Huth & Co.'s credit strategies: a global merchant-banker's risk management, *c*. 1810-1850*

Las estrategias crediticias de Huth & Co.: la administración de riesgo de un mercader-banquero global, 1810-1850

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Abstract

The pivotal role played by non-banking institutions in supporting the expansion of international trade after the Napoleonic Wars and before first globalization c. 1870-1913 has long been recognised. Merchant-bankers in particular played a crucial role by advancing monies to consignors of products all over the world. Without this form of credit, many international trade operations could not have taken place. Despite the important extant literature on merchant-banking, we knew little about how these international lenders protected themselves against the risks involved in advancing during this period, in particular for merchant-bankers who had diversified both geographically and by products. This paper is concerned with the risk protection strategies followed by one of these actors: Huth & Co., the first of these companies to globalize their operations. During this expansionary period they provided credit to many of their connections all over the world, thus becoming an important financial intermediary within world trade. This paper, therefore, provides the first account of the credit risk management strategies followed by this pioneer global lender.

Key words: *Merchant-banking, risk management, nineteenth century, Great Britain, globalization.*

JEL Classification: *N23, N73, N83.*

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Resumen

El rol clave que jugaron las instituciones no bancarias apoyando la expansión del comercio internacional después de las Guerras Napoleónicas y hasta la primera globalización ha sido ampliamente reconocido. Los mercaderes-banqueros en particular jugaron un rol crucial adelantando fondos a consignatarios de todo el mundo. Sin esta forma de crédito, muchas operaciones de comercio internacional no se habrían ejecutado. A pesar de la literatura disponible sobre mercaderes-banqueros, poco sabíamos sobre como los mismos se protegían contra los riesgos que emergían al prestar durante este período, sobre todo para aquellos que se diversificaron tanto geográficamente como por productos. Este artículo se basa en las estrategias de protección de riesgos que adoptó uno de estos actores: Huth & Co., la primera de estas firmas que se globalizó. Durante este período expansivo, Huth & Co. otorgó créditos a muchas de sus conexiones en todo el mundo, convirtiéndose así en un importante intermediario financiero del comercio mundial. Por tanto, el artículo entrega la primera descripción de las estrategias de protección de riesgo seguidas por este pionero prestamista global.

Palabras clave: *Mercaderes banqueros, administración de riesgo, siglo XIX, Gran Bretaña, globalización.*

Clasificación JEL: *N23, N73, N83.*

1. Introduction

Non-banking institutions that specialised in the financing of commerce played a pivotal role in supporting the expansion of international trade before the so-called first globalization *c.* 1870-1913, and before the existence of modern deposit banks. Amongst these institutions were British based merchant-bankers, which emerged during the 1820s-1830s,[1] making the most of the new opportunities that emerged after the end of the Napoleonic Wars when peace returned to Europe, and when in turn Latin America (including Brazil) and Asia were opened up to private traders (i.e. the end of regulated trade systems).[2] This coincided with the deepening of industrialisation in England and the US (and with that the introduction of railroads), all of which gave greater stimulus to multinational traders based in Britain, and in particular new opportunities to expand worldwide (Jones, 2000; Kynaston, 1995); Jones, 1989; Chapman, 1979a).

The leading merchant-bankers of the first half of the nineteenth century provided a crucial financial service by advancing monies to consignors of products

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1 Merchant-bankers did not create new activities by themselves. What was new about merchant-bankers is the diversity of activities they performed at the same time (e.g. trading, financing, issuing, brokering), as well as the multilateralism of many of these activities.

2 Thanks to this development, India (1813) and China (1834) were opened up to private British merchants. Greenberg, 1969.

all over the world, and indeed the provision of credit was an intrinsic part of the activities of any international merchant during this period (Roberts, 1992; Perkins 1975; Marriner, 1961). Such was the importance of advances that, the acceptance business became the most important way of financing world trade during the nineteenth century (Jones, 2000). Indeed, a leading merchant-banker of this pre-1870 period would have hundreds of clients whose trade it supported (Chapman, 1984).[3]

Without this form of credit many international trade operations could not have taken place, not only in developing regions lacking capital but also in the main western economies as late as the first half of the nineteenth century. We must remember that even in Britain, the first industrial nation, the size of manufacturing enterprises (including exporters) remained relatively small (Jones, 2000; Chapman, 1992; Chapman, 1996), and these units of production were, therefore, very often short of working capital. In the words of the doyen on merchant-banking: 'the numerous small family firms that conducted most of the British industry were seldom able to assume the financial burden of marketing abroad' (Chapman, 1984). Manufacturers and producers of primary products were not usually in direct contact with the final consumer, and therefore, given the high transaction costs, both trading and financial intermediaries were often needed (Chapman, 1979a; Jones, 1998, Casson, 1998). Likewise, during the 1820s-1840s British merchant-bankers not only dealt with credit associated with the movement of goods but also with credit linked to the international movement of capitals, in particular linked to the financing of US industrialisation and railroad construction. This is not surprising given that Britain remained the largest capital exporter in the world during these decades (Jones, 2000; Jones, 1998).

Yet, despite the important extant literature on merchant-bankers (Chapman, 1984; Jones, 2000; Chapman, 1992; Roberts, 1992; Wake, 1997; Hidy, 1949; Ferguson, 1999), our knowledge of their *modus operandi* is still thin in divers areas, including all the peculiarities behind the extension of credit to fund international trade and in particular the means by which merchant bankers protected themselves from the risks arising from these operations, at a time when international enforcement was still weak and information asymmetries prevailed. Another unexplored area concerns the means by which those merchant bankers that remained strong in merchanting (apart from financing) jointly built a network of trade and lending. In part, this neglect may be due to the fact that many prominent British merchant-bankers moved away from commission trade and concentrated on purely financing affairs (Chapman, 1984). Rothschild is a case in point.

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3 Commercial credit, bills of exchange and the acceptance business were not new by the 1820s (indeed, credit became more sophisticated and more available during the eighteenth century). Smail 2003; Price 1980; Morgan 2005; Santarosa 2012. Yet, what was new during the 1820s-1840s was the intensity reached by the business (i.e. the emergence of a comprehensive credit market for international trade), the multilateralism of many operations, the increasing formality of the credit instruments, and in particular the greater number of clients a merchant-banker had overseas if compared with financers of previous periods. Before the 1810s, acceptance linked to international trade was restricted to an elite, when face-to-face interactions were more important in the credit market.

Another neglected area of research concerns the truly global extension of credit established by a sole merchant-banker from one locale (e.g. London) to nearly everywhere in the world. For example, merchant-bankers in London were financing trade operations between Britain and the rest of the world, but also many trades which never docked British ports. As Chapman has already argued, merchant bankers' patronage 'was by no means limited to British exporters or British trade' (Chapman, 1979a), but it is still worth noting that a single merchant-banker (i.e. Huth & Co.) could finance so many trades in so many different products all over the world and at a comparatively early period. Transport was poor and precarious communications facilities constrained both the scale and the geographic spread of merchants' activities before the 1850s. There were no courts with international jurisdiction, and therefore, lenders had either to rely on foreign courts to enforce potential unpaid debts or seek to protect themselves effectively so as not to be obliged to foreign institutions. They had to put in place sound risk management strategies, understanding the concept as 'one way to cope with an uncertain future' (Levy 2014, p. 3).[4]

To fill these gaps in the literature, this paper is concerned with the credit activities of Huth & Co., a London merchant-banker, during *c*. 1810-1850.[5] In a recent comparative study of the main London merchant-bankers of this period I have shown that Huth & Co. was no ordinary merchant-banker (Llorca-Jaña, 2014). Although most London merchant-bankers remained cautious and did not diversify the remit of their operations either geographically or in the products they traded, Huth & Co. took a completely different path before 1850 by establishing a unique and impressive global network of trade and lending, dealing with over 6,000 correspondents all over the world and in a wide range of products (Llorca-Jaña, 2014). Many of these correspondents benefited significantly from Huth & Co.'s credit, and I wanted, therefore, to explore the risk management strategies adopted by this early global enterprise. Huth & Co. needed to protect themselves against the risk arising from lending to so many people in so many places and in so many different trades at a time when international contracts were not always enforced, while information about clients' honesty and financial health was difficult to gather. A sampling exercise of the bills accepted by Huth & Co. in 1846 shows that for this year alone the company accepted over 5,000 bills from over 250 different cities all over the world (Huth Papers, Bills Payable-199).

All in all, this paper provides the first account of the credit facilities given to Huth & Co.'s correspondents. More importantly, it analyses the strategies the firm used to protect itself against the risks associated with lending to so many merchants all over the world and dealing in so many different products. Indeed, Huth& Co.'s credit networks were seemingly beyond the limits a single credit network could support before 1850, when face-to-face contacts were uncommon.

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4 In Levy's celebrated book, the author is right to stress that risk management was born sometime during the nineteenth century given the increasing complexities of capitalist economies. Levi 2014, p.1.

5 The company lasted until 1936, when it was eventually dissolved, although there is not much information for the firm for the post-1850 epoch. That is, it is not possible to give an account of how and why the firm collapsed.

The article will also contribute to the ongoing debate about the origins of the intensification of a global economy in the first half of the nineteenth century, as well as to a better understanding of under-explored commercial practices during this period, such as the use of letters of credit, advances on consignments and all the arrangements needed to succeed in multilateral trades involving complex transactions.

The main source of information for this article is the Huth collection currently in possession of University College London, Special Collections. This collection comprises over 180 volumes of business correspondence for my period of study. I have also consulted the Huth papers at divers smaller collections.[6] This paper consists of five sections. In the first, I provide a very brief history of this company, followed by a concise account of the global networks created by Huth & Co. and of the main products they traded or helped others to trade in order to better understand which commodities Huth & Co.'s credit was most associated with, and in which countries. This is followed by a description of the way Huth & Co. gave credit to support the trades in which the company participated. The fourth section concerns the merchants and goods benefiting from Huth & Co.'s credits, touching on the concepts of trust and the risks associated with these credits, and how Huth & Co. protected themselves from them. The fifth section deals with credit to finance international capital flows, in particular American securities destined for Europe. Section six is on financing trade of securities, and the last section concludes.

2. Brief History of the Company

For those unfamiliar with this house, a brief biography is helpful (for more details on this company see Llorca-Jaña, 2012 and Llorca-Jaña, 2013). The founder of this company (Frederick Huth) arrived in London in 1809 escaping Napoleon's invasion of the Iberian peninsula. He had previously worked as an apprentice at a Basque merchant house with branches in both Hamburg and Corunna,[7] with both working experiences proving to be the foundations of a global enterprise. In London, he established as a merchant selling and buying goods on commission. Within a few years of operations he had created a vast network of contacts. By 1825 he had over 500 correspondents in five continents. Subsequently, this merchant further expanded the remit of his operations and opened branch houses in Peru, Chile and Liverpool, as well as agencies in many other locations in Europe, the Americas and Asia, thus further enhancing his global connections.

By 1850 the firm's accumulated list of correspondents encompassed contacts in over 70 countries and more than 600 cities (Llorca-Jaña, 2014), many of which enjoyed open credit with Huth & Co. Indeed, by the late 1840s the firms

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6 University of Glasgow, Special Collections; Baring Brothers papers at ING.

7 The location of this Spanish house was not unusual at that time, since many Basque merchants established themselves in European Atlantic ports during the 1780s-1790s, including places like Bayonne, Bordeaux, Amsterdam, Ostend, London and Hamburg. Angulo-Morales 2011, pp. 198-200; Aragón & Angulo-Morales 2013, p. 171.

was **accepting bills amounting to £2M-£3M per annum.** Yet, important as these lending volumes are, Huth & Co.'s credit activities have not been studied before. This is unsurprising, given that the literature on international business has been mainly concerned with manufacturing rather than services (Jones, 1998).

Huth & Co.'s spectacular business expansion took place when transaction costs were very high. Nonetheless, Huth & Co. became one of the most prominent merchant-bankers of London, becoming part of a select group of some fifteen merchant-bankers operating in the English capital during the first half of the nineteenth century (Lisle-Williams, 1984), and ranking second only to Baring Brothers and Rothschild (Jones, 2004). Despite Huth & Co.'s prominence, there is no specific work dealing with their credit strategies. Indeed, the bulk of the research so far published on British multinational trading companies deals with the second half of the nineteenth century and the twentieth century (Jones, 2000).

3. A Global Network of Trade and Lending: Geographical Coverage and Products Financed

Table 1 gives a good indication of Huth & Co.'s business correspondents (per countries) for the whole period dealt with in this article. The information displayed in the table shows that Huth & Co. dealt with at least 6,200 business correspondents between 1812 and 1850, and they were located in about 70 modern countries and in over 600 different towns and cities. It is true that 58% of these correspondents resided in the United Kingdom, Germany or Spain (which is in part explained by Frederick Huth's places of current and former residence), but it is also the case that for most of the countries listed in the table Huth & Co. had at least one strong connection in place (i.e. either a branch, a formal agent or a good 'friend'). In turn, to many of these correspondents, whether in Britain or abroad, Huth & Co. were happy to provide credit, most of the time as advances on consignment of divers products. That is, we are dealing with a truly global institution providing liberal credits to finance international trade at a very early period.

Regarding the structure of the firm, although the headquarters were in London, Huth & Co. opened branch offices in Peru, Chile and Liverpool. In addition, a vast network of confidential agents were appointed in key locations such as Canton, Manila, New York, Mexico, Buenos Aires, Hamburg, Bremen, Corunna, St. Petersburg, Paris and Cadiz. Another interesting point to highlight is that Huth & Co. was regularly dealing with an impressive range of different products, including such widely traded commodities as sugar, silver, textiles, iron, timber, tobacco, coffee, tea, grains, quicksilver, raw cotton and wool, to mention only those in which Huth & Co.'s expertise was legendary. But Huth & Co. also traded ponies, flutes, pianos, and even exotic goods such as elephant teeth, deer horns, and chinchilla skins. This tremendous diversification was a direct result of the 'new' world in which Huth & Co. manoeuvred after Napoleon's defeat and the consequent booming European trade.

Finally, Huth & Co. advanced funds to many merchants involved in these trades. I am not aware of any other London merchant trading in so many goods and in so many quarters of the world before 1850. Most leading London merchant-bankers during this period made their fortunes in the financial sector and/

TABLE 1

LOCATION OF HUTH'S CORRESPONDENTS. A SAMPLE FOR 1812-1850

Americas			Rest of Europe			Asia		
Argentina	50	0.8%	Austria	57	0.9%	China	26	0.4%
Belize	2	0.03%	Belgium	222	3.5%	India	76	1.2%
Bolivia	2	0.03%	Croatia	1	0.0%	Philippines	12	0.2%
Brazil	75	1.2%	Czech Republic	37	0.6%	Singapore	3	0.05%
Canada	3	0.05%	Denmark	14	0.2%	Sri Lanka	3	0.05%
Chile	15	0.2%	Finland	6	0.1%	Turkey	5	0.1%
Colombia	5	0.1%	France	364	5.8%	Asia	125	2.0%
Costa Rica	1	0.02%	Germany	1,440	23.0%			
Cuba	132	2.1%	Gibraltar	15	0.2%	África		
Curazao	3	0.05%	Greece	2	0.03%	Madeira	1	0.02%
Ecuador	11	0.2%	Guernsey	3	0.05%	Libya	1	0.02%
Guyana	3	0.05%	Hungary	1	0.02%	Mauritius	4	0.1%
Haiti	5	0.1%	Ireland	20	0.3%	Sierra Leone	1	0.02%
Jamaica	13	0.2%	Italy	94	1.5%	South Africa	9	0.1%
Mexico	143	2.3%	Latvia	24	0.4%	Tunisia	2	0.0%
Nicaragua	1	0.02%	Lichtenstein	1	0.02%	Africa	18	0.3%
Panamá	5	0.1%	Lithuania	1	0.02%			
Peru	70	1.1%	Luxembourg	2	0.03%	Australia		
Puerto Rico	22	0.4%	Malta	5	0.1%	Australia	24	0.4%
Uruguay	10	0.2%	Netherlands	168	2.7%			
USA	197	3.1%	Norway	31	0.5%			
Venezuela	29	0.5%	Poland	124	2.0%	No available	202	3.2%
Virgin Islands	17	0.3%	Portugal	27	0.4%			
Ameritas	814	13.0%	Russia	32	0.5%			
United Kingdom			Spain	870	13.9%	Grand Total	6,274	100%
England	1,115	17.8%	Sweden	124	2.0%			
Northern Ireland	28	0.4%	Switzerland	88	1.4%			
Scotland	152	2.4%	Ukraine	5	0.1%			
Wales	18	0.3%	Rest of Europe	3,778	60.2%			
UK	1,313	20.9%						

Source: Huth Papers at UCL Special Collections (HP), Spanish letters (HPSL); German Letters (HPGL); and English Letters (HPEL). I have used modern geographical borders to classify countries.

or trading commodities with fewer quarters of the world and in fewer products, while smaller merchants specialised in a few countries and/or a few products. It was only after the 1850s, when international communications and transport improved, that merchant-bankers diversified as Huth & Co. had done decades before (Chapman, 1984; Chapman, 1992; Jones, 1998; Jones, 2000; Roberts, 1992; Hidy, 1949; Ferguson, 1999; Llorca-Jaña, 2014).

4. The Nature of Huth & Co.'s Credit Activities

Huth extended a great deal of credit to finance international trade, but there are some clear dividing lines as far as Huth & Co.'s involvement in these trades is concerned. Although Huth & Co. operated occasionally on own account and joint accounts, most of their dealings were on commission, and in turn most of the credit advanced by Huth & Co. to other merchants was for commission business.[8] Huth & Co. of London received many consignments from many quarters of the world. For example, they received raw cotton from the USA, India and Peru, tea from China, and raw wool from Spain and Germany. They also received consignments of sugar from the Philippines, Cuba, Puerto Rico and Brazil, and of cacao from Venezuela. Many of these exporters outside Britain lacked capital, and therefore asked Huth & Co. for advances, which in many cases were granted. That is, because of Huth & Co.'s unique diversification, the bills accepted by the firm originated from a wider geographic area than those of any other merchant-banker of this period, and these drafts also reflected the wider diversity of goods handled by Huth & Co. in contrast to his competitors. Likewise, Huth & Co. also obtained consignments in Britain of divers products to be sent to their branch houses in Chile and Peru, or to agents and 'friends' elsewhere in the world. For example, cottons suppliers in Manchester would consign both to Huth & Co.'s establishments in South America, but also to Huth & Co.'s contacts in Mexico, Buenos Aires and many other places. Many of these British industrialists, despite belonging to a region rich in capital, often requested advances from Huth & Co. In the same vein, French and German merchants consigning to Huth & Co.'s establishments in the West Coast or Huth & Co.'s friends in Spain and Asia would also request advances.

Finally, Huth & Co. also advanced funds to many merchants even if they were not consigning to either Huth & Co. in London (or Liverpool) or to Huth & Co.'s branches or agencies elsewhere in the world. For example, a sugar exporter in Cuba sending his cargoes to a contact of Huth & Co. (which was not a branch or a formal agent) in the Netherlands could also benefit from Huth & Co.'s advances. Likewise, a British or German manufacturer sending textiles on consignment to places where Huth & Co. did not have a branch or an agent could also obtain Huth & Co.'s credit.[9] Therefore, we are talking here about credit extended by Huth & Co. for trades that never touched either British ports or ports in countries in which Huth & Co. had branch houses or confidential agents. This confirms Chapman's judgement that merchant bankers based in London 'were free to recognize and patronize innovating enterprise from whatsoever corner of the globe it came' (Chapman, 1979a). But more importantly, by financing trades that never docked in Britain (e.g. accepting bills from issuers who did not belong to Huth & Co.'s jurisdiction) or in places where Huth & Co. had a branch or a confidential agent, Huth & Co. was expanding his most 'obvious' lending network beyond its normal limits.

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8 That is, Huth were intermediaries in international trade, linking buyers and sellers. For a theoretical discussion of this point see Casson, 1998.

9 At this point I want to distinguish between the nature of Huth's correspondents. A branch was obviously part of Huth & London (i.e. Huth London would share in the ownership of the said branch). A formal agent was not a branch, but there were in place formal contracts to share profits of the operations generated by mutual business. Finally, in the case of a 'friend', there were no formal contracts in place to share profits, just mutual loyalties, and both parties benefited from the mutual business.

So far I have talked about Huth & Co.'s credit and advances, but no major explanation has been given. What exactly was an 'advance'? An advance was a flexible form of credit, which varied across merchant-bankers. In the case of Huth & Co., it was 'funds' supplied to consignors as a proportion of the invoiced cost of cargoes. The most usual practice was that the consignor was permitted to draw on the consignee (e.g. Huth & Co.) or on another merchant backing the consignee for a proportion of the value of the consignment, most usually at 3-6 months sight, but not unusually at 6-12 months too, well before remittances for these consignments were received. That is, Huth & Co.'s advances were used for short, medium and long-term finance. After agreeing terms, the merchant banker would accept the bill, but only after charging 0.5%-1% as acceptancy commission. These drafts could be cashed at maturity or discounted immediately after acceptance (thus receiving the face value of the bill minus a discount rate).[10]

That is, advances were money provided before sales had taken place or before remittances had been received, usually at a rate of 5-6% per annum. This interest applied from the time the bill expired to the actual payment of the funds, which were paid for with the remittances associated with the consignment. Of course, Huth & Co. was not willing to wait for too long as Huth & Co.'s capital was not unlimited: 'if any goods should remain on hands at the expiration of twelve months from their first landing, the advance therein is to be entirely repaid to us'.[11] Finally, if the drafts were cashed after acceptancy, the usual discount rate (given Huth & Co.'s high reputation in the London market) was very close to that of the Bank of England,[12] a practice which did not bother Huth & Co.: 'it may be quite indifferent to us through whom they discount their bills'.[13] Once Huth & Co. had accepted the draft, all they cared for was paying it at maturity and subsequently recovering the funds as soon as possible.

Advances were given because of the considerable time between the delivery of goods and the receipt of the related remittances (Chapman, 1979b), in particular before the transport and communications revolutions of the second half of the nineteenth century (e.g. the expansion of railroads all over the world, the launching of steam packets companies, and the introduction of telegraph including submarine cabling). For example, British textile exporters to South America might wait for around 18 months. During this period, manufacturers needed to buy raw materials to continue production. If it was not the manufacturer who received the advance but an intermediary merchant, the latter had to buy new manufactured goods to continue shipping. In the case of a producer of raw materials consigning to Europe something similar happened. The constraint was always the same: cash restrictions to carry on operating. Therefore, to avoid liquidity problems the consigner often had no option but to borrow money from the merchant-banker by drawing upon him.

10 It is worth mentioning that discounting developed quickly into a standard tool during the eighteenth century in Britain (Smail 2003), although it grew in popularity during the first decades of the nineteenth century.

11 HPEL-45, Huth & Co. to Rawson (Halifax). London, 16 January 1845.

12 HPIL-S/SCOT/4. Finlay Neilson to Huth & Co. (London). Glasgow, 13 May 1833.

13 HPEL-6, Huth & Co. to H. H. Stansfeld (Leeds). London, 18 August 1830.

Despite its apparent simplicity, advancing was a very complex and varied system, about which it is difficult to generalise. The bills accepted by Huth & Co. did not amount to a homogenous financial instrument; the agreed terms depended on many variables such as the standing of the issuer and the nature of the goods whose trade was financed. It all depended on divers factors such as the saleability of the goods being shipped, the availability of credit in the market, the economic situation in the destination market and the trustworthiness of the consigner. For instance, in Huth & Co.'s case there was a great deal of flexibility over the rate of advances rather than, say, standardising them at half the invoice value of cargoes. Furthermore, the same rate of advance was not always extended to a given supplier. With Rawson Saltmarshe (textile manufacturers), Huth & Co. had not one but several accounts for exports to South America, for some of which Huth & Co. advanced one-fifth of the invoice value of cargoes, while for others as much as four-fifths. Similarly, for Saltmarshe, once the partnership with Rawson was dissolved, Huth & Co. advanced from one-fifth to three-quarters of the invoice value.

There was, of course, an upper limit to the proportion of advances given. This for Huth & Co. was around three-quarters of the invoice value of cargoes, already an exceptional rate. The reasons for establishing a limit were clear. On the one hand a consignor needing 80-100% of the value of the consignments would be considered as a man of little property or with a proclivity to speculation. On the other hand, Huth & Co. wanted to lend but needed the associated export operation to be fully covered to avoid overadvancing: the risks of adverse selection were always present. Issuers could be tempted to inflate the expected value of the return sales of their goods. Only in very exceptional cases would Huth & Co. advance for 100% the bona fide value of the invoice. This would happen for example for commodities such as tea, about which Huth & Co.'s expertise was outstanding, as was Huth & Co.'s prediction of future prices.[14] Another exception was Stock & Sons, the only English manufacturer that received advances for the whole value of their invoices because their goods were considered as 'articles of the first importance',[15] and also on account of a succession of successful deals. In contrast, if Huth & Co. was not conversant with a trade, advances were rarely effected for those products. Finally, to consigners based in Britain (i.e. residents in the same jurisdiction as Huth & Co.) the rate of advance was usually higher than for those based elsewhere, since it was easier to recover unpaid debts if the advances' receptor resided in the same country as the merchant advancing monies, given the respected institutions in place in Britain at that time to protect private property. Experience had taught London merchant-bankers that the legal process of recovering debts abroad was very expensive (Chapman, 1984), and at times impossible.

Apart from all these differences with regard to rates and upper limits of advances, there were other variations. With some suppliers, advances were

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14 For example Kennedy McGregor of Canton drew against Huth for up to £20,000 for advances on tea consigned to London at a rate of 75% of the value of the cargoes, and for up to £5,000 at a rate of 100% of the value of the invoice if strictly necessary. HPEL-59. Huth & Co. to Kennedy McGregor (Canton). London, 24 February 1849.

15 HPEL-14, Huth & Co. to H. H. Stansfeld (Leeds). London, 17 July 1835.

only given against a bill of lading, which was called a documentary credit. For example, one of Huth & Co.'s agents in Glasgow (Guthrie) could draw against Huth & Co. on account of advances for textiles shipped to the Americas only after Huth & Co. had received the corresponding bill of lading through which legal title of the goods remained with Huth & Co.[16] For others, who were less reliable or were new exporters, loans were made only when the goods had arrived at the final destination, as when Rawson, a woollen supplier of Halifax, started to consign to Huth & Co.[17] In extreme cases, the arrival of goods at their destination was a necessary, but insufficient, condition to make an advance. In addition, the goods needed to have been sold (usually on credit). That is, advances were given against an account credit sale.[18] In conclusion, Huth & Co. clearly classified correspondents according to their standing in relation to Huth & Co.'s perceived risks in dealing with them. Therefore, the nature of the collaterals requested by Huth & Co. was bound up with the borrower's reputation, and varied according to the type of correspondents thus classified by the firm. Huth & Co.'s differential treatment of their clients was also practised by other merchant bankers of the period such as Baring Brothers. For example, in their Anglo-American trade, Barings classified their customers in the USA as men of unquestioned means and trust; men of slightly more modest account and reputation; and safe respectable businesses on a smaller scale. To the first group of reliable contacts, advances were liberally extended and no invoices, bills of lading or insurances were requested, but when dealing with the third group Barings asked for full shipping documents (including insurances) to be sent to London (Austin, 2007).

When advances involved the consignment not of British manufactures but of primary products sent to Britain or continental Europe, then the most usual requirement from Huth & Co. was for the consignor to send the drafts with the bill of lading (and order for insurance), a practice that would ensure that the drafts 'will be duly honored on presentation'.[19] For example, Merle & Frey, cotton consigners of New Orleans, were authorised to draw against Huth & Co. for up to two-thirds of the value of the consigned cotton, but only after sending the bill of lading.[20] Likewise, Nye Parkin of Canton regularly sent Huth & Co. in London consignments of tea and raw silk, which received advances only if the drafts were sent with the corresponding bill of lading.

In relation to Huth & Co.'s practices, limits were not only imposed on the upper rate of the advance, but also on the total amount of loans made. That is, a consigner could not continue to ship cargoes at the agreed rate of advances (e.g. 50%) if he exceeded the limit on money borrowed in absolute terms (e.g. £5,000). That is, Huth & Co. wanted to control not only the size of individual credits related to specific operations but also the total volume of credits. For

16 University of Glasgow, Special Collections, MS Gen 533/2, Guthrie to Huth & Co. (London). Glasgow, 9 April 1832.

17 HPEL-37, Huth & Co. to Huth & Co. (Liverpool). London, 24 February 1843.

18 HPEL-13, Huth & Co. to Stewart & Wilson (Glasgow). London, 13 January 1834.

19 HPEL-45, Huth & Co. to Nye Parkin (Canton). London, 7 January 1845.

20 HPEL-22, Huth & Co. to Huth (Liverpool). London, 10 January 1839. The House of Brown requested the same before advancing for consignments from the USA to Britain. Perkins, 1975.

instance, when the rate of advance for Rawson was set at two-thirds, Huth & Co. also established that 'we should at the same time limit the extent of our acceptancy to ten thousand pounds at the utmost'.[21] However, in the same way that on occasion the limit on the rate of advance was relaxed, so also was the limit on the total amount lent to exporters.

Why was this the case? There was always a temptation to boost revenues, as well as to treat some customers better than others. Yet, this relaxation had a clear limit. No matter how trustworthy a merchant was, Huth & Co. never went above £20,000 as an overall acceptance limit. The risk of default was always there, regardless of the client, in particular during a period of financial crisis. For example, when in 1830 Guthrie of Glasgow failed, according to Huth & Co.'s agent, there were rumours circulating in the market that they owed £30,000 to Huth & Co. in advances, gossip Huth & Co. was quick to correct: 'it is not likely that we shall ever run into such an advance with any house how much so ever superior in credit to the one above mentioned'.[22] Finally, even if a consignor had an overall acceptance limit of, say £15,000, often limits were also established on individual transactions or expeditions, in our example, say £5,000.[23] Risks associated with moral hazard could materialize at any moment, as Huth & Co. well knew.

Finally, regarding advances, often Huth & Co. was only an intermediary in the whole credit chain. For example, a textile manufacturer consigning to a house in Mexico via Huth & Co. would draw against Huth & Co. because no one in Manchester would take a draft from a house in Mexico. Yet, at maturity the draft had to be covered by the house in Mexico if they actually wanted to get the consignments. For this kind of service, which was offered only to very close friends or agents, Huth & Co. charged 1% upon the value of the draft,[24] but if the draft was not covered at maturity, then the commission would increase to 2.5%. Likewise, to their branch houses in South America or confidential agents elsewhere, Huth & Co. also offered a similar service whereby return remittances were sent with a bill of exchange on Huth London (instead of using local produce or bullion/specie). For example, imagine a manufacturer in Britain sending goods on consignment to Huth & Co.'s houses in South America, receiving remittances on a bill of exchange at several months' sight on Huth London waiting for 'the usual remittance to cover it' (e.g. silver). In this case, the consigner could either discount the bill with any merchant, or with Huth & Co. themselves, a service they were happy to provide: 'If you have no objection, we should much prefer to pay this bill under discount at 4% per annum',[25] which was certainly a preferential rate.

Apart from the advances system above described, another form of credit used by Huth & Co. was the letter of credit. Letters of credit were similar to bills of exchange, but were not endorsable (i.e. could be used by a designated merchant only) and were generally used by Huth & Co. for trades between two

21 HPEL-37, Huth & Co. to Huth & Co. (Liverpool). London, 24 February 1843.
22 HPEL-6, Huth & Co. to Stansfeld (Leeds). London, 9 November 1830.
23 HPEL-23, Huth & Co. to Ward (Baltimore). London, 16 May 1839.
24 HPEL-59, Huth & Co. to Drusina (Vera Cruz). London, 1 January 1849.
25 HPEL-58, Huth & Co. to Smith (Dundee). London, 28 November 1848.

distant points beyond Britain. That is, it was an instrument that depended to a great extent on geography, and it is also worth mentioning that the volume of Huth & Co.'s credit associated with this instrument in particular was far lower than that associated with bills of exchange. But how did Huth & Co.'s letters of credit work?

Huth London would grant a business 'letter' (serving as a mean of introduction) for a close connection (buyer of goods) directed to another connection (seller of goods) allowing the bearer of the letter (buyer) to buy in a third place goods to a maximum amount (e.g. £5,000) from the seller. Huth & Co. in turn promised to pay the seller at a given time, usually with a draft after receiving the shipping documents associated with the operation. That is, the letter was a direct promise to the seller of goods; it was an instrument based on trust since the seller unquestionably trusted Huth & Co. as a guarantee. Indeed, for the period covered by this article, letters of credit were 'confined to those cases where there was constant dealing between two or more mercantile houses that normally traded on an open account or credit basis'(Kozolchyk, 1965; Roberts, 1992). That is, for regular trades involving merchants known to each other: Huth & Co. had to trust the buyer and the seller trusted Huth & Co.. It was only Huth & Co.'s international reputation that allowed Huth & Co.'s close friends to buy goods all over the world under this system, often in places where the legal framework did not cover protests. This is a clear example of a case where different credit instruments needed different collaterals. In this case, more reputation was needed than would have been necessary for bills of exchange, in particular because Huth & Co.'s letters of credit were generally used in distant places where the legal framework was less friendly to recovering potentially uncovered debts.

In our case, the letters of credit were used between Huth & Co. and their branches, agents or good friends lacking capital to buy goods in distant markets. They were not granted to anyone else. For example, to Russell of New York (one of Huth & Co.'s main contacts in the USA), Huth & Co. granted letters of credit to purchase sugar in Cuba or Brazil from Huth & Co.'s correspondents there (or to other merchants who could be trusted and were willing to trust Huth & Co.) for the consignment of Huth & Co.'s houses in either Chile or Peru.[26] The sellers would then draw against Huth London on account of these shipments from, say, Cuba. Likewise, to Kennedy McGregor of Canton Huth & Co. granted letters of credit to procure tea in China and send it to Huth & Co. in London for up to £20,000,[27] while Nye Parkin of the same city was granted a letter of credit for £30,000 for the same purposes.[28] In all of these cases Huth & Co. did not run major risks since the produce bought was eventually consigned to Huth & Co. or Huth's branches.

Yet, in other cases Huth & Co. took higher risks. For example, in 1839 Huth & Co. provided Maneglier (an agent for the Société de Commerce of Antwerp), letters of credit to purchase produce in Manila from Russell Sturgis for the consignment of the Société de Commerce in Belgium.[29] Likewise, when the

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[26] HPEL-17, Huth & Co. to Russell (New York). London, 30 January 1837.
[27] HPEL-59, Huth & Co. to Kennedy McGregor & Co. (Canton). London, 1 January 1849.
[28] HPEL-59, Huth & Co. to Nye Parkin (Canton). London, 24 February 1849.
[29] HPEL-23, Huth & Co. to Russell Sturgis (Manila). London, 2 April 1839.

Royal Prussian Maritime Company of Berlin dispatched a ship to the West Coast of America from whence she was intended to proceed to Manila, to take in a return cargo for Germany, Huth & Co. granted a letter of credit to the captain of the said ship to purchase produce in Manila from Russell Sturgis for up to £8,000,[30] an important amount at that time. In these cases Huth & Co. did not have a 'physical' collateral to cover their accepted drafts, only the intangible reputation of the buyers and sellers.

5. Additional Credit Risk Management Strategies

Huth & Co.'s favourable predisposition to extend advances was not translated into a frantic search to lend. I advanced above some basic precautions taken by Huth & Co. to protect against the risks associated with lending. Merchant houses in Britain lent to those they thought could repay; to individuals whose collaterals and/or likelihood of repayment inspired trust. Or, in the words of Chapman, 'credit required trust, and trust could only be accorded to customers whose means and probity were assured' (Chapman, 1992). To ensure clients' means and integrity, Huth & Co. endeavoured to obtain as much detail as possible about the borrower's financial health. Crucial to this task was the information Huth & Co. collected periodically on all established or potential clients. This included the reports sent by Huth & Co.'s branches, friends or confidential agents on particular clients, which contained critical and confidential information. Take, for instance, a confidential report sent by Huth Liverpool after Huth London sent them a special information request about two potential new borrowers:

> Both the houses about which you enquire enjoy a very good credit here. The former is a cotton broker & dealer said to be very rich and trustworthy. The latter has not long been established, his business is confined exclusively to cotton imports & purchases of the same article for his friends at Havre and we believe he is strongly backed by one of the leading houses there.[31]

But even old clients were permanently monitored, in particular when there was a significant change in the market situation, as seen in this example: 'Can you ascertain how far Messrs Aschen & Co. of your city, with whom we have a similar transaction to a small extent, have been affected by the late events?'.[32]

Indeed, when advancing, other merchant-bankers such as Baring Brothers concentrated overwhelmingly on ensuring the credit trustworthiness of the lender: 'Barings frequently issued unsecured credits and counted totally upon their selectiveness in choosing reliable customers to reduce their risk' (Perkins,

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30 HPEL-16, Huth & Co. to Russell Sturgis (Manila). London, 18 October 1836.

31 HPEL-26, Huth & Co. to Huth & Co. (London). Liverpool, 6 June 1839. Before opening the branch in Liverpool, Castellain Schaezler & Co. were the main source of intelligence, as seen in this example, amongst many: 'Messrs. Penny Brothers as well as Watson Brothers are in the Mexican trade and enjoy a fair credit, though they are not supposed to have any large property'. HPIL, Castellain Schaezler & Co. to Huth & Co. (London). Liverpool, 24 August 1831.

32 HPSL-Huth & Co. to Gil Kennedy & Co. (Paris). London, 13 April 1848.

1971), and to have few accounts with little trouble to administer (Chapman, 1984). In contrast to Barings, apart from ensuring the borrower's reliability and credit record, Huth & Co.'s advances were given mostly to those who could ship saleable products.[33] Furthermore, they made no restrictions on the number of clients, even if they had to administer many hundred accounts, as Huth & Co. explained to one of their Glasgow agents.[34]

Huth & Co.'s wider than usual portfolio was undoubtedly difficult to monitor. And although it is true that Huth & Co.'s advances never exceeded the estimated value of the consignments upon which the advance was extended, it is also the case that Huth & Co. was very aware of the fact that often some connections just sent consignments 'for the sake of advances'.[35] The threat of moral hazard or adverse selection could always arise, regardless of having taken some basic precautions such as those described in the previous section. That is, advancing could be a risky operation during the first half of the nineteenth century if the lender did not take additional provisions.[36] Indeed, often merchants intentionally consigned goods which were not fully suitable for the destination market, and as a consequence the final price on the spot could be far lower than expected, or the goods were not sold at all. For example, in 1839 a German firm wanted to draw against Huth & Co. on account of advances for goods which had remained on hand for longer than expected, and Huth & Co.'s belief at that time was that 'it seems to us that Messrs. Eisenstuck & Co., seeing that they are unsaleable, wish to saddle us with them in this way'.[37]

Therefore, to protect against these kinds of risks, as a general rule Huth & Co.'s advances were given only if they had a good knowledge of both the product being traded and the foreign market to which goods were exported. This close monitoring was crucial for heterogeneous goods such as textiles, since demand for these products was specific to each market. For example, as far as exports to South America is concerned, Huth & Co. advanced only to those producing manufactures specially designed for the local markets, following clear advice from Huth & Co.'s branches on the spot. If consignors did not follow Huth & Co.'s instructions, then a warning was given. In 1830, for instance, Huth & Co. expressed some concerns for advances given to some of the Glasgow connections of one of their agents there, since some of the cargoes associated with these consignments were of poor quality, which rendered the business too risky.[38]

Although the risks associated with unsaleability mainly affected heterogeneous goods such as textiles, it was also the case that more standardised products (e.g.

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33 The saleability depended on the local demands to which the products were destined. For example, textiles exported to South America had to meet the precise requirement of local customers. For primary products something similar happened. For instance, dirty wools were not in demand in Britain, but they could be bought in continental Europe.

34 HPEL-13, Huth & Co. to Stewart Wilson (Glasgow). London, 13 January 1834.

35 HPEL-11, Huth & Co. to Finlay Neilson (Glasgow). London, 11 January 1833.

36 That said, merchant-bankers were up to the challenge, or in the words of Levy for the American economy as a whole but equally applicable here: 'as daunting as the task of managing risk could be, there was also the existential thrill of taking a risk'. Levy 2014, p. 2.

37 HPEL-23, Huth & Co. to Huth & Co. (Liverpool). London, 24 April 1839.

38 HPEL-6, Huth & Co. to Laurie Hamilton (Glasgow). London, 26 August 1830.

sugar, cotton and wool) suffered on many occasions. For example, one of Huth & Co.'s most important trades was imports of wool from many quarters. Yet, despite Huth & Co.'s expertise, the firm was saddled with poor quality primary products several times, as when Rhodes of Buenos Aires was authorised to draw against Huth & Co. for wool consignments. The first of these cargoes, though, gave very poor results. After acknowledging the reception of this cargo, 'which have been landed in a good condition', Huth & Co. reported that 'on examination we find, however, to our sincere regret, the quality of these wools so greatly inferior to the description you gave us of them, that we can hardly help thinking some mistake or other must have occurred in regard to this shipment on your side'.[39]

All in all, advances ought to be given for saleable goods only, regardless of their nature. And indeed, for those trades or products falling within Huth & Co.'s expertise, the rate of advance was always higher than for other products about which Huth & Co. did not feel particularly comfortable, even for advances given to the same merchant. For example, to Nye Parkin of Canton, Huth & Co. was happy to advance as much as 75% of the value of tea or raw silk consignments, but for any other product consigned from China to London never more than 50%.[40] Likewise, to Adams Whitall of New Orleans, Huth & Co. was happy to advance up to 75% for raw cotton shipments, but only 67% for tobacco cargoes.[41] This difference was on account of Huth & Co.'s higher expertise in tea and cotton, trades they came to dominate from the 1830s.

Another related risk for the merchant advancing was that even if the goods consigned were saleable, they could be invoiced at an unrealistic (higher than market) value, and therefore the advance given could be even higher than the eventual sale. According to Huth & Co., often there was a 'general system of overcharging the invoices' among unscrupulous merchants.[42] Furthermore, even if the consignor had no intention of overcharging an invoice, it could happen because market conditions usually changed, in particular in long-distance trades where a considerable period elapsed between the time the goods left the exporter warehouses and the arrival time at the final destination.[43] That was one of the main reasons why limits were established upon the rate of advance given. To protect against this risk the merchant-consignee advancing monies had to be a real expert in the product being traded, so as to anticipate future realistic prices. For example, when a textile supplier in Britain receiving advances from Huth & Co. for exports to South America tried to invoice at higher values than those which Huth & Co. thought were market values on the spot, Huth & Co. was quick to reply, albeit sarcastically, that: 'the proceeds will not cover the invoice, and if the invoice prices are the real cost, we could not encourage further shipments unless a change takes place either here or in the sale prices… we would not upon any account induce you to embark again in a losing concern'.[44]

39 HPEL-35, Huth & Co. to Gowland (Buenos Aires). London, 6 Jul 1842.
40 HPEL-45, Huth & Co. to Nye Parkin (Canton). London, 7 January 1845.
41 HPEL-22, Huth & Co. to Adam Whitall (New Orleans). London, 26 January 1839.
42 HPEL-6, Huth & Co. to Laurie Hamilton (Glasgow). London, 26 August 1830.
43 This happened often, even for standardised commodities such as cotton. See Perkins, 1975.
44 HPEL-14, Huth & Co. to Halliday (Sanquhar). London, 22 July 1835.

In addition, to ensure the repayment of advances, most of the time Huth & Co.'s advances were closely linked to consignments they controlled, where the consigned merchandise was regarded as collateral. That is, we are talking about consignments sent directly to Huth & Co. in London and Liverpool, or to Huth & Co.'s branch houses, agents or very close friends elsewhere in the world. In this way, Huth & Co. or Huth & Co.'s allies would have access to the income for selling the merchandise under consignment, which was the only effective way of ensuring repayment against all events. Even when the consignments receiving advances were not sent directly to Huth & Co., this merchant-banker often requested that the bill of lading and invoices went under his name, as for example happened for sugar cargoes from Havana to St. Petersburg.[45] It is true that collaterals could suffer from moral hazard issues, and that the merchandise associated with them could not be repossessed, but Huth & Co.'s main aim was to shoulder most risks to other merchants while retaining control of the trade. For example, when an American merchant asked Huth Liverpool for credit to be placed at the disposal of Rhodes of Buenos Aires for shipments of hides to continental Europe or eventually to the US, to parties which were not sufficiently close to Huth & Co., the firm answered that 'it would be contrary to the principles of a Liverpool house to grant a simple banking credit for shipments not coming under its own control'.[46]

Another risk was that of the goods being damaged or lost, usually at sea or because of fire. During the 1810s-1850s, seawater damage was a recurrent issue in long-distance international trade. All kinds of products were damaged, from textiles, to sugar, cinnamon, hides, tobacco and jerked beef. To protect against this risk, Huth & Co. customarily effected marine insurances and fire insurances by themselves to protect those goods in which Huth & Co.'s advances were involved, as Huth & Co. thought that those risks 'must in these cases be always covered through us'.[47] After all, 'the specific branch of merchant capital that invented risk management was marine insurance' (Levy 2014, p. 21). In turn, the insurance policy would state that in case of any loss, payment had to be made to Huth & Co. by the underwriters, thus further protecting Huth & Co. Indeed, when a consigner receiving advances wanted to ensure his goods by himself, this was Huth & Co.'s answer: 'If we have to make advances, we must of course make ourselves the insurance'.[48] Huth & Co. was protecting himself against both exogenous risks to their commercial activity (which depended on variables such as transport quality and weather conditions, for example) and endogenous risks to the firm's activities (which depended mainly on the quality of Huth & Co.'s network).

Huth & Co. resorted to at least 150-200 different names in Lloyds during the late 1810s and early 1820s. The value of policies taken by these names varied between as little as £50 to as much as £20,000, although the modal rates were £100-£300.[49]

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45 HPEL-45, Huth & Co. to Drake Brothers (Havana). London, 15 February 1845.

46 HPEL-31, Huth & Co. to Pope Aspinwall (Philadelphia). London, 3 March 1841.

47 HPEL-13, Huth & Co. to Stewart Wilson (Glasgow). London, 13 January 1834. A similar practice was enforced by the House of Brown. Perkins, 1975.

48 HPEL-3, Huth & Co. to Stansfeld (Manchester). London, 20 April 1829.

49 See also HPINL-261; HPINL-262.

These were times when the British insurance market was dominated by Lloyds and by two companies chartered in 1720 (London Assurance Corporation and the Royal Exchange Assurance Corporation). For over 100 years, the British marine insurance market consisted of these two companies and the private underwriters operating mainly at Lloyds. By law, no other corporation could enter the market. Freedom to establish new companies was not granted until 1824, when Nathan Rothschild's Alliance Marine Insurance Company was created as part of the repeal of the 1720 Act. In the same year, another company entered the market, the Indemnity Mutual, followed by others in subsequent years (Llorca-Jaña 2010). As part of this development, from the mid-1820s Huth & Co. started to resort to the services of the Royal Exchange Assurance Company; Marine Insurance Company; Alliance Assurance Company; Neptune Assurance Company; Indemnity Assurance Company; Atlas Insurance Company; amongst others.

In the case of open credit (either through bills or letters of credit), in instances in which Huth & Co. would not have exact knowledge of when the merchandise associated with their advances left the port of origin, then open insurance policies were always in place (beforehand) to further protect Huth & Co.'s credit, as seen in this letter: 'We shall take care to open policies of insurance to the amount of £45,000 intended specially to cover all shipments made in virtue of this letter of credit'.[50] Likewise, given the recurrent seawater damage suffered by products traded internationally during the period dealt with in this article, Huth & Co. gave clear indications about how to pack the goods upon which advances were given. For example, Huth & Co. enthusiastically advised consignors receiving advances to use tarpaulin, oil cloth or tin cases to better protect the goods being shipped. When safe packing was not possible, for example for bulk cargoes of jerked beef from Buenos Aires to Havana, then Huth & Co. would be reluctant to advance for this kind of consignment.[51]

Regarding insurance charges, it is worth noting that when Huth & Co. dealt with the insurance on behalf of other merchants, they were actually advancing the cost of the premium to consigners at an annual rate of 5-6% until return remittances had been received.[52] That is, by dealing with insurance on behalf of others, Huth & Co. were actually deploying their own capital to make premium payments on behalf of their correspondents, apart from allocating a great deal of time to get the insurance done. Because of this, in addition to the interest payments requested by the firm, Huth & Co. also charged a commission of about 0.5% on account of the troubles and difficulties of getting insurance for such a wide range of cargoes of so many different products involving so many destinations.

A different risk emerged when Huth & Co.'s advances involved consignments which never docked on either British ports or foreign ports in which Huth & Co. had branch houses or agencies. That is, cases in which Huth & Co. acted as a mere financial intermediary but did not fully control the property shipped under Huth & Co.'s credit. We are talking here about a merchant in, say, Puerto Rico or Venezuela drawing against Huth & Co. on account of shipments to several markets in continental Europe where there were not formal agents. In these cases Huth &

50 HPEL-45, Huth & Co. to Nye Parkin (Canton). London, 7 January 1845.
51 HPSL-181, Huth & Co. to Van Praet (Buenos Aires). London, 8 May 1851.
52 HPSL-170, Huth & Co. to Bermudez (Caracas). London, 15 February 1838.

Co. would credit the merchant in Puerto Rico or Venezuela's account and debit the consignees' accounts with Huth & Co. For example, Bermudez of Caracas was in the habit of consigning cocoa to Porrua Egusquiza of Santander, this latter not being an agent of Huth & Co., just a good 'friend'. For these shipments Bermudez drew against Huth & Co. on the understanding that Porrua Egusquiza had to cover the drafts at maturity. That is, Bermudez's draft was credited to him but debited into Porrua Egusquiza's account. The main risk here was that Porrua Egusquiza would not cover the draft and Huth & Co. had no control of the consignment which would enable him to recover the advance.[53] Huth & Co. could ask for the bill of lading to be in their name, but since they did not have agents in the port in which the goods were finally landed, this additional provision would not erase all the risks being taken because the merchandise landed in a different jurisdiction. It was all a matter of faith: Huth & Co. fully trusted Porrua Egusquiza, having maintained good relations with him for many years. For Huth & Co., many merchants 'afford no other security but their honesty',[54] which was not always a hindrance to trade. Likewise, Elzaburu of Puerto Rico had an open credit to draw against Huth & Co. for sugar shipments from San Juan to Quecheille of San Sebastian. Elzaburu's debts to Huth & Co. had to be covered by Quecheille upon maturity of the drafts, with either a bill or produce.[55] Again, in this case Huth & Co. and Quecheille were correspondents for over 30 years and the risks of embezzlement were very small, or so thought Huth & Co.[56] Indeed, such open credits were only extended by Huth & Co. when a sufficient number of previously repeated successful dealings demonstrated that the borrower was reliable. These are examples of what Huth & Co. used to call 'uncovered credits', which were only covered by trust and the reputation of those involved; there was no other collateral here. Or we could say that in these cases reputation acted as a substitute for physical collaterals.

When Huth & Co. acted as mere financial intermediaries, they usually charged 1% commission to accept the drafts, although 1.5% was also applied in cases of men of lower standing or repute. Often too, if the merchant enjoying an open 'confirmed' credit with Huth & Co. did not use it, a commission of 0.5% could be charged anyway, and if subsequently the credit was used, then the other 0.5% was charged. The reason for charging a small commission even if the credit was not used was logical: Huth & Co. had a limit to the confirmed open credits they could offer worldwide, so if a merchant did not use the credit granted, Huth & Co. missed the chance of giving it to another merchant paying the full 1% or 1.5% commission.[57] That is, Huth & Co. would waste the potential earnings of the capital reserved for a merchant who failed to use their credit.[58]

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53 HPSL-170, Huth & Co. to Bermudez (Caracas). London, 15 February 1838.

54 HPEL-6, Huth & Co. to Webster (Morley). London 9, November 1830.

55 HLSL-177, Huth & Co. to Quecheille (San Sebastian). London, 8 & 13 January 1847.

56 This is a very different situation to the embezzlement described by Greif, 2006, when discussing other long-distance trades in the medieval era. This phenomenon belonged more to pre-modern trades than to those dealt with in this paper.

57 HPEL-5, Huth & Co. to Brune (Baltimore). London, 15 April 1836.

58 Not all merchants charged this 0.5% commission for unused credit. For example, the Rathbones did not, much to their regret. Marriner, 1961. Brown Shipley, as Huth, also

Uncovered credits applied not only to consignments of primary products from the periphery of the world economy to Europe, but also to consignments of European manufactures to South America and many other quarters. For example, Bencke of Hamburg had an open credit with Huth & Co. for £6,000 which allowed this German merchant to draw against Huth & Co. for textile shipments to Buenos Aires.[59] But in many other similar trades, in which Huth & Co. advanced for consignments which never touched on British ports, Huth & Co. requested that the return remittances had to be sent directly to Huth London. For example, when the Hamburg house of Clarson, which had a branch house in New Orleans, asked Huth London for advances for consignments from Hamburg to New Orleans, Huth & Co. agreed, on condition that the returns from New Orleans to Clarson were sent directly to Huth & Co. in England.[60] In other cases Huth & Co.'s tactics were less explicit, but Huth & Co. had other collaterals on hand. For example, Mainer of Montevideo would draw against Huth & Co. for jerked beef shipments to Menendez Mendive of Havana, which had to be covered by Menendez.[61] Huth & Co. was at the same time in the habit of receiving Menendez Mendive's consignments of sugar from Havana. That is, although it was not made explicit, should Menendez fail to cover Mainer's drafts at maturity, Huth & Co. could probably secure repayment by taking possession of Menendez's sugar.

Finally, it goes without saying that the extent to which merchants advanced credit at a particular moment was conditioned by the trade cycle in which they were immersed. For example, if Huth & Co. needed to accumulate cash to meet bills previously drawn on him, then this merchant would probably be reluctant to carry on advancing monies on a sizeable scale. Likewise, if Huth & Co. heard rumours that one of his debtors was in difficulties, then he would probably be inclined to stop advancing to other suppliers until the actual situation of the debtor was clarified. In addition, merchant-bankers themselves borrowed from banks, and during periods of financial crisis they found their own credit facilities curtailed, which made it very difficult for them to advance monies, even if they wanted to. Indeed, during financial crises advances were rarely extended by merchant bankers such as Huth & Co., who survived all the panics that broke out during our period of study. In the crisis of 1837-1839, for example, Huth London made it clear to their Liverpool branch that 'we have as you are well aware of for time past declined making advances on any consignment whatever and the state of our money market does not in any case tempt us to break this rule'.[62] In the 1847-1848 crisis something similar happened. Huth & Co. systematically refused to extend advances, even for shipments of British textiles to the USA, despite their familiarity with textiles and the USA textile market.[63] There were sound reasons to be cautious; even the reputable houses of the "Three Ws"

forced potential borrowers to pay at least 0.5% of any unused credit on account of the opportunity cost of unused capital. Perkins, 1971.

59 HPEL-59, Huth & Co. to Zimmerman Frazier (Buenos Aires). London, 4 January 1849.

60 HPEL-26, Huth & Co. to Huth & Co. (London). Liverpool, 21 January 1839.

61 HPSL-172, Huth & Co. to Mainer (Montevideo). London, 2 December 1840.

62 HPEL-25, Huth & Co. to Huth & Co. (Liverpool). London, 28 November 1839. A similar position was taken by the House of Brown during this crisis. Perkins, 1975.

63 HPEL-53, Huth & Co. to Cranby Wheeler (Philadelphia). London, 19 April 1847.

(George Wildes & Co., Thomas Wilson & Co. and Timothy *Wiggins* & Co.) and Reid Irving & Co. failed during the 1837 and 1847 crisis, respectively. In all, in Huth & Co.'s case there was a substantial reduction of Huth & Co.'s credit proportional to the whole network they had, as well as a complete credit denial to the most risky correspondents in times of crisis.

6. Financing Trade of Securities

So far we have talked about the role of Huth & Co.'s credit in financing international trade. Nonetheless, although a less important branch of Huth & Co.'s activities, this company also financed capital flows across borders, in particular from the USA into Britain, and within Europe thereafter. That is, Huth & Co. also became intermediators in international capital flows, procuring funds from investors in one country to invest them in other countries, and often extending credit to help this process to happen. This is not surprising. On the one hand Huth & Co. had a vast global network of contacts, many of which were potential buyers of American securities. On the other hand, Huth & Co.'s reputation and knowledge of the American market ought to have been regarded by these potential buyers as a mark of trust on the securities Huth & Co. was offering in Europe, undoubtedly reassuring potential investors.

Although during the first two decades of operation the USA was not an important market for Huth & Co., by the late 1830s Huth & Co.'s connections with the USA became very important. These included not only the trade of goods, but also the trading of American securities in the European markets. It is well known that from 1817 several American states started to issue securities which were quoted in London,[64] and that by the 1830s American stocks were widely sold in Europe. These were introduced to the British market by several merchant-bankers, including Huth & Co., who became enthusiastic players (Wilkins, 1989; Jenks, 1963; McGrane, 1935; Freedman, 1968). It is worth noting at this point that, as in transactions involving merchandise, Huth & Co.'s involvement in securities were overwhelmingly done on a commission basis, hardly ever on own account, for which a variable commission of 3-5% was charged.

Many well connected businessmen in the USA consigned to Huth & Co. American securities as if they were consigning potatoes.[65] For example, Bevan Humphreys of Liverpool (agents of the Bank of the United States) used to consign Huth & Co. bonds of Michigan stocks, as well as Illinois and Indiana stocks.[66] Likewise, from Philadelphia John Perit consigned a wide range of American securities such as bonds of the American Life Insurance & Trust, shares of the Bank of the United States and shares of the Philadelphia Loan Company,[67] while Goodhue of New York consigned Huth & Co. securities such as New York Life

[64] Austin, 2007.

[65] Many of these securities' consignments were accepted by Huth on the expectation of also receiving consignments of raw cotton.

[66] HPEL-23, Huth & Co. to J. Perit (Philadelphia). London, 16 May 1839.

[67] HPEL-17, Huth & Co. to J. Perit (Philadelphia). London, 29 June 1837; HPEL-21, 13 December 1838.

Insurance & Trust bonds.[68] These American merchants would in turn draw against Huth & Co. on account of these consignments (waiting for the securities to be sold within an agreed time), and Huth & Co. had the securities as collateral.

The exact nature of the contract was very flexible, at times complex, as painful negotiations often took place before reaching agreements.[69] Furthermore, on occasion Huth & Co. entered into joint-account operations with some of these merchants, in particular with Goodhue of New York,[70] and less frequently bought American securities on own account.[71] In any case, most of these few and far between own account operations were followed by a quick resale of the securities, as for example to Spanish investors lacking the means or knowledge to deal directly with the Yankees. On occasion, Huth & Co. received securities not to sell them in London but as collateral for advances on the consignment of merchandise. For example, Huth & Co. would advance a British merchant exporting railway iron to the USA, and in exchange the consignee in the USA would provide American securities as collateral until return remittances had been received by Huth & Co. in London for the sale of the railway iron in the USA.

Although the consignments of American securities operated in a similar fashion to that of commodities, in the case of securities Huth & Co.'s rate of advance was far lower: never more than 50% of the expected market value of the securities, and usually as little as 20%[72] or even 15%.[73] According to Huth & Co., this measure was justified because although securities were in general safe collateral, very often they could not be realised in the market and funds could be locked up during an uncertain period, or if sold, securities could reach far lower prices than those originally envisaged.[74] Indeed, the prices of securities were more volatile than prices of staple commodities, and more importantly, if there was panic or loss of confidence in certain USA states, then securities associated with these states could either plummet or became altogether unsaleable in London. Therefore, in any of these cases the collateral upon which the advances rested would evaporate, and fairly quickly, as happened with some Arkansas stocks in 1840 which eventually had to be returned to the USA by Huth & Co.[75] Finally, if an issuing American state defaulted on its debt, which was possible and indeed happened, Huth & Co. were not conversant with the

68 HPEL-17, Huth & Co. to Goodhue & Co. (New York). London, 30 January 1837.

69 For example, if the securities were bonds, rather than shares, Huth often had to guarantee potential investors the payment of the first year's interest, which added further complexity to these consignments. Dividends could be sent from the USA in cash, in commodities such as raw cotton or even in securities themselves. Likewise, a minimum selling price was often set by the consignee, who also set a maximum time to hold the securities before liquidating them in the market.

70 HPEL-15, Huth & Co. to Goodhue (New York). London, 6 May & 6 September 1836.

71 Such was the case, for example, in 1835, when Huth bought some stocks issued by the state of Florida for £4,500, or when in 1837 Huth bought on own account a few bonds of the Morris Canal. HPEL-29, Huth & Co. to Goodhue (New York). London, 3 July 1840.

72 HPEL-17, Huth & Co. to Goodhue & Co. (New York). London, 14 March 1837.

73 HPEL-16, Huth & Co. to Goodhue & Co. (New York). London, 26 December 1836.

74 HPEL-16, Huth & Co. to Goodhue & Co. (New York). London, 14 October 1836.

75 HPEL-29, Huth & Co. to North American Trust & Banking Company (New York). London, 24 July 1840.

USA law pertaining to the recovery of unpaid interests or the principal, neither had Huth & Co. a branch in the USA to assist them in these technicalities, when international enforcement was still weak.[76]

Finally, Huth & Co. received American securities on consignment and usually liquidated them on British soil, but also in continental Europe, in particular in Spain, Germany and the Netherlands. At this point, it is worth noting that in the same way that Huth & Co. was skilled in adapting textiles to the taste of their clients all over the world, they were also quick to adapt financial goods to specific European demands. For example, the Dutch were large purchasers of American securities via London (McGrane, 1935). In order to penetrate the Dutch market, Huth & Co. adapted securities to the wants of local clients, as this extract shows: 'We have lately had some negotiations in Holland respecting American securities … we have seen that we could sometimes dispose of large sums there, if the stock is in a shape corresponding to the views of the Dutch capitalists'.[77]

7. Conclusions

The British industrial revolution not only transformed Britain into the major industrial world power but also its main manufactures' exporter and the leading capital exporter of the globe. British hegemony was notoriously felt in the financial sector, including the provision of credit, with London leading the way and displacing Amsterdam as the main financial center of the western world. Key players supporting these transformations were the London merchant-bankers. They emerged during the 1820s, making the most of the retirement or bankruptcy of several British merchants who could not cope with the long period of warfare that started with the American Wars of Independence, followed by the Napoleonic Wars and the Anglo-American War of 1812 (Chapman, 1984; Jones, 2000; Jones, 1987).

During the first half of the nineteenth century, merchants bankers based in Britain were a select group of no more than 15-20 members, many of whom were foreign born, like Frederick Huth. This was a result of London having become a cosmopolitan city, thanks to many intra-European migrations that took place before and during the Napoleonic Wars. Although merchant bankers were an amorphous group inasmuch as they performed divers functions, there is general agreement that they were interested in trading, acceptancy, brokerage of bills of exchange, insurance brokerage and issuing.

This paper, by focussing on one of these aspects (i.e. the extension of credit and credit risk management strategies) and one of these merchant-bankers, has thrown new light on the financing of international trade and capital flows during the first half of the nineteenth century, an under researched period in international business. The lack of working capital was a fundamental barrier

[76] Indeed, British merchants trading with America were probably better protected before American independence, in particular after 1732, when the Colonial Debts Act was passed. Morgan 2005.

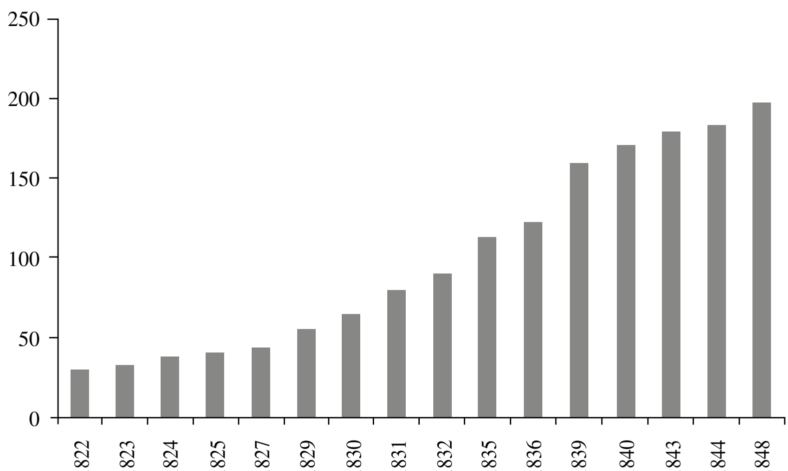
[77] HPEL-21, Huth & Co. to Perit (Philadelphia). London, 13 December 1838.

to many exporters and importers worldwide during this period, and merchant-bankers were ready to provide it. Likewise, and as Casson has already noted, other significant obstacles to trade arose from the lack of information and trust (Casson, 1998), but again merchant-bankers could greatly diminish this problem.

The case of Huth & Co. is truly exceptional. From London, the firm expanded worldwide well before the communications and transport revolutions of the second half of the nineteenth century. We knew that merchant bankers were the main means of financing world trade during this period characterised by the lack of modern deposit banks, information asymmetries and the persistence of weak international enforcement, but we were not aware that a single firm could finance the trade of so many commodities, in so many different regions and connecting such a wide range of locations even for trades that never docked in Britain. We were, therefore, at a loss to understand how a truly global merchant-banker such as Huth & Co. could protect against the risks which arose from lending to so many people in so many products and in such a vast number of countries.

Within this context, the key credit-related risk protection strategies followed by Huth & Co. were: to be flexible enough to adapt to clients' needs (i.e. borrowers), but always to set a maximum amount of credit given, both in relation to the particular operation being financed and the total amount borrowed by the client; to trade mainly in commission and most usually in goods and markets they knew well; to request collateral for the advances given, always trying to keep control of the merchandise upon which credit was extended; to trade with honest, trustworthy men when collaterals could not be procured and sound reputation, therefore, acted as a good substitute for collaterals; to cultivate friendship and business regularity with all interested parties, while also closely monitoring

FIGURE 1
HUTH & CO.'S CAPITAL, £000 OF EACH YEAR, 1809-1850
(INCLUDES THE CAPITAL OF THE LONDON PARTNERS ONLY)



Source: HPJ, several volumes.

clients; to collect as much intelligence as possible about all the parties with whom they engaged, as well as on the changing market situation to diminish the threat of adverse selection; to curtail credit facilities during financial crisis; and to insure against all risks all cargoes in which Huth & Co.'s credit was compromised. The ultimate idea was to transfer as much risk as possible to other parties, even if this meant seeing their profits margins slimmed. It is true that 'risk management inherently breeds speculative risk-taking' (Levy, 2014, p. 310), but judging from the success of this company, there is no doubt that, as far as credit risk management is concerned, this business philosophy proved bullet proof against bad debts, even for lending at a substantial geographical distance. Indeed, the firm survived all the panics of the 1820s-1840s (and there were many), while their capital increased steadily during this period, as is seen in Figure 1.

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