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The Organisation of Global Trade: the Monopoly Companies, 1600–1800

PIETER EMMER

Department of History, University of Leiden, the Netherlands.
E-mail: P.C.Emmer@hum.leidenuniv.nl

In the early modern period (1500–1800), shipping and trade within Europe were the domain of individual merchants and small companies organised on a temporary basis. Outside Europe, however, new financial and commercial institutions such as permanent joint stock companies came into existence in order to limit the risks. These large institutions played an important role in inter-continental trade and shipping, albeit that their role in Asia differed from that in the Atlantic, where small companies as well as individual merchants remained the dominant form of organisation. In addition, privateers played an important role in the Atlantic economy in times of war while piracy could flourish in those parts of the overseas world where the Iberian trade circuits bordered on those of France, England and the Dutch republic. The conclusion points to the fact that a direct link between the overseas expansion of Europe and its industrialisation might be difficult to construct, but that the creation of long distance trading companies created the institutional environment that must have facilitated Europe's rapid economic growth after the middle of the eighteenth century.

The impact of the expansion of Europe on the organisation of trade was substantial, but not dramatic. Before 1500, all continents had developed trading networks and trading organisations and the expansion of Europe into other continents extended those networks and increased the level of organisation. This process has been extensively documented as regards the trade by Europeans, but there is much less and sometimes even no information regarding the impact of Europe's expansion on the organisation of trade by Amerindians, Africans, and Asians. It should be stressed that the organisational pattern of most trade remained unchanged by the expansion of Europe as intercontinental trade – until today – only made up a small percentage of the total commercial activities. The individual trader was and remained the pivotal figure in most areas of the world even after Europe started to expand.[1]

However, the individual trader was at a disadvantage in the European trade with Asia as well as in several sections of the Atlantic trade. First, there were high risks associated with the extremely long voyages and the inability of the merchants to get a firm grip on

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the supply and production of Asian goods. In addition, the trade between Europe and Asia was not very profitable unless merchants could find ways to safeguard themselves against the disadvantages of the inelastic European demand for Asian spices, causing prices to decline as soon as the supply increased. Finally, the trade between Europe and Asia could only flourish when the European merchants could avoid shipping precious metals to Asia, and instead, were able to finance their exports to Europe from the profits they had made in the inter-Asian trade. All these factors suggest that a profitable trade to and from Asia could only be achieved (i) in case the supply of a number of Asian goods on the European market was restricted and (ii) in case the trade between Europe and Asia was closely integrated with a profitable trading network in Asia itself. These two factors suggest that only a trade monopoly would be able to achieve positive results.[2]

The same holds true for several sections of the European trade in the Atlantic. As in the case with Asia, here too the distances involved were sometimes considerable and the European merchants had no possibility of controlling the supply of goods produced by Africans and Amerindians. In addition to goods and bullion, European merchants in the Atlantic also traded and shipped more than 9 million slaves from Africa and about 2 million European migrants to the New World between 1500 and 1800. The slave and gold trades required a considerable outlay of capital. Only co-operation between European merchants could provide that capital and thereby allow the individual merchant to limit his risks. On the other hand, there were important sections of the Atlantic trade where the cooperation between merchants was not necessarily advantageous. This not only applied to trade with the settlement colonies of North and South America but also with the plantation colonies in the Caribbean.[3]

In spite of the fact that the traders of nations participating in intercontinental trade faced similar conditions in Asia and the Atlantic, there was a marked difference between the organisation of intercontinental trade on the Iberian Peninsula and in North-Western Europe.[4]

The First Expansion Circuit

In the first, or Iberian, system, the participation of the crown in intercontinental trade was vital. The Portuguese trade to Asia and the Spanish trade to the New World were regulated by government bodies, the *Casa de India* in Lisbon and the *Casa de Contratación* in Seville. The establishment of a string of overseas trading establishments in the case of Portugal in Asia, and the colonisation schemes in Spanish America were paid for, and executed by the state and by state officials. The role of the market in regulating supply and demand was severely curtailed since the colonial state had a preference for collecting as much bullion as possible. The results of this policy are most obvious in Spanish America, where the crown was mainly interested in receiving large tax payments of silver and gold that were shipped to Spain, flooding that country with bullion. There existed no particular stimulus to allow individual colonists to maximise their profits by supplying the colonial market with sufficient merchandise, indentured labour, and slaves at the lowest price.[5]

Heavy-handed state intervention explains why the first European expansion system was unable to show the rapid growth that was to be a characteristic of the second

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expansion system originating in North-West Europe. The limited access to the world market impeded the growth of colonial enterprises of the first expansion system that could compete with their counterparts of the second expansion system. Second, the shipbuilding industry on the Iberian Peninsula lagged behind in developing new techniques and ship designs. This explains why so many English, French and Dutch ships – often illegally – captured such a large share of the transport market between Portugal and Spain and their New World colonies. Another sign of the inflexibility of the Iberian expansion system was the permanent division of the political and mercantile spheres of influence according to the line once drawn at Tordesillas. Spanish merchants refrained from trading in the Portuguese overseas world in spite of the opportunity for profits.[6]

Even within their own spheres of influence the Iberians failed to control shipping and trade. In Brazil, large amounts of cash crops were syphoned off by the Dutch and later by the English. Over time, the role of the Portuguese merchants diminished while that of Brazilian merchants increased in the trans-Atlantic trade. A similar development took place in Asia, where the Asian-Portuguese mercantile communities became more and more independent of the *Estado da India*.[7]

In the Spanish expansion system, Spanish merchants seem to have been outnumbered by foreigners, who supplied perhaps the bulk of the trade goods to Spanish America, and who took possession of a substantial amount of bullion in return. The African slave trade to Spanish America was always in the hands of foreign merchants and this was also the case for a large section of the export trade in cocoa and hides. Spanish merchants from metropolitan Spain were equally unable to exploit the potential of the inter-colonial trade in Spanish America. That trade was handled by local merchants in Mexico who seem to have enjoyed greater social prestige than their colleagues in Spain. This lack of success on the part of the Spanish merchants and the limited co-operation among the Iberian merchants can be attributed to the fact that their aspirations were still feudal and not capitalist.[8]

The Merchants of the Second Expansion Circuit

The development of the second expansion circuit differed radically from its predecessor. First, it came into existence much later, thus allowing the merchants and shipping firms to profit from the experience of the Spanish and the Portuguese. Furthermore, it should be stressed that the second system was based on, and integrated with, the trade in Europe. The Spanish and Portuguese colonial merchants, on the other hand, had not been able to build up experience in trading and shipping within Europe before expanding their activities to other continents. As a consequence, most of the products brought to Europe from the Iberian colonies had to be distributed by non-Iberian merchants, whereas the second system was able to handle both the intercontinental as well as intra-European trades. Third, the second expansion system was able to lower freight rates considerably by using innovative ship-building techniques.[9]

In the second expansion system, individual merchants co-operated in order to limit risks, not because they were forced to do so by the state or the crown. Before these merchants started to expand beyond Europe, they had already created companies in order to conduct trade with the Baltic, Russia and the Mediterranean. The simplest kind of

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company was one in which several merchants invested money in order to buy or lease a ship and its merchandise. These companies were dissolved once the voyage had been completed. The companies trading with Russia and the Mediterranean were called 'regulated companies', and brought together all those merchants who traded to these regions in order to provide mutual assistance. Their creation allowed several groups of new merchants to take their place among the mercantile elite of England, France, and the Netherlands.[10]

In view of the long voyages, the high capital outlay, the need for an extensive infrastructure, and the various other risks, the trade to Africa, South America and Asia demanded another type of organisation. The high risks of these long voyages explain why the joint stock company became the dominant type of organisation for merchants trading to other continents. Some of these joint stock companies also acquired a monopoly from the state.[11]

The Joint-Stock Monopoly Companies

In 1602, the first large-scale joint stock company with a permanently available operating capital was founded in the Netherlands for trade and shipping to, from, and with the Indian Ocean and the China Sea. A similar company had been founded two years earlier in England, but without the relatively large and permanent operating capital that made its Dutch counterpart such a unique organisation.

Since 1594, Dutch merchants had formed companies for shipping and trade with Asia, and these smaller companies were united thanks to mediation by the government of Holland into one 'United East India Company' (Vereenigde Oost-Indische Compagnie or VOC) in 1602. The merchants now became directors of the new United Company and were rewarded for the merger with a monopoly for all trade and shipping East of the Cape of Good Hope. Although the new Company was firmly backed by the government, the VOC was independent of direct state intervention and capable of pursuing a policy aimed at long-term goals and at replacing the Portuguese in the European-Asian trade. The keys to its success were the large joint-stock capital, the ability to postpone dividend payments, and the ability to invest this capital in trade and shipping in Asia. It enabled the Dutch to gain a near monopoly on the importation of fine spices (nutmeg, mace, cloves and cinnamon) and to obtain a major share in the market for pepper in Europe. In order to obtain all these Asian products, the VOC created an extensive inter-Asian trading network, which actually yielded higher profits than the trade between Europe and Asia. In this intra -Asian network, Japan (providing silver and gold that was used in trading with India), India (providing the textiles used in trading with Indonesia) and Indonesia (providing pepper and fine spices for export to Europe) were the most important trading partners.[12]

The VOC had a unique structure. Its organisation resembled in certain aspects the federal organisation of the United Provinces: the smaller companies preceding the VOC had become 'chambers' of the VOC, each chamber had a fixed share in the activities of the Company and each chamber was entitled to send a delegation from its council of directors to the general executive council made up by the 'Gentlemen Seventeen'. Shareholders had little influence, but initial suspicions raised by the low and irregular dividend payments (at first in kind, i.e. in Asian products) changed when the VOC proved to be a success. For most of its existence, its monopoly was undisputed and the

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VOC was considered to be vital for the economy and the international position of the Dutch Republic. Yet it seems that not only contemporary writers, but also present-day historians have overestimated the impact of the VOC on the economy of the Netherlands, as its impact on the Dutch National Income could not have been larger than a changing percentage of single digits. However, the effects of intercontinental trade cannot be measured by trade figures alone. The repatriation of the private gains of the Company servants overseas as well the expenditure of the VOC in the Netherlands for building and outfitting ships, and, last but not least, the impact of the Company's demand for sailors and soldiers on the labour market in North-Western Europe, also have to be taken into account. In fact, the astonishing number of one million sailors and soldiers leaving Europe on board the Dutch East Indiamen during the seventeenth and eighteenth centuries caused a demographic loss. The presence of about 25,000 Company servants overseas constituted a large demand for mobile labour in view of the fact that about half of these employees died en route or while serving in Asia. When the English East India Company followed the example of the VOC and became a territorial power after 1757, the English were confronted with the same problem as the Dutch: how to recruit the massive numbers of soldiers and officers needed for their establishments overseas.[13]

Over time, it became obvious that the trade between Asia and Europe benefited from a monopoly. However, the trade in Asia could never be monopolized by a single European company, regardless of the latter's size. First, part of the intra-Asian trade remained in the hands of Asian merchants, notably Arabs, Indians and Chinese. In addition, private European traders settled in Asia and started to trade for themselves. Changing conditions in the intra-Asian trade as well as in the trade between Europe and Asia affected in particular the VOC, and in the course of the eighteenth century the Dutch Company lost its dominant position. British 'country traders' proved strong competitors and finally replaced the Dutch in the intra-Asian trade. The European taste for new products such as textiles, tea, and coffee also gave the English East India Company and the smaller European companies an opportunity to gain an important share of the market for Asian commodities. The purchase and exportation of some of these products, such as tea, did not require an extensive organisational network in Asia, and small merchant houses and even single merchants could take that business away from the larger companies with their expensive overheads. Some of the smaller companies, such as the Danish, Swedish and – for a short period only – the Ostend Company in the Austrian Netherlands were indeed able to carry on a profitable trade with India and China. The French trade with Asia was also organised in a monopoly company, the *Compagnie des Indes orientales*. Heavy state intervention proved, however, disadvantageous for the Company, and its huge losses created an opening for private merchants to enter this trade. At the end of the eighteenth century, the international political situation as well as internal problems weakened the monopoly of both the VOC and the English East India Company. The Dutch even resorted to using private merchants of other nations in order to maintain their position.[14]

Similar large-scale joint-stock companies were created for the Dutch trade in the Atlantic, and the British and French trade to Africa, in particular for the trade in slaves. All of these companies received a monopoly. These monopoly companies met with only temporary success. By around 1700 most of them had disappeared. The history of the

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Dutch West India Company (West-Indische Compagnie or WIC) is a case in point. Modelled after the successful Dutch East India Company, the Dutch West India Company managed to do quite well at first because of its privateering activities against Spain and Portugal. However, the trade in goods in the Atlantic could not be as tightly controlled as the trade between the Netherlands and Asia. In addition, the colonists in the Dutch settlement colonies in South and North America also demanded the right to trade in goods. Soon, the Directors of the Dutch West India Company had to abandon the Company's monopoly in most commodities, although they tried to hold on to their monopoly in the slave trade. Around 1750 even that monopoly had been abolished by the government, reducing the Dutch West India Company to 'a body without a soul' that only administered forts on the coast of Africa, and some of the smaller Dutch colonies in the Caribbean. In order to finance these activities, the Dutch West India Company was allowed to levy a tax on all Dutch ships leaving for destinations on both sides of the Atlantic. A similar development had taken place in Britain, where the Royal African Company had lost its commercial function after 1698 and where the South Sea Company, with a monopoly of the slave trade to Spanish America, stopped trading around 1760.[15]

The reasons for the lack of success of the trading companies with a monopoly in the Atlantic remain to be uncovered. There exists no comparative study analysing the causes of this development. First, it should be stressed that most trade across the North Atlantic had always remained in the hands of private merchants. This trade was organised as an extension of the trade in Europe, and even the need to transport considerable numbers of colonists had not generated a special type of trading company. Second, recent studies regarding the slave trade show that monopoly companies had no cost advantage over smaller slave trading companies working in competition. Over time, the slave trade no longer needed an infrastructure in place on the African coast. During the eighteenth century it was private firms, some of them extremely small, that transported the largest number of slaves. Similarly, the trade to and from the plantation areas in the New World could be handled perfectly well by private traders, singly or in company.[16]

Most firms organised their Atlantic trade according to the commercial customs existing in Europe. Overseas, they engaged correspondents, usually independent merchants, who were allowed to charge a fixed percentage (or commission) for their work. It is true that these commission charges bit into the profit rates, but the overhead charges of any other system of overseas representation were usually much higher. For this reason few firms resorted to sending paid employees overseas as was *de rigueur* for companies operating in Asia. In the Atlantic, most merchants and companies entrusted their business to the captains or supercargoes of their vessels working in unison with local 'correspondents' once their ships had arrived at the pre-arranged ports of call, although in the trade between Britain and North America some merchants preferred to have a partner in residence overseas rather than a correspondent.[17]

Merchants and Mercantilism

The idea that a monopoly company could work wonders died slowly. Denmark, Sweden, Brandenburg, Portugal, Spain and even Latvia (Courland) founded Atlantic trading

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companies with a monopoly. The Scandinavian and Brandenburg companies were – at least in the beginning – set up with Dutch capital in an attempt to evade the monopoly of the Dutch West India Company. The Iberian companies were belated attempts to stop the large-scale smuggling by non-Iberian ships as well as to imitate the assumed success of the English and Dutch monopoly companies.[18]

In addition to merchants from Europe, traders from British North America ('Yankee traders') became increasingly more important both in the trade between the colonies in the New World as well as in the trade across the Atlantic. The same had happened in the harbour cities of Portuguese Brazil. In spite of these developments, it seems difficult to prove that the Atlantic had grown into one integrated market for trade and shipping, since all nations continued to use the mercantilist maxim that trade and shipping between the metropolis and the colonies should be exclusively reserved for national commercial groups. That principle had to be lifted in times of war, and during most of the eighteenth century, which meant that neutral traders, such as the Dutch, were able to ship goods from the French and Spanish colonies since the ships of the nations at war with Britain could not be protected against the threat of the British navy. Towards the end of the eighteenth century, however, the mercantilist partitions in the Atlantic started to give way because of economic reforms and the rapid growth of trading and shipping firms from the US.[19]

In spite of these late eighteenth-century developments, it is surprising to see how long the frontiers of the various national trading empires held fast. After the middle of the seventeenth century, the British, Dutch and French trading empires remained more or less in place both in the Atlantic as well as in Asia, with the exception of the transfer of French Canada and of some of the smaller islands in the eastern Caribbean. It is perhaps even more surprising to acknowledge that the Iberian expansion system remained a separate entity for so long. Nevertheless, the second expansion system of Britain, the Netherlands and France made important inroads into the monopolies of the first system and, in fact, a group of British, Dutch and French merchants, both in the metropolis as well as in the colonies, even specialised in the illegal trade with Spanish America. They had representatives and partners in Lisbon, Seville and Cadiz, while Curaçao, the Virgin Islands and Jamaica were used as bases for the illegal trade with the Spanish colonies in the Caribbean.[20]

Privateering and Piracy

Last, but not least, two rather particular forms of inter-system commerce should be mentioned, because merchants also invested heavily in privateering and sometimes in piracy.

In principle, privateering only occurred in times of war. Privateers were merchantmen licensed by their national governments to capture enemy ships. This enterprise was extremely dangerous, but some merchants participated eagerly in this activity. In spite of the high risks it enabled them to get some returns upon their investments as otherwise their ships were laid up in times of war. Over time, privateering enabled the French, British and Dutch to weaken and demoralize the Spanish and the Portuguese on the Atlantic islands and in the New World. Privateering provided the money that allowed the merchants of North-Western Europe to invest in Atlantic ventures such as colonisation and plantations. It also made the merchants realise that there were many opportunities

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for profitable illegal trade contacts with Portuguese and Spanish America during times of peace.

Piracy was another way of breaking into the established trade circuits. Yet, it seems doubtful whether many *bona fide* merchants participated in these ventures since pirates usually did not operate in the service of others. In the Atlantic, piracy mainly occurred during the seventeenth century when the expansion systems of the Dutch, French and English still were trying to establish themselves. The rapid succession of wars between the various European powers made the Caribbean into a region where no single power could dominate and where the expansion systems of the Iberians and of the West Europeans reached a permanent stalemate. Here, piracy flourished to such an extent that regular trade to and from the region became severely endangered. Until very recently most historians subscribed to the notion that piracy had been damaging economic growth in the Caribbean, that it had been destructive to the development of international trade and that it took far too long for the European nations to act in unison in order to get rid of pirates. Recently, however, research has shown that over time several groups of pirates became legitimate traders and that they invested their ill-gotten gains in the plantation agriculture of the region.

In Asia, privateering hardly took place, since it was too expensive to bring captured European ships to a port where they could be sold at a profit. Piracy by Asians, on the other hand, was widespread and reduced the profits of trade for both European as well as for Asian merchants.[21]

Epilogue

Did the expansion of Europe alter the organisation of trade and shipping? The answer must be in the affirmative in view of the overwhelming evidence that the organisation within Europe was different from the organisation of trade outside that continent, especially to, from and in Asia. Had the expansion of Europe not taken place, the large trading companies would not have come into existence. These large companies forced merchant communities to look for new ways to collect capital and to develop new organisations that could at the same time administer the various trading and auxiliary services, ship building, personnel recruitment, and maritime training. These changes in the infrastructure of capitalism had an important impact on the economic development of Europe, more so than the actual profits from overseas. Most other effects of Europe's expansion overseas seem to have been rather marginal. There is no indication that the profits and the income derived from interoceanic trade and the importation of non-European goods was of decisive importance for the industrialisation of the various national European economies, notwithstanding the regional importance of the importation of bullion, sugar, coffee and textiles. The same holds true for the exports from Europe to the non-European world. Despite these profits, the income from intercontinental shipping and financing must have been marginal in relation to Europe's other economic activities.

If we are to construct a link between the expansion of Europe and the rapid economic growth due to industrialisation after the middle of the eighteenth century, we must look to changes in the organisation of capitalism within Europe itself, and not to changes

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induced by overseas expansion. The only country where the empire might have made a difference was Britain, but otherwise countries with large overseas empires such as Spain, Portugal and the Netherlands were industrial latecomers.

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About the Author

Pieter C. Emmer studied History and Economics and obtained a PhD in Economics at the University of Amsterdam in 1974. Since then he has been teaching at the University of Leiden, where since 1989 he has been Professor in the History of the Expansion of Europe. His publications include: *The Dutch in the Atlantic Economy, 1580–1880* (Aldershot: Variorum Press, 1998) and *The Dutch Slave Trade, 1500–1850* (New York/ Oxford: Berghahn, 2006). His most recent publication is a survey study of the early Dutch overseas expansion with Jos Gommans as co-author, *Rijk aan de rand van de wereld. De geschiedenis van Nederland overzee 1600–1800* (Amsterdam: Bert Bakker, 2012)

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