

Risky Ventures: Reconsidering Mexico's Colonial Trade System*

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Historians of colonial Mexico have long condemned Spain's highly regimented system of colonial trade and the merchants who were its primary beneficiaries. Observing what they have perceived to be anti-competitive behavior, historians have concluded that an elite group of merchants, most notably the members of the Mexican and Spanish Consulados, were engaged in the erection of commercial monopolies designed to generate extraordinary profits. This view was even espoused in the colonial period itself by José de Gálvez and other critics of the wealthy and politically connected merchants who sought to reform the Carrera de Indias. Focusing especially on late colonial Mexico, this article questions historians' typical assumptions about the colonial trade system and the customary image of the rapacious colonial merchant. The thesis put forth here is that many of the business practices and trade institutions of the early modern Spanish empire that have been identified as the predatory creations of monopoly merchants need to be understood instead as adaptations to risk, attempts to reduce the tremendous uncertainty that characterized long-distance trade between Spain and Mexico.

Risk and uncertainty were dominant characteristics of transatlantic trade. Merchants exposed their valued cargo to loss from hurricanes and other bad weather. Pirates and privateers preyed on vulnerable ships. Perhaps the greatest risk stemmed from the poor communication and great delays that characterized transatlantic trade: merchants always feared that the sudden appearance of competing supplies or even changing tastes might render their shipments worthless. According to one early modern economic historian, it is impossible to understand pre-modern economies without elevating risk and uncertainty to the center of analysis. He argues that risk and uncertainty and their potentially great consequences often produced 'odd economic behaviour.' 'Without uncertainty and its consequences, much of the economic and social history of the pre-modern world is, if not completely inexplicable, at least deeply mysterious' (Musgrave 1996, 38).

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The reduction of risk, economists maintain, is one of the main purposes of institutions in capitalist economies. Institutions facilitate the functioning of the market, permitting economic transactions to proceed more smoothly, efficiently and cheaply. '[They] represent efficient ways of organizing human activity where markets alone will not suffice' (Cohen 1996, 60). As Douglass North notes, institutions 'determine transaction and transformation costs and hence the profitability and feasibility of engaging in economic activity' (1990, 120). In the past 25 years, sparked by the pioneering work of Nobel laureate North and others, economic historians have begun to examine more closely the institutional framework in which past societies have conducted business (Greif 1997). Institutional economists predict that barriers to trade (i.e. market imperfections) lead to the adaptation of institutions or the creation of new ones designed to diminish or eradicate such obstacles, and make feasible economic activity that would otherwise prove uneconomical or too risky (Williamson 1985).

Examining the Mexican commercial system in light of the economics of institutions provides a fresh and alternative perspective. The hypothesis put forth here is that many of the apparently uneconomic business practices of the Spanish and Mexican *Consulado* merchants are better understood as highly rational responses to the enormous uncertainty and riskiness of the trade in which they participated. They were, in the discourse of the institutional economists, institutional adaptations designed to lower the costs of transacting business and especially to reduce uncertainty and risk to acceptable levels. Without some of these practices, it is likely that Mexican merchants would not have engaged as extensively in transatlantic trade.

The Conventional View

Before examining Mexico's late colonial trade system through the lens of institutional economics, it is necessary to provide some historical background and to summarize briefly the traditional view of the colonial commercial system. In January 1503, the Spanish Crown established the *Casa de Contratación*. Originally envisioned as a trading house to oversee the king's personal commercial investments, it rapidly evolved to include the management of all trade with the newly settled colonies in America (Haring 1918, 22–24). Seville was selected as the location of the *Casa* because it was Spain's largest and wealthiest city, and because its location on the banks of the Guadalquivir River gave it easy but secure access to the Atlantic Ocean. The placement of the trading house in Seville gave the city a great advantage commercially, since, by law, all trade to the colonies was required to pass through the *Casa's* registry, thus giving Seville a virtual monopoly on trade with the New World until it was officially supplanted by Cádiz in 1717 (Haring 1918, 8).¹ The monopoly enjoyed by Seville (later Cádiz) had its counterpart in Mexico, where, by law, all transatlantic trade had to pass through Veracruz (Haring 1918, 138).

Not only was legal trade within the Spanish empire restricted to a limited number of ports, but from the middle of the sixteenth century shipping was restricted to an

annual or biannual fleet. As the wealth of the Spanish colonies became increasingly evident to other maritime nations, the incidence of piracy and privateering grew alarmingly. The Crown responded by issuing a series of laws designed to protect colonial trade, especially the shipments of bullion returning to Spain. Regulations imposed in 1522 obliged merchant ships to arm themselves against potential enemies. In 1526 the Crown prohibited the sailing of individual ships under the presumption that ships sailing in convoy would be safer from attack. In 1537 the first fleet accompanied by warships of the Royal Armada sailed to Spain from the West Indies. This fleet was followed by another in 1542. Finally, in August 1543, by edict of the Crown, an annual flotilla of merchant ships sailing in convoy was made permanent (Haring 1918, 71; Smith 1972, 91; Andrews 1978, 64–66). By the middle of the sixteenth century, then, Spain's commercial system had taken the essential form it would have for the next 200 years.²

As the traditional view suggests, this highly regimented system worked to the advantage of the wealthiest and most powerful merchants, most notably those who held membership in the *Consulados* of Seville and Mexico City. The fact that the fleet sailed only once per year, and by the late seventeenth century even less frequently, permitted the large-scale merchants to erect commercial monopolies. The Seville and Cádiz merchants, the argument suggests, conspired to keep the supply of luxury goods shipped to the colonies quite low. By creating scarcity, the merchants inflated the prices that they could demand from their counterparts in New Spain. The Mexican merchants, in turn, also worked to control the system. Operating with the knowledge that new competing sources of supply arrived to Veracruz infrequently, the largest merchants hoarded imported luxury items and leaked them onto the market at artificially inflated prices. By manipulating supply, the merchants of Spain and Mexico were able to reap monopoly profits on their commercial ventures (Brading 1971, 95–97; Walker 1979, 13–14; Haring 1918, 136–45; Kicza 1983, 55, 61; García-Baquero González 1988, 89–139; Stein and Stein 2000, 13–19; Garner 1993, 164–69).³

The conventional wisdom is that the wholesale merchants involved in transoceanic trade enjoyed enormous returns on their ventures. In his seminal work Haring noted that Spanish merchants 'reaped enormous profits, said to have amounted sometimes to 300 to 400 percent' (1918, 91). One prominent scholar of Mexico's colonial economy suggests that 'sometimes the dealers made up to five hundred percent profits from merchandise of the lowest price and quality; but the common and sure gain from these trips was one hundred percent' (Semo 1993, 63–64). More generally, works simply refer to the enormity of the profits without making specific estimates of their magnitude. In short, the traditional view of the colonial commercial system is that wealthy merchants organized in powerful guilds conspired to create artificial shortages, fix prices and reap monopoly profits. This system penalized colonial consumers who were forced to pay excessive prices for imported goods.

Accommodating the Risks of Spanish–Mexican Trade

Re-examining the colonial fleet system and the business practices of Mexico's great *Consulado* merchants in light of the insights of the New Institutional Economists provides a new and alternative way to interpret colonial trade. The conventional view presented above is plausible but, as will be shown, suffers from numerous internal contradictions that render it less convincing. The institutions and commercial behavior make considerably more sense when one interprets them as adaptations to the risk and uncertainty that characterized early modern trade.

Trade between Spain and Mexico was fraught with risks. The most successful merchants succeeded in lessening these risks (and the costs associated with them) and reducing the inherent uncertainty of the trade. In theory, this trade should have been highly profitable. Goods produced in Spain often sold in Mexico for many times their original price. Profits, however, are only partially determined by the price differential between the two markets. Equally important are the costs of getting the goods to market, what economists call the 'trading costs.' During the early modern era, trading costs were especially significant, in part the reflection of high levels of risk. For trade to remain profitable and for merchants to succeed in buying low and selling dear, merchants had to devise institutions and business practices that reduced these costs to a tolerable level. New institutions or new ways of organizing commerce could make profitable a trade that was otherwise unprofitable, if these innovations lowered the costs of conducting business or reduced risk.

Costly Delays

One of the greatest costs of the Spanish–Mexican trade arose from the great delays that inevitably accompanied long-distance commerce. Long delays imposed financial costs on merchants, since they had little alternative but to tie up their capital in commodities for extended periods. Merchants in Spain were often forced to purchase commodities for sale in the colonies long before they could actually place them on ships destined to America. In part this was a reflection of the irregularity of transatlantic sailings. The Spanish fleet theoretically departed from Spain once per year, but for much of the era it operated less regularly. Between 1650 and 1699, for example, the fleet sailed to Mexico every other year or even less frequently. For much of the eighteenth century the fleet sailed as infrequently as every four years (García-Baquero González 1988, 286). Merchants benefited from turning over goods quickly, buying and selling with dependable regularity. Lengthy delays between the purchase and sale of items meant that the merchants had to hold their merchandise for long periods, during which time they continued to pay interest on their capital invested.

To some degree, merchants could have avoided tying up their funds by waiting until the last minute to buy their goods from producers, but there were limits. First, they had to acquire the goods in time to comfortably place them aboard registered

ships. Space on these ships was limited and so merchants could not afford to delay securing space too long or they risked losing out to speedier merchants. The inadequate cargo space available on registered ships awaiting departure from Veracruz in 1775 led a number of merchants, among them Ambrosio de Meave, the longtime director of the prominent merchant house belonging to the Fagoaga family, and Pedro Alonso de Alles, the first Marquis of Santa Cruz de Inguanzo, to complain to Viceroy Antonio María Bucarelli. The merchants warned that if they failed to place their cochineal exports aboard one of the ships they would face significant financial loss. In this case, Viceroy Bucarelli granted permission for two additional ships to be outfitted to join the 1776 *flota* and to carry some of the surplus cochineal.⁴

First, merchants had to seize cargo space when it became available, so they could ill afford to delay to the last minute the purchase of their commodities for export. Second, merchants could not expect small producers to warehouse large supplies. Thus if merchants wanted to secure adequate wares, by necessity they had to purchase goods gradually, as they were produced. In fact, on both sides of the Atlantic, the well-to-do merchants often had to provide financing well in advance to enable producers to manufacture or harvest commodities in the first place. Phillips and Phillips have shown that the large-scale wool merchants of Castile would not have obtained the wool stock they demanded had they not provided financing to shepherds (1997, 172–90). Cochineal, Mexico's second-largest export, depended almost exclusively on the extension by merchants of credit to small-scale indigenous producers.⁵ Far from delaying their purchases, merchants were often forced to invest in the production of the exports for months or even years prior to their transatlantic shipment. Finally, once the great merchants had purchased their commodities and placed them on registered ships, they still faced delays before the goods departed. During the era of the *flotillas*, considerable delay stemmed merely from bottlenecks caused by the need to load so many ships.

Even after the ships set sail for America, long delays were experienced. According to García-Baquero González, the average duration of a convoy's voyage from Cádiz to Veracruz was 75 days in the sixteenth and seventeenth centuries and 85 days in the eighteenth. The return trip was inevitably longer, 128 and 117.5 days, respectively. These were average durations; some voyages were considerably longer. The lengthiest convoy from Cádiz to Veracruz was 179 days. The longest return was 298 days (1988, 1:276).

Of course, the success enjoyed by a merchant participating in a *flota* could not be judged by the returns enjoyed on only one leg of the journey. Merchants on both sides of the Atlantic reinvested their sales revenues in the purchase of commodities for the return voyage. Even silver bullion was a commodity, since its constantly fluctuating value differed in the American and European markets. Only when the *flota* had completed its roundtrip could merchants fully assess their returns (or losses). And the roundtrip voyage was necessarily much longer than the one-way voyage, since the former included a stay in Veracruz that might last 18 months. Data collected by

García-Baquero indicates that in the eighteenth century the *flota*, on average, took 540 days to complete the roundtrip voyage Cádiz–Veracruz–Cádiz. No matter how one was involved in the trade, the transatlantic trip lengthened by many months the return on investments. Referring to these many delays, Hoberman noted that in the seventeenth century ‘the return on money invested in transoceanic goods easily could take two or three years to be realized’ (1991, 60).

Unable to wait for several years to see a return on their investments, smaller merchants faced extreme barriers to participating in this long-distance trade. This point was made by Francisco Ignacio de Yraeta, one of Mexico’s largest merchants, in a July 1778 letter to his Guatemala-based commercial partner. After complaining of the ‘unendurable’ delays that characterized transatlantic commerce, Yraeta observed that in ‘oceanic commerce one doesn’t just need valor and persistence but significant sums, as the delays are unendurable ... one needs three sums, one to have encumbered [*embromado*] here, one for the shipments to Cádiz, and one to attend to the business of the company.’⁶ In other words, to survive in the transatlantic trade, one had to begin with a large principal because one’s investment was inevitably inaccessible for lengthy periods.

Market Risk

The greatest risk of such long delays, however, was not the cost of carrying the capital. Instead, the greatest potential problem lay in the risk of changing market conditions, the possibility that a shift in supply or demand might render less valuable or even worthless the merchandise that had been so long and costly in arriving. To avoid such catastrophe, merchants sought reliable information about markets and consumers. Merchants of the era, however, were forced to operate with only partial or, even worse, incorrect information.

Undoubtedly, there was always some level of demand for particular luxury goods in the colonies, but the slow movement of information meant that merchants could not easily change their wares to meet shifting demand. Throughout the Spanish empire, the elaborate system of *correos* moved letters on a fairly regular basis, but, even so, news was usually several months old before it reached its destination (Inglis and Fernández Carrión). In the interim, market conditions could change, turning a potentially profitable venture into a money loser. The high cost of information and its slow movement in the Spanish empire were identified as late as 1793 as major impediments to commerce by the Viceroy of Mexico, the Second Count of Revillagigedo, who urged the Crown to consider a direct mail service between Cádiz and Veracruz to replace the existing service that passed first through Havana. According to the Viceroy, Spanish merchants lacked adequate knowledge about consumer tastes (i.e. demand) and often exported to Mexico inappropriate items.⁷

It was to reduce market risk, among other reasons, that the wealthier merchants developed extensive networks of trusted allies in the principal ports and markets.

These personal contacts, often individuals related to the great merchant by blood or marriage, gave the business greater flexibility and permitted more rapid response to the market (Kicza 1983, 60; Hoberman 1991, 64–68; Brading 1971, 112–13). Francisco Ignacio de Yraeta and his strategically placed factors and trusted acquaintances maintained regular and voluminous correspondence with in an effort to keep each other abreast of shifting market conditions throughout the empire. Typical was Yraeta's November 1779 warning to his Guatemala associate that 'under no condition are you to make purchases of goods with the idea of sending them here, as commerce is totally stopped more than ever.'⁸ When in the same year his commercial house was selected by the Royal Company of the Philippines to be its Mexico-based consignee, in charge of buying and selling on the Company's behalf, Yraeta responded that he would keep the Company's directors informed of the prices in Mexico of Asian goods 'not only via maritime mail but also via the ships that sail from Veracruz for Cádiz and other ports.' Naturally, information reaching Manila by way of Cádiz would be quite dated. As if to pardon in advance his probable misinformation, Yraeta attached a 'special note' to his first price list, warning that 'prices can vary ... for those staples that come with abundance.' On an optimistic note, though, he reassured that 'they can earn more too.'⁹ Despite their attempts to remain in regular contact with one another, merchants and their factors necessarily made business decisions with less than complete information, and they sometimes paid dearly when, for example, a large and expensive shipment of some article proved to be marketable only at a steep loss.

Even the best information network possible in the eighteenth century could prove ineffective, as demonstrated by one celebrated case involving Mexico's second commodity, cochineal. In the late 1780s, the commercial firm of Hope & Company, one of the leading European merchant houses of the eighteenth century, embarked on a disastrous attempt to corner the world market on Mexican cochineal. The firm's principal director, Henry Hope, speculated that the price of the dyestuff in the markets of Europe had reached its nadir and would soon climb sharply. Employing trusted factors in Cádiz, London, Amsterdam, Rouen, Marseilles, Hamburg and St Petersburg, the firm attempted to buy up the entire supply of cochineal in 1787 and 1788. In the end, the venture proved catastrophic and the firm lost more than a third of its hefty investment, a misfortune attributed by Hope to the failure of letters bearing key information to arrive in the correct hands in a timely fashion. The unexpected arrival of new shipments of cochineal from Mexico had saturated markets and lowered prices to disastrous levels (Buist 1974, 431–51).

In an effort to reduce the peril of market shifts caused by the oversupplying of markets, merchants sought mechanisms to better control the levels of supply, to make less unpredictable the Cádiz–Mexico trade. Some of the merchants' actions that appear to be monopolistic attempts to create scarcity and inflate prices are better understood merely as attempts to avoid the catastrophe of oversupplying colonial markets. While the convoy system was organized as a defense against piracy, it also served to regularize and make less volatile the flow of commodities. In theory, if not

always in practice, the convoy limited the supply of imported goods available for purchase to those which arrived on the ships of the annual or biannual fleet. Working with the assumption that Mexico depended on the fleet for its entire supply of imported luxury goods, an assumption that was not always accurate, the Spanish merchants limited supply to a level at which prices remained sufficient to guarantee, or at least make more likely, the realization of a profit. By limiting the number of ships and size of the cargoes that could sail in any specific fleet, the Seville (later Cádiz) merchants hoped that they could provide favorable market conditions in the colonies.

This objective was revealed whenever the Consulado of Seville petitioned for the delay or suspension of the next scheduled fleet, a frequent practice in the seventeenth and eighteenth centuries. For example, the fleet to either Mexico or South America was shrunk, postponed or canceled in 1620, 1622, 1627 and 1636. In the first year, two of the ships scheduled to sail with the convoy had their permissions withdrawn at the last minute and the owners were compensated by the ship owners and merchants whose ships and cargoes were permitted to proceed. In 1636, the fleet was halted altogether after the Consulado expressed its concern that the Mexican market was already flooded with Spain's traditional exports (Haring 1918, 214; MacLeod 1984, 356). More than a century later, in November 1763, the Consulado of Mexico urged the Viceroy to delay the *flota* scheduled for April 1764, owing to the abundance of Spanish commodities still warehoused from the previous convoy of 1760. The Consulado warned that if the fleet were to sail as scheduled, merchants on both sides of the Atlantic would go bankrupt (AGI México 2503, Testimonio sobre los prejuicios que se infieren a ambos comercios verificadose la llegade de flota a Veracruz el proximo año de 1764). Such petitions and arguments were common throughout the colonial period and always provided an opportunity for the Crown to take advantage of the merchants' circumstances by exacting donations—virtually bribes—in exchange for a ruling in their favor delaying or canceling a fleet (Vila Vilar 1999; García Fuentes 1980, 109–10).

While the argument put forth here is that this behavior was an effort to reduce market risk, it does not preclude the possibility that the merchants also wanted to benefit from artificially elevated prices. Certainly, the great merchants were not loathe to employ whatever political, social or economic power that they could muster to promote their economic interests. In some regards, the difference between these two points is primarily one of emphasis. The traditional argument suggests that limiting supply was an attempt by the great merchants to earn astronomical profits. My point is that they desired to reduce the potential for catastrophe and to make overseas commerce less speculative. At times this practice may have artificially driven up the prices of desired imports; most often, however, it was probably more effective at merely enabling the *flotistas* to sell most of their wares at 'fair' prices, that is, prices that rewarded them sufficiently for the time they invested and the risks that they encountered.¹⁰

The Price of Mexican Imports at Veracruz: Collusion

In the traditional account of the commercial system, the infrequent arrival of the fleet enabled the Spanish merchants to maintain scarcity and fix prices at artificially high levels. This argument also seems weak when one scrutinizes more closely the nature of the trade community. The notion that the merchants of the Seville (Cádiz) Consulado acted as monopolists (oligopolists) in the pricing of their merchandise in Mexico suggests that the merchants acted as a cohesive group, which seems unlikely to have occurred given the actual structure of the trade. The Spanish merchants were not part of a single group that marketed its commodities jointly. They stood in contrast, for example, to the merchant companies of Northern Europe.¹¹ Instead, these were individual merchants, some of whom were not even members of the Consulado. In her study of the trade to Veracruz in the seventeenth century, Hoberman shows that the wealthiest 15 percent (roughly) of investors controlled slightly more than half of the cargo of the five fleets she examined. The remaining 50 percent of the cargo was owned by small or medium-sized merchants, those importing less than 7,000 pesos worth of merchandise. In an average *flota*, there were 44 'large' merchants (those controlling a combined 50 percent), the range being 19 to 69 merchants per fleet (1991, 35–36).

For the importing merchants of the fleets to have dictated prices in America, at the very least the large merchants would have had to work in collusion, and even this probably would have been an inadequate strategy, since they would only have controlled half the total cargo. Even the cooperation of the large merchants, however, seems improbable; their individual interests and their personal financial exigencies would likely have led them to cheat—and break with the cartel. Had the merchant 'oligopoly' had some means to penalize members who undersold them, then perhaps they could have influenced prices. But in fact they had no instruments to punish violators.¹²

Again, merchants involved with the transatlantic trade often had to wait many years before recouping their capital through the sale of their merchandise in America. When their goods finally did arrive in Mexico and were put up for sale in the trade fairs of Jalapa, it was in their interest to sell quickly at a price that provided an adequate return. To wait for the smaller merchants to sell their commodities and then hold out for higher prices would have been a recipe for disaster, especially since the 50 percent of the cargo controlled by the smaller merchants, as was the case in the seventeenth century, would have been more than sufficient to supply any pent-up demand. Merchants adventurous enough to take such a risk would probably have found that prices had fallen rather than risen.

Nor could many of the merchants afford to wait, even if it were beneficial to do so. Merchants involved in the transatlantic trade were often operating on borrowed funds, the most common type of loan being a *préstamo a riesgo marítimo*.¹³ In such loans, the borrower, usually a merchant or ship owner, received funds from a lender under the condition that if the ship and its cargo were lost en route to a specified

destination the borrower was free from any financial obligation. As such, these loans reduced the exposure of the transatlantic merchants to the many risks associated with the journey, which were instead borne entirely by the lender. But the customary terms of these loans required that the borrower repay the principal and interest upon the safe arrival at port, when the risk of sea had expired. The need to repay such loans immediately meant that merchants had to sell at least some portion of their merchandise quickly, an amount large enough to repay both the principal and interest due (Cruz Barney 1998, ix, 34). An observer in 1791 noted that Spanish importers arrived to Mexico so heavily indebted by *escripturas de riesgo* that they had to sell their wares promptly, and only to those who could pay cash immediately (AGI México 1554, fols. 33–43).

According to Brading, *flotistas* throughout the eighteenth century sought to unload their wares as quickly as possible, especially after a 1729 edict prohibited them from traveling inland past the trade fair of Jalapa. Arriving in Veracruz heavily laden with European merchandise and eager to sell rapidly, the importing merchants were vulnerable to the tactics of the Mexican merchants who offered low prices, albeit in cash, for large quantities of the imported items. In no hurry to buy, suggests Brading, the merchants of Mexico City took advantage of the urgency of their Cádiz counterparts. The importers had the option of selling to the Mexican merchants at the prices dictated by the latter or warehousing their goods unsold (1971, 97). In fact, as Garner shows, despite their efforts to avoid overstocking the colony's markets during most of the eighteenth century the *flotistas* regularly brought to Veracruz more than they could easily unload, depressing prices and forcing them either to warehouse their surplus or sell to provincial merchants on credit (1993, 164–72). The *flotistas* had lost any advantage that they had ever had. The merchants of Mexico City secured their imports at low prices and the *flotistas* failed to earn extraordinary profits.

The Price of Mexican Imports at Veracruz: Contraband

Yet another factor making the conventional depictions problematic is the apparent preponderance of foreign contraband. Historians will never know the extent of contraband because the very nature of this illicit trade meant that records were never kept; but most historians agree that the quantities introduced illegally into America were substantial. Lance Grahn cites a colonial official who estimated that early eighteenth-century smuggling in the Caribbean reached 12 million pesos annually, half of which went to New Granada (1990, 125). A 1761 report suggested that goods smuggled into the Spanish empire through Jamaica alone totaled six million pesos per year (Salvucci 1987, 157). These might be exaggerations, but they certainly leave little doubt that contraband was significant.

Contraband competed with the legal introductions made by the Spanish merchants. The merchants of Seville and Cádiz sought to control trade to prevent the flooding of the American markets, but they had no ability to halt the flow of illicit

merchandise. And smuggled goods might have been available to American consumers at prices below those that the Spanish merchants offered on the items that they brought in legally, although the price disparity was probably not as great as historians normally assume. Commodities shipped legally to Spanish America were taxed heavily by the Spanish Crown, which served to drive up their prices. The desire to evade these taxes was, of course, one of the reasons that merchants bypassed the legal commercial circuit. Less burdened by taxes, they could undersell the legal imports.

Several points should be noted, however. First, there were certain costs incurred only by smugglers; for example, their goods might take a longer time to get to market, since contrabandists had to await the opportune moment to sneak in their merchandise, even warehousing it in Caribbean ports for a time. In addition, smugglers incurred extra costs in evading interception by loyal Spanish officials or naval patrols. And if foreigners were captured trading in contraband by officials inclined to enforce the law their goods might be confiscated altogether. At the very least, they might be forced to pay bribes to encourage corrupt officials to look the other way.¹⁴ Second, considerable quantities of 'legal' introductions, those made by licensed Spanish merchants, were, in fact, unregistered by their owners in order to evade taxation, and these goods could be priced at levels more competitive with contraband. According to Haring, smuggling within the fleet system was already rampant in the sixteenth century. Merchants under-declared their cargo or hid contraband in the ship's hold. While illegal, this practice became virtually sanctioned by the Crown's practice of pardoning violators in exchange for a fee, an *indulto* (1918, 61–66; García Fuentes 1980, 124; Moutoukias 1988, 784). Smuggling within the fleet persisted in the eighteenth century and was in fact one of the problems identified by the King in his 1765 instructions to José de Gálvez, the Visitor General to Mexico. In Veracruz, the King commanded, 'You must therefore observe with care whether the bales, packages, parcels, boxes, barrels, and bundles conform with the [Registry] entries made at Cádiz and have the same measures, marks, and addresses' (Priestley 1916, 406).

If contraband was readily available at more favorable prices, then the conventional depiction of the colonial trade is even more problematic. The question arises of how the Spanish merchants succeeded in selling their wares at horribly inflated monopoly prices if American consumers could instead turn to lower-priced contraband. In other words, why did the fleet system survive in the face of such competition? Addressing this paradox, Stanley Stein and Barbara Stein suggest that the fleet system and smuggling coexisted because the former 'provided income and profit to a large number of public and private interests' and the latter 'kept American consumers satisfied with Sevilla's monopoly' (2000, 18). In other words, consumers tolerated the high-priced monopoly goods because they knew that the balance of their needs would be provided by cheaper contraband goods. On average, the prices that they paid were tolerable. While Stein and Stein might be correct, it seems equally plausible that the Spanish merchants continued to sell their merchandise because the price disparity between legally and illegally imported goods was not as great as imagined by

historians. This seems to be the suggestion of Zacarías Moutoukias, who argues that because of the many costs and risks associated with contraband, 'foreign powers preferred to take part in the colonial trade through Seville/Cádiz' (1988, 785). In fact, Stein and Stein show that often working through *prestanombres* foreign capital came to dominate many of the most prominent merchant houses of Cádiz and Seville (2000, 15–16, 80). Regardless, contraband competed with the legal circulation of commodities, and limited the ability of the Spanish merchants to price-gouge colonial consumers. While colonial merchants might have been willing to pay more for items imported legally on the fleet system, their acquiescence would have grown thinner as the price disparity grew greater.

The Feria of Jalapa

By the eighteenth century, if not before, the dominance of the Cádiz merchants was already on the decline relative to their counterparts in the colonies. According to Brading, the merchants of Mexico City learned to delay their purchases of commodities imported on the fleet, because they knew that the importers, desperate to recoup their capital and return to Spain, would lower their prices quickly in order to sell. As Brading and others have noted, however, this advantage was enjoyed primarily by the largest wholesalers of Mexico City, since only they commanded sufficient liquidity to make their purchases in cash. Long before the arrival of the fleet from Spain, Mexican *almaceneros*¹⁵ (wholesalers) began preparing for its arrival, converting their holdings into more liquid reserves and forestalling investments that under more normal occasions would be appealing. In late 1776, the *alcalde mayor* of Villa Alta, a large district in the province of Oaxaca, repeatedly requested that his financiers provide him with the pesos that he needed to finance the *repartimiento* production of cotton mantles, normally a lucrative venture. As the district magistrate lamented, however, the funds 'could not be found owing to the fleet' which had arrived in late July.¹⁶ His financiers had diverted their capital to finance their purchase of imports, which, by necessity, had to be in cash.

Mexico City merchant Gaspar Martin Vicario reported in 1791 that until the introduction of *comercio libre* the biggest merchants had customarily invested between 200,000 and 600,000 pesos at the commercial fair of Jalapa, buying from the Spanish importers the majority of the goods brought in on the fleet (AGI México 1554, fols. 5–17). These merchants were unique because they alone enjoyed sufficient liquidity to make such substantial purchases in coin. Mexico suffered from an acute shortage of minted coins and so even fairly affluent individuals relied on credit for a preponderance of their acquisitions. The *almaceneros*' ability to pay in cash and buy in bulk allowed them to secure favorable prices (Brading 1971, 97–98; Kicza 1983, 63). Referring to the Acapulco *feria*, but relevant nonetheless, Yraeta commented that 'buying a lot, I will be able to get more equitable prices.'¹⁷

Merchants able to pay in cash were the most appealing consumers, since sellers were paid immediately and did not have to face the costs of collecting debts in the

future nor incur the risk of debtors defaulting. In fact, one would imagine that the importers would have gladly sold at discounted prices to merchants who could pay cash, and this is probably much of the reason why Mexico's Consulado merchants were able to monopolize the purchase of imported luxury goods at favorable prices. Importers could have sold their items at higher prices *on credit* to smaller merchants, but they might never have collected their debts and, regardless, they would have incurred the cost of financing the sales and probably would not have increased their actual returns. Because they paid in cash, the Consulado merchants were especially appealing consumers, and the importers likely earned as much or more than they would have had they sold at higher prices to merchant who required their sales to be financed.

Marketing the Goods in Mexico

Because they did not require credit, the *almaceneros* came to control the lion's share of the supply of imported goods. These items were deposited by the merchants in warehouses from which they were gradually sold over the ensuing year or more, until the arrival of the next fleet. This conduct has led historians to conclude that the colonial Consulado merchants were themselves acting as monopolists, hoarding the supply of luxury imports and then leaking them slowly onto the market at inflated prices. This conclusion, however, also needs to be re-evaluated. It is true that the merchants warehoused a year's (or several years') supply of commodities, and that they released the items little by little, but this does not necessarily prove that they were earning extraordinary profits.

The merchants bought far more commodities than they could sell in the short run, and this required them to warehouse the goods in Mexico City. Even ignoring the cost of the physical storage space that the merchants were required to possess, and the danger that some of the wares would spoil, it must be acknowledged that holding some portion of the goods for a year or longer was costly, since it required that large quantities of capital be tied up for lengthy periods, a reflection of what Yraeta referred to as the 'unendurable' delays. Such capital ceased to circulate and earn interest. If prices that the merchants subsequently charged were elevated, this was certainly one contributing factor.

More problematic was selling the items in Mexico. From their storehouses in Mexico City, the imported goods were distributed throughout the colony. The *almaceneros*, however, faced some of the same obstacles that their Spanish counterparts had encountered; there was inadequate coin circulating in the Mexican economy, and few individuals had access to cash with which they could make purchases. Consequently, the Mexico City merchants were forced to finance many of their sales.

According to the prominent Mexico City merchant Juan Fernando Meoqui, the extensive network of credit began at the *feria* of Jalapa, where the *almaceneros* sold smaller (but still substantial) amounts immediately to merchants *de tierra adentro*

who required credit to afford their purchases (AGI México 1554).¹⁸ Additional portions were distributed by the Consulado merchants on credit throughout the colony to private storekeepers, often individuals with whom the *almaneceros* enjoyed long-term commercial relations. According to Stein, the provincial storekeepers seldom invested any of their own capital into organizing or supplying their stores. Instead they received their wares on credit from larger merchants who shared in any subsequent profits (Stein 1997, 384). Still other goods were distributed to even more remote corners of Mexico by *viandantes*, traveling salesmen who obtained ‘considerable merchandise on the strength of their word . . . “spending two years in traveling and the collection of sales made”’ (Stein 1997, 381; Kicza 1983, 96–97). Landowners and miners also depended on the credit provided by the wholesalers (Kicza 1983, Chap. 4; Brading 1971, 97–99; Bakewell 2002, 110–15; Van Young 1981, 144–45). In 1778, Yraeta, referring in a letter to his lack of liquidity at that moment, complained, ‘I have no money’ because ‘it’s necessary to advance funds to the hacenderos for their acquisitions with not a little risk.’¹⁹ Finally, the wealthy merchants furnished many of the colony’s *alcaldes mayores* with the goods and capital that they needed to trade on credit with the Indians of their districts (Hamnett 1971; Baskes 2000). In 1782, for example, Manuel Ramón de Goya, a prominent Mexico City merchant, entered into a company with the entering *alcalde mayor* of Zimatlán in the southern province of Oaxaca. De Goya agreed to provide cash and commodities valued at 60,000 to 70,000 pesos to be distributed, on credit, to the district’s indigenous population. Like the storekeepers referred to by Stein, the *alcalde mayor* put up none of his own capital (BNM, MS 58, fols. 147–49).

Whether they were outfitting *viandantes*, furnishing goods to district magistrates, stocking the shelves of retail stores owned by themselves or others, or supplying inputs to the colonies’ landlords and miners, the large-scale merchants of Mexico City were providing credit. The universal need to supply credit had two significant consequences. First, it was expensive to the financier. When a merchant provided items in advance, he still had to pay interest on the funds to his own creditors. Had he been paid in cash, he could have cancelled some of his own debts. Even if the merchant had no debts himself (an unlikely scenario), financing his sales meant that he continued to tie up his capital and could not earn interest by investing it or loaning it elsewhere. Of course, if merchants charged interest to the buyers, then such expenses were defrayed, but most often it was the case that merchants simply provided the goods in advance, as they did to the traveling merchants discussed above, expecting reimbursement in the future.²⁰ Providing credit to retailers and consumers was simply an unavoidable feature of doing business in the cash-scarce, shallow markets of colonial Mexico.

The greatest cost of providing credit, however, was the need to absorb unpaid debts. The merchants’ networks of trusted relatives, employees, acquaintances and government functionaries undoubtedly helped to collect debts more rapidly and efficiently and to reduce the extension of bad loans, but creditors in colonial Mexico always faced the risk of debtor default. Virtually all scholars who have examined late

colonial merchants have commented on the high percentage of those merchants' assets that were composed of long-outstanding debts. According to Kicza, 'A major part of the total value of commercial establishments of every size and character in the City consisted of *dependencias activas*, the collective debts of the many customers compelled to buy on credit' (1983, 55). If they refused to sell on credit, merchants had difficulty selling their commodities at all (Kicza 1983, 55; Brading 1971, 120–28; Hoberman 1991, 62, 78; Garner 1993, 209–11).

Even the most highly regarded and successful merchants were not immune to the plague of bad debts. In 1797, a commercial partnership was dissolved upon the death of Francisco Ignacio de Yraeta. At the moment of its dissolution, the company was owed 405,278 pesos, but the executors deemed much of this uncollectable. A full 22 percent (88,045 pesos) of the debts were considered *perdidias*, lost, and another 18.5 percent (74,831 pesos) were judged *dudosas*, uncertain or doubtful. In sum, the partnership stood to lose as much as 40 percent of its outstanding debts.²¹ While merchants such as Yraeta and his partner obviously took precautions, assessing the creditworthiness of borrowers or demanding guarantors, they inevitably found that many loans were bad. Losing capital to bad debt, however, was simply a cost of doing business in colonial Mexico. As Yraeta had noted himself a decade earlier, 'buyers who pay late, badly or never there are many in these times, in all parts.'²²

One consequence of the need to provide credit and incur the related risk was that the merchants charged a premium on credit sales. Credit prices were necessarily higher than prices in cash because the credit price included an implicit interest charge, an amount paid in excess of the retail price to compensate the merchant for financing the sale. Increasing the price was preferable to charging an explicit interest rate because the latter exposed the merchant to accusations of usury. The practice of building the interest into the sale price was an old one, dating to the medieval period when the Church's sensitivity to such matters was even more acute (Kohn, Chap. 10). In short, prices within the colony often included a finance charge.

The Consulado Merchants and Oligopoly

According to the traditional depiction of colonial commerce, 'the substantial merchants of Mexico City ... acting in concert among themselves and also with exporters in Seville, could to a considerable degree set the price of goods from Europe, as well as those from Asia' (Bakewell 1997, 202). Colonial prices were excessive, it is argued, because the *almaceneros* colluded to inflate prices. As in the case of the fleet, however, price fixing by the colonial merchants would only have been possible with a significant degree of orchestrated collaboration, since no single merchant came even close to monopolizing the entire colony's supply. According to Hoberman, the number of wholesale merchants in Mexico ranged from 252 in 1598 to 177 in 1689 to around 200 in the late eighteenth century (1991, 20–21, 293 n. 49). Even these figures, however, underestimate the real number. The 1689 figure, for

example, only includes individuals of Spanish birth. Furthermore, Kicza notes that in the eighteenth century many prominent merchants referred to themselves simply as *comerciantes*, eschewing the more formal titles of *mercader* or *almacenero*, which would suggest that Hoberman's figures are even more conservative (Kicza 1983, 265 n. 1). But even if we accept her numbers as reflective of the total number of merchants who participated in the trade fair of Jalapa, it still leaves far too many to have successfully cooperated to fix prices. There would have been too many opportunities for merchants to cheat and attempt to sell their supplies more rapidly at below monopoly prices and, as argued above, there were no institutional means to castigate such cheaters.

Furthermore, historians have established that at least by the mid eighteenth century there existed a deep schism within the Mexico City Consulado. So heated were the elections to high office in the Consulado that in 1742 the Viceroy ordered its members divided into two parties, the Basques and the Montañeses, with the major posts to be alternated between them on an annual basis (Kicza 1983, 51–52; Brading 1971, 107). Such bitter institutional infighting makes even more incredible the idea that they could have held together as an oligopoly.

This is certainly not to suggest that the Consulado was ineffective at promoting and protecting the interests of its wealthy constituency. The Consulado members coordinated their efforts to challenge new trade taxes or to oppose harmful new commercial legislation. These were issues that affected all members and thus brought the guild together. It is one thing to imagine the guild operating cohesively in general matters that concerned all members. It is quite another to expect individual members to behave in a manner that benefited the collective. This was essentially Kicza's argument when he noted, 'though Consulado members habitually formed themselves into consortiums and interest groups on grounds of consanguinity, affinity, and compatible economic interest, they composed too large a group of basically antagonistic competitors for any one subgroup to attain functional control over a major component of the city's trade' (1983, 51). In short, the Consulado was effective at negotiating and promoting policy initiatives favorable to the merchant community as a whole, but working as a body to manipulate commodity prices most likely was not possible.²³

Comercio Libre

Despite the concerted opposition of the mercantile elite in both Spain and Mexico, the 1778 Reglamento de comercio libre initiated the end to the trade monopoly enjoyed by Cádiz and Veracruz and replaced the convoy with individually licensed ships referred to as *registros*.²⁴ The end of this era created new conditions under which the merchants were forced to operate. When, in 1791, the Viceroy of Mexico, the Second Count of Revillagigedo, asked the Consulado merchants to comment on commerce in the decade since the start of free trade, most of the merchants argued that reform had caused a sharp increase in the riskiness of oceanic trade, leading them

to divest some or all of their capital. Their responses to the Viceroy's questionnaire reveal how, in their opinion at least, the old fleet system had served to reduce risk (AGI México 1554, Testimonio sobre averiguar si hay o no decadencia en el comercio).

Merchant Ysidrio Ycaza (fols. 23–29) argued that the end of the fleet system had made oceanic trade too unpredictable, since the frequent arrival of ships made impossible any educated business decisions. What might seem a promising venture one day could make a merchant a 'laughing stock several days later.' In the previous several years, Ycaza had been shipping cochineal and silver to Spain in exchange for textiles, but this business had been so unprofitable that he intended to withdraw from oceanic trade altogether.

Similarly Gaspar Martín Vicario (fols. 5–17), another respondent, noted that since the 1778 decree there had occurred numerous bankruptcies encouraging many merchants to place their capital in *inacción*. The merchants who still traded in imported goods were unwilling to buy significant quantities for fear that another ship would arrive and flood the market, rendering their stock unprofitable. The importers themselves, argued Vicario, were finding it difficult to unload their wares without long delays and the provision of credit. None of these problems, Vicario added, had existed during the era of the *flota*.

Lorenzo de Angulo Guardamino (fols. 42–48) replied that despite having invested considerable sums in transatlantic trade since 1778 he had not even earned 5 percent on his dealings. He too identified the problem as stemming from the inability of predicting demand, since the frequent introduction of imports caused violent price fluctuations. With the fleet system, in contrast, 'merchants informed of the profitability that would come to them depending on supply and consumption can formulate ideas of what is convenient to buy and prices that they must pay for them with the object of gaining enough profits to remunerate their work and investment.' In short, the reformed system was too unpredictable and forced merchants to operate with even less information and greater uncertainty than before.

The saturated market was illustrated by the supply of wool and silk, both of which had recently arrived to Mexico in abundance, claimed Manuel García Herreros, another Consulado merchant (fols. 33–43). Dealing in the latter commodity, the Cinco Gremios Mayores de Madrid, one of the largest trading houses in the Spanish empire, had experienced great losses, leading García Herreros to wonder how a smaller firm could survive if even the Cinco Gremios was having troubles. Because of the excess, many wealthy Mexican merchants refused to buy goods, forcing the Spanish importers to supply credit to smaller traders, resulting in difficult debts and related bankruptcies.

After commenting on Veracruz's flooded market, merchant Diego de Agreda provided details of his own recent commercial experiences (fols. 48–56). Despite enjoying the best possible combination of conditions—paying cash, having a brother in Cádiz who was well informed of the market, and being able to sell his goods

rapidly—in his last deal de Agreda was only able to earn 5.5 percent over a 17-month period.

Still another respondent, Juan Fernando Meoqui, observed that the large merchants had ceased buying in bulk owing to the frequent introductions of new imports (fols. 56–60). Instead they had reinvested in mines, haciendas and other ventures. One consequence was an increased scarcity of money, ‘the blood that before circulated through the veins of the mercantile body.’ The *traficantes del mar* could no longer find cash buyers for their imports, and were now forced to provide credit to the large stream of merchants who had emerged but who lacked any capital of their own. As a result they faced continued losses and were going bankrupt as many of the borrowers were unable to pay their debts.

Finally, Antonio Bassoco (fols. 60–65), one of Mexico’s wealthiest merchants, related the story of his own miserable commercial experiences since the promulgation of free trade, so that the Viceroy could better understand why so many of the principal merchants had chosen to retire from commerce ‘so as not to risk losing in several years what they have acquired over the cost of many.’ Between 1783 and 1785, Bassoco invested in the marketplace of Cádiz goods and cash valued at 500,000 pesos. He received in exchange about 250,000 pesos worth of goods, most of which he still possessed, having been unable to sell them despite offering them at prices below his cost or offering them on credit at favorable terms. Even what he did unload had not produced any profit. Another 100,000 pesos he managed to extract only by extending a sea loan (*préstamo a riesgo marítimo*) to some merchants to be repaid in six to eight months after their cargo’s arrival in Mexico. Another 156,000 pesos were languishing in Cádiz because Bassoco could not find any goods worth buying. He further noted that ‘in the purchases that I have made during the same time in this kingdom I have experienced the same misfortunes and these continuously bad results have obliged me to withdraw from mercantile concerns and make the decision to lend my capital at interest.’ Evidently, the 5 percent interest that Bassoco could likely earn lending his capital to creditworthy individuals or institutions did not seem unattractive given the relative security of such loans.

In summary, the 1778 Reglamento de Comercio Libre encouraged many of Mexico’s leading merchants to divest (or at least threaten to divest) from oceanic trade. While the changing business climate caused by the 1778 liberalization of trade might have been their immediate incentive, the practice of diverting capital away from international trade was not new. Historians have long noted that it was common for large-scale merchants to reinvest their mercantile profits in land ownership, among other activities. In part, as Brading suggests, this protected the fortune from division upon the merchant’s death, since an entailed estate (*mayorazgo*) was exempted from division (1971, 103). Investing in land and entailing an estate might also have reflected the elites’ noble aspirations (Brading 1971, 103; Chevalier 1963), although historians have increasingly rejected the thesis that hacienda owners were driven by feudal ambitions (Florescano 1987, 268–74).

Reinvesting part of the returns realized in the transatlantic trade in land (or other ventures) served another purpose. It stabilized the economic position of the merchant. Operating a hacienda was normally less profitable over the long run than the overseas trade, and it certainly did not provide the opportunity for the windfall returns that could, with good fortune, come with international trade. Yet land ownership was also far less risky. Returns were more modest but the risk of great losses was minimal. One might not get rich in these other enterprises, but nor would one risk losing a fortune.

One naturally must be skeptical of the testimonies given by the Consulado merchants who replied to Viceroy Revillagigedo's 1791 questionnaire. Their responses undoubtedly reflected their personal interests and were intended to support their attempts to resurrect the fleet system. If the merchants were correct, then one would expect that colonial commerce would have suffered as a result of *comercio libre*. Unfortunately, however, the statistical evidence is difficult to analyze and open to contradictory interpretations. One difficulty is that the era of free trade was short-lived. The last *flota* sailed to Mexico in 1776 and returned to Cádiz in 1778. Almost immediately, trade was interrupted by Spain's 1779 entry into the War of American Independence. The peace that was restored by the 1783 Treaty of Versailles lasted only a decade until Revolutionary France's 1793 declaration of war on Spain. Trade was virtually halted following Spain's 1796 alliance with France against Britain. With but brief interruptions, such as the brief peace following the 1802 Peace of Amiens, Spain remained at war with France or Britain until Napoleon's final defeat in 1815. Furthermore, after 1797 neutral ships began visiting Veracruz both legally and illegally. The nearly constant state of war makes difficult any real assessment of the impact on Mexico of the 1778 Promulgation.

Regardless, evidence suggests that the volume of trade rose significantly during the decade after 1782, although the most widely cited figures grossly overstate the reality.²⁵ While the quantity of trade might have risen, and the merchants responding to Revillagigedo's questionnaire did not dispute this, there is little doubt that commerce was in crisis nonetheless. The Viceroy began his inquest, after all, because of a large number of bankruptcies which obviously alarmed him, though he disparaged the inability of *ancien comerciantes* to adjust to the new conditions demanded by free trade (AGI México 1554). In short, free trade was not an unambiguous success for Mexico, and, at least in the opinion of most of the Consulado merchants, this was because it made commerce too unpredictable and volatile. While the volume of trade rose substantially, many merchants went bankrupt.

The Convoy System Resurrected

Viceroy Revillagigedo rejected the analyses of the Consulado merchants, insisting, quite reasonably, that the system of free trade simply needed more time to succeed. Much more time, however, it would not enjoy, for Spain went to war with France in

1793 and, after a peace treaty and alliance with France, declared war on Britain in 1796. Beginning in 1793 and especially after 1796, the experiment of free trade came to an end.

War placed Spanish ships in great danger of seizure, especially by the powerful British navy. The increased riskiness of oceanic commerce brought about by war with France and Britain led to numerous emergency commercial measures including the restoration of convoys,²⁶ illustrating that the ultimate purpose of convoys, even as late as the 1790s, remained the protection of valuable cargo from piracy, not the provision of monopoly profits to the commercial elite. That the revived convoys were a response to the riskiness of war is clearly illustrated by the insurance market for transatlantic trade. In the post-1778 era, insurance policies sometimes stipulated that premium rates, a reflection of perceived risk, should be lower for merchandise and ships traveling in convoy with armed warships. For example, in 1780, during the War of American Independence, several ships traveling from Cádiz to Veracruz were quoted the elevated insurance premium rate of 23 percent, with the understanding that if they were to instead travel in convoy their rates would be reduced to 17 percent.²⁷ Similarly, in 1794, while Spain was at war with France, insurers were offering 50 percent rebates for ships traveling to America in convoy rather than individually.²⁸ Such data show unambiguously that the escorted fleets were perceived to be safer. While the conditions of war clearly made these cases somewhat exceptional, they nonetheless demonstrate the fact that even at the end of the colonial era, convoys were considered safer and less risky.

Profitability of Transatlantic Trade

The actual profitability enjoyed by the transatlantic merchants is clearly central to the question of whether the business practices of the Mexican *almaceneros* were rapacious attempts to generate monopoly profits or simply efforts to control and reduce risk. After all, if the merchants were not making out like bandits, then the argument that they were swindling consumers seems baseless. Ironically, while historians have made many claims regarding the tremendous profits realized by the great merchants, there are virtually no studies that have actually attempted to calculate the long-term profitability of the Spanish–Mexican trade. The few that have even engaged the question suggest that returns were not especially high.

In her discussion of the profitability of trade, Hoberman concludes that for Mexican merchants in the 1700s the ‘fabled profits of the Indies trade’ were ‘lower than might be expected . . . often in the 30 to 70 percent range’ (1991, 55). In fact, however, her estimates appear to overstate profits considerably, since they seem to be reported without sensitivity to the time it took to realize such gains. For example, she refers to a 74 percent return on goods shipped to Manila which appears to have taken eight years to realize. On an annualized basis, the only meaningful way of expressing profitability, this computes to returns of just over 7 percent.²⁹ David Brading does not commit Hoberman’s error but calculates returns on an annualized basis. He

concludes that 'the annual return upon capital was not as high as the monopoly conditions of colonial trade would have led one to suspect' (1971, 121). Indeed not! Brading explores the returns on capital invested by the prominent Fagoaga family between 1738 and 1781. For the two decades spanning 1738 to 1757, the family earned only 5.6 percent per annum after paying commission to the firm's director. Between 1762 and 1770, the rate of return fell to a measly 4.4 percent. In the following decade, 1770–81, return on the Fagoaga's capital dropped still further to a 'derisory 3.2 percent' (1971, 121). So poor were the returns that Brading wisely speculates that in general 'the rate of commercial profit was not sufficiently high as to justify reliance upon deposits at 5 per cent interest' (1971, 102).

That the existing, though limited, evidence does not corroborate the accepted wisdom of the Spanish trade's enormous profitability should not be surprising given what economic historians have concluded for other parts of the early modern world, areas for which statistical research has been far more extensive than that conducted for the Spanish empire. In those regions, historians point to fairly modest returns in long-distance oceanic trade, at least over the long term. Individual voyages sometimes produced windfall returns, but others proved financially catastrophic. The result was that over the long run international trade produced good, but not extraordinary, returns.

Between 1710 and 1745, for example, the most profitable year for the British East India Company was 1713, in which it earned 22.2 percent. In most of these years the profit rate was far lower, below 10 percent in 18 of the 36 years. In several of the years the company actually lost money (Chaudhuri 1978, 440). One of the largest merchant houses in eighteenth-century Amsterdam, the firm of Hope & Company, realized annual profits of only 10 percent on its investments over the 53-year period 1762 to 1815 (Buist 1974, 520–25). Historians estimate the profit rate of the slave trade in the eighteenth century to have been in the range of 8 to 10 percent per annum (Morgan 2000).

There is little reason to believe that the Spanish American trade should have generated larger returns than those enjoyed by Europe's other maritime nations of the time. Much of the literature on Spain's fleet system points to its monopolistic nature—few ports, limited number of privileged merchants, infrequent sailings, etc. It is these allegedly anti-competitive characteristics that afforded such handsome returns to the *Consulado* merchants. Spain's regimented system, however, was far from unique in the early modern world; most of the maritime powers, including Britain, France, Portugal and the United Provinces, created highly restrictive commercial systems (Souto Mantecón 2001, 21, 32), a reflection of the dominant mercantilist ideology of the era.³⁰ The details of how Spain's commerce was organized might have been different from its neighbors', but the fact that it was highly restrictive did not make it extraordinary. In short, higher profits in the Spanish empire cannot be deduced merely from the fact that the Spanish system was highly controlled.

While any conclusions about the long-run profitability of overseas commerce need to be tentative, it is important to note that returns in the range of 10 percent per year

were not horrendous. Studies suggest that other colonial industries generated much lower profits. Bakewell, examining Zacatecas in the seventeenth century, concludes that 'even though large quantities of silver were produced, mining was basically unprofitable' (2002, 207). Coatsworth shows that the profitability of silver mining was kept afloat in the eighteenth century only because of the Crown's subsidies to this major revenue producer (1986, 33–39). Returns in agriculture were sufficiently low that Florescano concludes that the 5 percent liens on many estates served to bankrupt their owners and deliver the properties to the Church (1987, 282–83). In light of the alternatives, investing in the Carrera de Indias was rewarding, although it exposed the investor to much greater risks.

There is little doubt that participation in the international market could, and often did, bring generous returns to those merchants who had capital to invest and who enjoyed a good bit of luck. But ocean trade could also prove financially catastrophic. Merchants experienced in these speculative ventures understood well the risks that they assumed; some voyages were rewarding and others were disappointments. What mattered most was the cumulative performance of the traders' commercial dealings, the returns realized over the long term.

Conclusion

Merchants involved in Spanish–Mexican colonial trade were engaged in risky ventures. Historians have traditionally depicted the wealthy merchants of the Mexican and Spanish Consulados as predacious monopolists who took advantage of their financial positions to exploit the colony's consumers. This paper has attempted to temper this conventional position by arguing that many of the merchants' apparently rapacious behaviors should instead be understood as adaptations to the highly risky conditions under which they were forced to operate. Facing a variety of uncertainties and risks, the great colonial merchants invented strategies that reduced these risks to tolerable levels, strategies that to the modern eye often seem both odd and manipulative. Even with such tactics, the merchants sometimes saw their commercial undertakings fail miserably. Over the long run their returns were probably good compared with other colonial industries, but not excessive, especially given trade's riskiness. Future examinations of colonial trade need to place risk and uncertainty at the center of their analysis. Only by considering the centrality of risk in early modern trade can historians begin to construct a more balanced portrayal of the merchants of Mexico.

Notes

- * I thank John Coatsworth, Richard Garner and Richard Salvucci for comments on this paper. The paper also benefited from the comments of *Colonial Latin American Review's* anonymous reviewers, which were synthesized and provided to me by Frederick Luciani and Camilla Townsend. An early version of this paper was delivered at the annual meeting of the

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- ¹ Haring further points out that the Crown preferred to concentrate all legal trade in a single port because this facilitated its regulation (1918, 8).
- ² The fleet system operated until it was temporarily suspended in 1739 in favor of *registros*, ships licensed to sail individually. Fleets were resurrected for Mexico in 1757 and continued until the 1778 promulgation of *comercio libre* initiated their phasing out (Brading 1971, 95–96).
- ³ Louisa Schell Hoberman has examined the extent to which individual merchants monopolized the cargoes of specific fleets to Mexico during the seventeenth century, and she has concluded that while there was concentration in the hands of a few larger merchants, their monopoly was by no means absolute (Hoberman 1991, 33–39).
- ⁴ Archivo General de la Nación, México (hereafter AGN), Marina, Tomo 38, Exp. 6, pp. 68–188, Sobre la nulidad del embarco de granas y nombramiento de otro buque para conducir las granas sobrantes. See also AGN, Consulados, Caja 279, exp. 4, Sobre el despacho de los navios el Astuto y Urca Santa Rita y el modo de su carga y registros que en ellos deben hacerse.
- ⁵ This point was made repeatedly in 1752 by the priests and *alcaldes mayores* queried by the Viceroy regarding the operation of the system of *repartimiento* in Oaxaca. See AGN, Subdelegados 34, Informes de curas y alcaldes mayores sobre la permisión del repartimiento en los partidos del reyno.
- ⁶ See ‘carta para Señor don José Fernández Gil a Guatemala,’ Mexico, 2 December 1778, in *Torales Pacheco* 1985, 2:221–22. This document can also be found at the Archivo de la Compañía de Comercio de Francisco Ignacio de Yraeta deposited at the Universidad Iberoamericana (herein UIA) in Mexico City; see UIA, 2.1.5, fols. 177v–80r.
- ⁷ Archivo General de Indias, Seville (hereafter AGI), Mexico, 1554, Cartas Reservadas 627, El Conde Revillagigedo hace un difuso informe sobre averiguar si hay decadencia en el comercio de aquellos reynos y en caso de haberla, hallar las causas de ella y sus remedios, 31 August 1793, pp. 14–17, 22.
- ⁸ See ‘carta para Señor don José Fernández Gil a Guatemala,’ Mexico, 10 November 1779, in *Torales Pacheco* 1985, 2:234. The original letter is deposited in UIA, 2.1.6, fols. 238r–42v.
- ⁹ See ‘carta para los señores directores de la Real Compañía de Filipinas,’ Mexico, 17 June 1789, in *Torales Pacheco* 1985, 2:260–63. This letter can also be consulted at UIA, 2.1.12, fols 114v–16v.
- ¹⁰ This argument was derived from similar ones put forth by economic historians who have examined the mercantilist trading companies of early modern Northern Europe and have concluded that one of the companies’ primary benefits was that their organization and operation helped to reduce market risk, the risk that shipments would arrive to a glutted market. According to Niels Steensgaard, the Dutch East Indies Company (the VOC) used its monopoly ‘not as a lever for short-term maximum profits, but as a guarantee against sudden fluctuations in supply or demand’ (1996, 446). For example, a large company could warehouse supplies when they were so abundant that they threatened to flood the market and drive prices below a profitable level. In behaving this way, the VOC actually ‘enlarged the range of activities that might be calculated and planned rationally’ (Steensgaard 1996, 446). In other words, such strategies permitted the company to deal in commodities with lower profit margins.
- ¹¹ The merchant companies of Northern Europe were better suited to fix prices than their Spanish counterparts, since they pooled all investors’ funds into a single company that controlled the entire supply whereas the Spanish ‘monopoly’ system comprised many dozens of merchants who traded on their own individual accounts in competition with one another. However, economic historians who have examined the joint-stock companies of Spain’s northern neighbors acknowledge that the primary reason why these companies were formed was to permit the

- more efficient organization of international trade. Specifically, these large-scale merchant companies operated more efficiently than the smaller trading partnerships that preceded them because, among other reasons, the larger companies were able to better minimize the risk that characterized long-distance trade in the early modern era. They could engage in riskier endeavors than could smaller operations. For a good overview of the logic behind these companies, see Carlos and Nicholas (1988).
- ¹² Avner Greif, in contrast, has identified a practice employed by Mahgribi traders in the eleventh-century Mediterranean to penalize any of their agents who cheated them. A loose association of these traders agreed that any agent who cheated one of them would be ostracized by all and in turn would be fair game to be cheated. See Greif (1993). It is certainly possible that within certain commercial circles in colonial Spanish America ties of kinship allowed some degree of control over the behavior of individual merchants. Research into this specific question, however, remains unexplored.
- ¹³ These loans were also called *préstamos a la gruesa aventura* or *escrituras de riesgo marítimo*. In English they are known as ‘bottomry’ loans because they were most commonly taken by ship owners who provided as collateral the ship’s keel or bottom. The most extensive study of such loans in the Spanish empire is Bernal (1992). See also Cruz Barney (1998), García-Baquero González (1991) and Haring (1918, 285–86). For other areas see, for example, de Roover (1945) and Kohn (forthcoming, Chap. 12). Thousands of these contracts survive in the Archive of the Indies. See, for example, AGI, Consulados, Libros 409–44, and AGI, Consulados, Legajos, 876–87. For an eighteenth-century discussion of the legal obligations of both parties in these *préstamos*, see Quirós (1986, 304–8).
- ¹⁴ This is essentially the point stressed by Zacarías Moutoukias in his study of the illegal trade to Buenos Aires in the seventeenth century. He suggests that, despite the costs and obligations that accompanied the acquisition of a permit to trade legally, it was still ‘attractive’ because ‘a totally illegal operation was no less onerous’ (Moutoukias 1988, 784). On foreign contrabandists, see also Haring (1918, 115–22). Haring suggests that the smugglers faced little opposition from the colonialists, who ‘eagerly welcomed’ them.
- ¹⁵ The term *almacenero* was used in Mexico interchangeably with *mercader* but, according to Kicza, the less formal *comerciante* was most widely utilized (1983, 265 n. 1).
- ¹⁶ See *Borrador de cartas de Villa Alta, 1776–77*, Biblioteca Nacional de México (hereafter BNM), MS 84 [1553] fol. 123.
- ¹⁷ See ‘carta para Señor don José Fernández Gil a Guatemala,’ Mexico, 12 January 1780, in Torales Pacheco 1985, 2:237. The original letter is at UIA, 2.1.6, fols. 303r–4v.
- ¹⁸ According to Brading (1971, 97), these sales were typically made ‘at a credit of two-thirds the value.’
- ¹⁹ See ‘carta para Señor don José Fernández Gil a Guatemala,’ Mexico, 2 December 1778, in Torales Pacheco 1982, 2:22. This document is located in its original at UIA, 2.1.5, fols 177v–80r.
- ²⁰ The point here is that interest did not accrue. Merchants typically built an interest charge into the price, rather than charge a rate of interest, to protect themselves from the Church’s accusations of usury. One consequence of this practice, however, was that debtors incurred no financial penalty for failing to pay promptly.
- ²¹ See ‘Finiquito de compañía entre Francisco Ignacio de Yraeta y Gabriel de Yturbe e Yraeta. 1797’ in Torales Pacheco 1985, 2:150–51. This document can also be viewed at Archivo General de Notarías de México, n. 523, v. 3514, 12ff.
- ²² See ‘carta para Alonso Magro a Oaxaca,’ 19 December 1787, in Torales Pacheco 1985, 2:256. The original of this letter is archived at UIA, 2.1.11, fols 352v–53v.
- ²³ On the operation and functioning of Consulados in general see Smith (1972), Souto Mantecón (2001) and Vila Vilar (1999).

- ²⁴ The *reglamento* was applied to Mexico more gradually than to most other parts of Spanish America and its full effect was not realized until 1789. The last *flota*, however, was completed in 1778 and so, for the purposes of this paper, we can treat the entire post-1778 period as an era of free trade. For the same point, see Fisher (1985, 87).
- ²⁵ Data collected by John Fisher have led him to conclude that there was a 'fourfold expansion in exports from Spain to America in 1782–1796' and that in the same period the average value of Spanish American exports to Spain 'was more than ten times greater than in 1778' (Fisher 1985, 88–89). The problem with this conclusion is that Fisher uses 1778 as a base, a year when his figures suggest that transatlantic trade was exceedingly, perhaps misleadingly, low. Comparing Fisher's 'Imports from Spanish America into all Spanish Ports' for the years 1782–96 (Fisher 1985, 61) with the data for 'Total Imports' collected by García-Baquero for the 11 years 1767–77 (García-Baquero González 1988, 2:160–61) suggests that free trade led to nearly a doubling of Spanish imports from America, a significant revision of Fisher's estimate of an increase of 'more than ten times.' Whenever one compares data from different sources, however, one needs to do so cautiously. In fact, García-Baquero González derived his figures from tax receipts and admits that they are 'indicative' yet a 'simple approximation' (García-Baquero González 1988, 2:64). What seems certain is that Fisher's use of 1778 as a base year has tended to greatly exaggerate free trade's impact. The figures for this year are clearly below normal. Interestingly, in a different study Fisher provides data for 'Exports from Spanish Ports to Spanish America, 1797–1820' (1992, 80). Comparing Spain's exports for these primarily war years with export data from Fisher's earlier study (1985, 46) on the years 1782–96 reveals that for the later period exports were less than one-third of those recorded in 1782–96. In short, the wars of the French Revolution and Napoleon had greater effect on trade than did the advent of *comercio libre*.
- ²⁶ The restoration of convoys was not a repudiation by the Crown of free trade, but an expedient to address the crisis brought about by war. Ships traveling in convoy escorted by warships had also sailed during the War of American Independence, immediately following the 1778 edict.
- ²⁷ See insurance policy on the ship called Nuestra Señora de Guadalupe alias la Mexicana in AGI, Consulados, Libro 437, Libro de la toma de razon de escritura de riesgo, fol. 530.
- ²⁸ See, for example, coverage secured on Nuestra Señora de Pia for its voyage from Cádiz to Buenos Aires in AGI, Consulados 518, N. 10, fol. 139.
- ²⁹ For the other examples that she provides it is impossible to discern how long merchants had to wait to collect their returns. Hoberman further cites a study by Super (1979) claiming that he found profits for sixteenth-century Quito to be '50 to 70 percent' (Hoberman 1991, 55, n. 25). Super, however, does not fail to calculate 'the yearly rate' and finds that 'yearly profits fell between 10 and 30 percent.'
- ³⁰ The classic work on mercantilism remains Heckscher (1935). For a recent discussion of Spanish mercantilism see Stein and Stein (2000). The Steins distinguish between the mercantilism of Spain and its neighbors, arguing that British and French policies were designed to increase economic development whereas Spanish mercantilism served primarily to expand Crown revenues (2000, 86).

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