12 Avner Greif, *Institutions and the Path to the Modern Economy. Lessons from Medieval Trade*, Cambridge et al. 2006. Greif argues that “private order” institutions, the product of human action, led, cumulatively toward a political order and an effective state. “The organization of society in the West was centered on interest-based, self-governed, non-kin-based organization. These organizations – mainly in the form of corporations – were vital to Europe’s political and economic institutions during the late medieval growth period as well as the modern growth period.” (p. 26) If one accepts Greif’s position, small is not only beautiful, it is the secret to the success of Western economic performance over many centuries.