Business and Economic History On-Line

Vol. 10 2012

Managing To Compete: The Hudson's Bay, Levant, and Russia Companies, 1714-1763

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The experience of the Hudson's Bay, Levant, and Russia companies during the period 1714-1763 has been overlooked but can provide valuable insight into the challenges faced by British merchants, as well as into the relationship between business and the British state. The French were formidable competitors, and British manufactured goods did not offer the companies a competitive advantage. However, the companies were able to call on support from a range of sources, which crucially included the government, and they skillfully used the parliamentary process to counter a popular prejudice against companies.

The operations of the chartered trading companies in the eighteenth century have long been regarded as a mere afterthought to their heyday in the previous two centuries. The re-export of colonial goods and the unregulated Atlantic trades have been considered the principal dynamic forces driving British trade expansion in the eighteenth century. Recently there has been a revival of historiographical interest in both the East India Company (EIC) and the Royal African Company (RAC).[1] This essay concerns the three other major chartered trading companies that survived the reviews of chartered company monopolies following the Glorious Revolution and that continued to operate in the eighteenth century—the

[1] Philip J. Stern's *The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India* (New York, 2011) is a notable recent addition to the EIC historiography. Steven Pincus's *1688: The First Modern Revolution* (New Haven, Conn., 2009) views the political attacks on the EIC and RAC in the wake of the Glorious Revolution as evidence of the influence of conflicting views of political economy.

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URL: http://www.thebhc.org/publications/BEHonline/2012/wagner.pdf

Levant Company, the Hudson's Bay Company (HBC), and the Russia Company. Their experience during the period 1714-1763 is particularly valuable in illuminating the commercial challenges faced by British merchants in dealing with foreign rivals and, because they were chartered companies, in illustrating how the British state and merchants worked together to further British interests.

Foreign competition during this period was dominated by an increasingly intense British commercial rivalry with France. The failure of the proposed French Commerce Bill in 1713, which would have removed tariff barriers between the two countries, ensured that Britain and France would be commercial rivals even while they were not at war. France gained momentum in this rivalry during the first half of the century. During the second quarter of the eighteenth century, French trade grew at almost three times the rate of British trade.[2] On the eve of the Seven Years War, it was unclear whether France would displace Britain as Europe's top trading nation as Britain had previously displaced the Dutch. The three companies considered in this essay played an important role in the Anglo-French rivalry. The Levant Company and the HBC competed directly with French merchants, while the Russia Company played a vital role in thwarting French ambitions in the unstable Baltic region.

The three regions in which these companies operated were very important to Britain economically. Not only did the regions account for close to 10 percent of British imports by 1763, but some of the largest manufacturing industries in the country, which supported many thousands of jobs, depended on the companies. The Levant had been the single most important destination for English cloth exports in the seventeenth century and was the main source of supply for the silk industry, which was the largest manufacturing industry in London. Russia was the preferred source of naval stores for the Royal Navy, as well as an increasingly important supplier of iron, which was critical for a number of emerging manufacturing industries. The small size of the HBC's business belied its importance as a supplier to the hat-making industry and its strategic value as a representative of British interests in a vast, unexplored territory that acted as an impediment to French expansion in North America.

In addition to their commercial challenges, the companies faced political challenges from rivals within Britain who sought to break the company monopolies. Parliament was the key forum in which these political battles were fought, because it had the power to alter company charters. Parliamentary debates concerning the Levant Company and HBC monopolies in the 1740s and 1750s provide important insights into the

[2] François Crouzet, *La Guerre Economique Franco-Anglaise au XVIIIe Siècle* (Paris, 2008), tableau 14.1, p. 369. Crouzet does not include Scottish figures for the first half of the eighteenth century but estimates that, in 1755, Scotland would add only 5% to English trade volumes: p. 15.

relationship between commerce and politics during a period of intense trade rivalry.

Following a brief discussion regarding the timing of French competitive escalation, I will discuss two general findings that emerge from the commercial experience of the companies. The first is that the support of the government was vital in opening up new markets to British trade and keeping them open. The second is that British manufactured products did not offer the companies a competitive advantage. I will then conclude with a discussion of the political debates concerning the companies in the mid-eighteenth century, illustrating that political challenges to the companies were related to their commercial performance.

For all three companies in the study, the early 1730s saw a step up in the intensity of French rivalry. In Russia, the threat of a Franco-Russian alliance led to four years of difficult negotiations culminating in the Anglo-Russian Commerce Treaty of 1734. In North America, the French set out to establish trading posts to the west. The first phase of the French move westward saw them occupy the forest belt between Lake Superior and Lake Winnipeg during the period 1731-1734.[3] In the Levant, markets were flooded with French cloth, and prices tumbled in the early 1730s, particularly in Smyrna.[4] I am not suggesting that French activity in all three regions was centrally coordinated in response to the demise of the Anglo-French alliance in 1731. However, the timing of competitive escalation was very similar in all three regions.

Government Support

I'll now turn to the first of my major findings—the need for government support. The Anglo-Russian Commerce Treaty was the obvious great British diplomatic success. The 1734 treaty and its subsequent renewals effectively shut the French out of the Russian market until they were able to negotiate their own commerce treaty in 1786. Political instability in the Baltic and the generally pro-French stance of the Scandinavian countries made access to Russian naval stores and raw materials for industry a strategic necessity. The Russia Company essentially dictated the terms of the treaty and benefitted from a strong personal relationship between its then governor, Samuel Holden, and Sir Robert Walpole, the first minister.[5]

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[3] Arthur S. Morton, *A History of the Canadian West to 1870-71* (1939; Toronto, 1973), 179-82.

[4] National Archives (Kew), SP105/336, pp. 9-11, Smyrna factory minutes, 9. Jan. 1732, and Elena Frangakis-Syrett, *The Commerce of Smyrna in the Eighteenth Century (1700-1820)* (Athens, 1992), 86-87.

[5] Norman C. Hunt, "The Russia Company and the Government, 1730-42," *Oxford Slavonic Papers* 7 (1957): 27-39, and Hunt, "Walpole, Holden and the Dissenting Deputies Committee," in *Two Early Political Associations: Quakers and the Dissenting Deputies in the Age of Sir Robert Walpole* (Oxford, England, 1961), 163-78.

The prominence of senior members of the Russia Company in the Bank of England also gave its members considerable political leverage. Over the course of the study period, roughly a quarter of the directors of the Bank of England were members of the Russia Company, and at least one senior member of the Russia Company was present on the bank's powerful Committee of Treasury.[6]

Samuel Holden's business illustrates some of the unique challenges of doing business in Russia in the eighteenth century and the need for government support. Holden's main lines of business were cloth exports for the Russian army as well as potash and iron imports.[7] The cloth contract had been held by the Prussians, who undercut potential British suppliers. In a letter to the Lords of Trade and Plantations in 1733, the Russia Company suggested that the Russians were leaning toward the British for cloth supply, but the Prussian goods were 15-20 percent cheaper.[8] Even after the commerce treaty was signed, it still took several years of negotiation before a deal was struck to secure the cloth contract. The cloth contract would only be awarded to British merchants in 1738, subject to the requirement that money obtained for cloth be invested in Russian commodities and not sent out of the country.

The commerce treaty allowed the Russia Company to become one of the greatest success stories of eighteenth-century commerce. The Russia Company's monopoly applied to imports, and these grew spectacularly. While total imports into England and Wales roughly doubled over the course of this study, imports from Russia increased by a factor of five. Imports from Russia were approaching the level of imports from the East India Company by the 1760s.[9]

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[6] Members of the Committee of Treasury are listed in the minutes of the Bank of England's Court of Directors (G4/9-G4/18).

[7] Somerset Record Office, Taunton, DD/HY 16/2/4, Samuel Holden's accounts.

[8] Guildhall Library (London), Ms 11741, vol. 5, p. 436, Russia Company minutes, letter Russia Co. to Lords of Trade, 4 May 1733. This was not a new complaint. In reply to an enquiry from the commissioners for Trade and Plantations regarding the depressed state of its cloth exports, the first reason cited by the Russia Company in January 1715/16 was that a great quantity of cloth was being made in Silesia and Wallachia that was cheaper than English cloth (Ms 11741, vol. 4, p. 374).

[9] K. N. Chaudhuri estimates the average annual value of imports from Asia by the East India Company at slightly less than £800,000 in the 1750s: Chaudhuri, *The Trading World of Asia and the English East India Company, 1660-1760* (Cambridge, England, 1978), appendix 5, table C.2. This is lower than the £1.1 million figure for the East Indies provided by Elizabeth Schumpeter for 1761-1765; see Elizabeth B. Schumpeter, *English Overseas Trade Statistics, 1697-1708* (Oxford, England, 1960), table VI, 18. A possible explanation is that the East Indies is a broader geographic region than that covered by the East India Company monopoly. Schumpeter does not define 'East Indies,' but Ralph Davis's summary of eighteenth-century trade statistics in his "English Foreign Trade, 1700-1774," *Economic History Review,* 2d ser. 15 (1962): 285-303, defines East

Unlike the Russia Company, the Levant Company was put at a disadvantage by the lack of support it received from the government. Most significantly, the Levant Company was required to pay for the upkeep of British diplomatic staff in the Ottoman Empire—the ambassador in Constantinople and the consuls in provincial locations such as Aleppo and Smyrna. Although Parliament started to subsidize the Royal African Company's forts directly in 1730 by £10,000 annually, the Levant Company did not receive any assistance to cover diplomatic costs until 1767. Furthermore, the French government directly subsidized cloth exports to the Levant and secured most favored nation trading status with the Ottoman Empire in 1740, thereby lowering the duties that French merchants were required to pay. These additional administrative costs put the Levant Company's merchants at a major disadvantage relative to their French competitors and significantly limited their pricing flexibility. After taking administrative costs into account, the typical margins in the Levant trade were only 5-10 percent.[10] It was also estimated in 1749 that French cloth was 10 percent cheaper.[11] Therefore, matching French prices was not an option for members of the Levant Company. To match French prices would have required either government assistance to compensate for the additional cost burden of British traders or entirely wiped out profits. The result was that, while the growth in French trade to the Levant was dramatic during the first half of the eighteenth century, the Levant Company's business contracted by some 20 percent.[12]

Like the other two companies, the HBC benefitted from naval escorts during wartime, but its self-reliance was one of the keys to its political survival. Rising prices for beaver fur in London allowed the HBC to maintain a steady stream of dividends from 1718 to 1782 that were typically a percentage point or two higher than the dividends paid on East India Company stock, even though the HBC steadily lost market share to

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India as being "all lands bordering the Indian and Pacific Oceans." This would include some territory such as East Africa and parts of the Middle East not covered by the East India Company. Chaudhuri's figures represent market values and should be higher than official values (on which Schumpeter's statistics are based) for the end of the study period, as the price of Asian textiles was rising. The Russian imports of £816,000 given by Schumpeter for 1761-1765 are also likely slightly lower than market values based on the tendency of prices for hemp, the most important import from Russia, to rise during war time. The conclusion I draw is that the value of Russian imports at the end of the study period was probably not vastly different from the value of the East India Company's imports from Asia.

[10] Ralph Davis, *Aleppo and Devonshire Square* (London, 1967), 234-35.

[11] National Archives (Kew), SP 97/34, p. 10, letter from James Porter to the Duke of Bedford, 22 Feb. 1749.

[12] Annual exports fell from roughly £250,000 to £200,000.

the French.[13] In 1732, as the French began their move westward, the HBC began to replace their modest trading post, Prince of Wales Fort, with a large stone fort (Fig. 1). The cost of this fort was entirely funded by the company.

Figure 1 Prince of Wales Fort

It is noteworthy that the amount of assistance that the companies received from the government was reflected in the customs duties they paid. The more assistance they received, the higher customs duties they paid. The Russia Company was paying customs duties of 25-35 percent, the HBC was paying 10-15 percent, and the Levant Company was paying 5-10 percent.

Manufactured Products

Manufacturing was the area of trade goods where Britain was weakest competitively. The Industrial Revolution had not yet conferred upon British merchants the advantage of a broad array of goods sold at prices that no competitor could match. France essentially supplied the same trade goods as Britain in the Levant and the North American fur trade, but at lower prices. This was a formidable problem, and the response of the HBC and the Levant Company was to avoid price competition as much as possible and to attempt to compensate for the lack of competitiveness of British manufactured goods by including re-exported goods in trade.

[13] Ann Carlos and Frank Lewis have calculated a composite price index for beaver pelts in London, which rose roughly 50% between the early 1720s and the 1740s, and then rose by a further 60% between the 1740s and 1750s; *Commerce by a Frozen Sea* (Philadelphia, 2010), table 2, p. 31.

Levant merchants also went a step further and simplified their product portfolios, focusing on only the most profitable products and markets.

Liquor and tobacco increasingly became the key competitive products in the fur trade toward the middle of the eighteenth century. Ann Carlos and Frank Lewis have shown that Indians increased their consumption of luxury goods such as liquor and tobacco as their needs for basic goods such as guns and kettles were satisfied.[14] A vital differentiator for the HBC in competing with the French was Brazil tobacco. As E. E. Rich noted, "tobacco continued to be the one staple of the trade in which the English, with their trade privileges in Portugal, had the pull over the French."[15] In 1748-9, Brazil tobacco accounted for roughly a quarter of the value of British trade goods.[16]

The Levant Company tried to control its prices by banning the use of specie (coins) in trade and by banning the extension of credit in the Levant. The Levant Company's currency controls limited the potential for competition among its own people but gave the French a significant competitive advantage, as the French did not impose similar restrictions. The irony was that, from the 1730s, any surplus cash that Levant Company traders had was typically loaned to their French rivals, and that, in turn, allowed the French to extend credit to their local customers.[17]

The great fear of Levant merchants was that the cloth they sent out to the Levant would remain unsold. In a memorial sent to the Duke of Newcastle in 1739, the company indicated that it had substantial quantities of unsold cloth in Aleppo, Constantinople, and Smyrna.[18] English cloth manufacturers attempted to imitate French cloth but could not match French prices.[19] Individual Levant merchants had to take matters into their own hands. One response, adopted by a number of Levant merchants, such as the merchant John Mitford, was to pull out of markets where competition was most intense (especially Smyrna) and instead focus on the Aleppo silk market, where prospects were still reasonable. Figure 2 shows how the geographical focus of Mitford's operations changed over time.

[14] See Carlos and Lewis, *Commerce by a Frozen Sea*, chap. 3.

[15] E. E. Rich, *Hudson's Bay Company, 1670-1763* (London, 1958), 391.

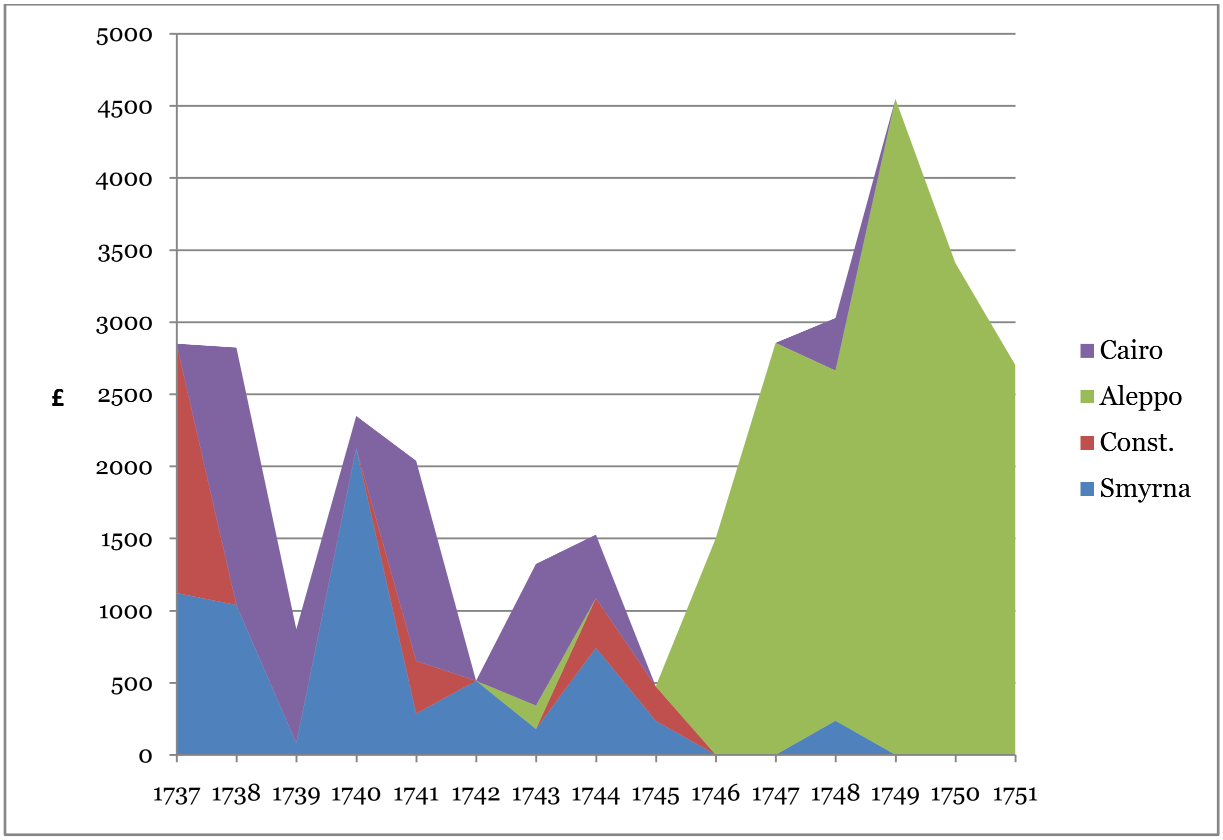
[16] Based on analysis of the HBC's Grand Journal for April 1748–March 1749 (HBCA 15/10, pp. 154-213). Expenditure on Brazilian tobacco accounted for roughly £1,000 of total expenditure on trade goods of roughly £4,000.

[17] Davis, *Aleppo and Devonshire Square*, 210.

[18] National Archives (Kew), SP 36/48, p. 19, Levant Company memorial to Newcastle, 28 June 1739.

[19] James Porter, *Observations on the Religion, Law, Government and Manners of the Turks* (London, 1771), 419.

Figure 2 Destination of Mitford's Cloth Exports



Source: Mitford's journal for the years 1730-1751, National Archives (Kew), C113/11, item 59, Chancery Master Kindersley's exhibits.

Unfortunately for Levant merchants, the spike in exports at the end of the War of the Austrian Succession (1744-1748), which was driven by pent-up demand for silk in London, proved to be short-lived.

The Political Debates of the Mid-Eighteenth Century

The lack of understanding of how the trading companies were organized and operated has, in my view, led to a misrepresentation of the outcome of the parliamentary debates concerning them, both in the aftermath of the Glorious Revolution and in the mid-eighteenth century. The Russia Company did not "effectively peter out in the 1690s," as D. C. Coleman suggested, nor was the Levant Company monopoly "brought to an end in 1753," as W. A. Speck suggested.[20] What actually happened was that admission fees for the Russia Company and the Levant Company were reduced in 1699 and 1753, respectively.

[20] D. C. Coleman, *The Economy of England, 1450-1750* (Oxford, 1977), 149, and W. A. Speck, *Stability and Strife, England 1714-1760* (London, 1977), 125.

There is also a tendency in the historiography not to differentiate among political attitudes toward the various chartered companies. Parliamentary challenges to the East India Company and the Royal African Company are cited as examples of an emerging view of political economy that was fundamentally anti-company and anti-monopoly. Although a number of chartered company monopolies were challenged in the late seventeenth century, the two companies that had the most direct role in competing with the French, the Levant Company and the HBC, emerged with their monopolies intact.[21] During the period 1714-1742, the only serious challenge to the three companies discussed in this essay came in 1740, when the Board of Trade, alarmed by the fall in cloth exports to the Levant, urged the Russia Company to seek the right to import silk from Persia, over the objections of the Levant Company. The companies were also much better suited to Sir Robert Walpole's personal management approach than merchants in less structured trades, with whom he had increasingly adversarial relationships.

Serious parliamentary challenges to the companies started in the 1740s, triggered by the economic impact of war. The Levant Company faced major challenges in 1744 and 1753, while the HBC was challenged in 1749. It is difficult to interpret sensibly the parliamentary debates concerning the companies without first understanding their economic context. For example, declining cloth exports to the Levant as a result of French competition was the fundamental reason why the Levant Company was challenged in 1744. The attack was led in both the Commons and the Lords by politicians from Worcester, the region worst affected by the decline in cloth exports to the Levant.[22]

Political divisions in these debates were not neatly bifurcated into populists who favored unregulated trade against supporters of the financial establishment who favored chartered company monopolies. The main defender of the Levant Company in the Commons in 1744 was Sir John Barnard, the leading figure in City politics and a fierce critic of the 'moneyed interest,' who, among other initiatives, was prominent in the attack on the East India Company in 1730. The HBC's critics in 1749 accused the company of unnecessarily losing business to the French in its lust for outrageous profits. Again, the HBC's main defender in the Commons was Sir John Barnard.[23] I believe that the reason why Barnard supported both the Levant Company and the HBC was that he was simply seeking to protect the interests of his London constituency. The Levant

[21] In the 1690s, the HBC survived two parliamentary reviews, which it initiated, while the Levant Company monopoly was not reviewed.

[22] Thomas Winnington led the attack in the Commons and Samuel Sandys led the attack in the Lords.

[23] An account of Barnard's support of the HBC is contained in a collection of papers held at the University of Toronto, Thomas Fisher Rare Book Library, Mss 09253, notes regarding the Commons Committee of Enquiry.

Company and the HBC were London-based companies, with many economic dependants in London, who were attacked by West Country cloth manufacturers, in the case of the Levant Company, and an Irish politician (Arthur Dobbs) with support from Liverpool and Bristol, in the case of the HBC.

Even Adam Smith was relatively charitable toward the companies. The *Wealth of Nations*, first published in 1776, reflected a pragmatic attitude toward the companies and did not call for dramatic political intervention in their trades. Smith credited the HBC with carrying on the trade with a considerable degree of success resulting from its small size, which enabled it to have nearly the same degree of vigilance and attention as a co-partnership. Smith also dismissed the allegations that the HBC earned extraordinary profits.[24] Smith believed that the Russia Company was not very useful but, then again, not very oppressive.[25] Smith was more critical of the Levant Company, because he believed that its admission fee deterred speculative trading (which he thought was a good thing). Smith acknowledged, however, the cost borne by the Levant Company to support British diplomatic staff and argued that the ambassador and consuls ought to be maintained by the state.[26]

The three companies traded throughout the eighteenth century; it was only in the nineteenth century that they outlived their economic mandate.[27] The chartered companies did not fare well under the gaze of Josiah Tucker in the eighteenth century or in that of nineteenth-century liberal economists, but, despite criticism, the companies had powerful supporters.[28] Before 1763, both merchants and politicians recognized that Britain was on the commercial defensive in a number of important markets. Although by no means perfect, the companies should be seen as vital to British commercial competitiveness in the eighteenth century and not as early modern relics. The reputation of the companies in the eighteenth century deserves to be rehabilitated.

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[24] Adam Smith, *The Wealth of Nations* (1776; Chicago, 1976 [rpt. of Cannan's 1904 ed.] book V, chap. I, part III, article I, 266-67.

[25] Ibid., 257.

[26] Ibid., 258-59.

[27] The HBC merged with the Northwest Company in 1821, and the Levant Company surrendered its charter in 1825. The Russia Company survived as a trading entity until 1917, albeit in a much diminished form in the late nineteenth century.

[28] Tucker joined in on the attack on the Levant Company in 1753.