Background Research Draft on Bills of Exchange – MH 2019.8 Compagnie des Indes [French India Company]

The *Bill of Exchange* from the Compagnie des Indes, 1787 is a fascinating historical artifact from the late 18th-century that offers insight into the economic and financial practices of the time. This particular bill's origin lies in the operations of the French East India Company, a major trading enterprise established to compete with other European powers in the lucrative markets of Asia. The French East India Company played a pivotal role in managing trade routes and goods between France and its overseas territories, including India as well as other parts of Asia.[1] The French East India Company, established in 1664, relied on bills of exchange as a key financial mechanism during its operations from the late 17th century to the early 19th century[2]. However, though bills of exchange played a significant role in direct trade between Europe and Asia, their use in European trade exceeded that of international transactions.[3] The significant flow of bullion from Europe to Asia during this period turned Europe to use bills of exchange to manage domestic trade, reducing reliance on bullion which had become scarcer due to the eastward shift in wealth.

The use of bills of Exchange has played a pivotal role in the history of trade, finance, networking, and profit. Originating as early as the 13th century, they were initially used by Italian Merchants trading with Levantine and European points.[4] Transactions at that time were often managed through itinerant agents until the middle of the 13th century, after which the growth of trading partnerships and the power of prominent families and trading companies led to the establishment of permanent agendas in major trading centers. The simplicity and informality of the bills of exchange in the initial stages made them a sort of private instrument without legal formalities and hence this describes their absence from public archives. While these merchant letters were reliable when involved parties were part of the same company or family, outsiders

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[1] Britannica, "French East India Company." *Encyclopedia Britannica*, April 25, 2024.

[2] Cross, "The Last French East India Company in the Revolutionary Atlantic." 639

[3] Chaudhuri, "Treasure and Trade Balances: The East India Company's Export Trade, 1660-1720.". 493

[4] Usher, The origin of the bill of Exchange. 570

faced uncertainty in determining whether the bankers were actually partners.[5]

The main transactions in European nations and Britain were mostly carried out using coins in the early 17th-century, which often became worn, clipped and damaged by the late 18th century. As the value of these precious metals seemed to diminish over time, a shortage of coins arose, prompting a shift towards a greater reliance on the credit-based system again. This transition brought back the concept of credit system and moved from promissory notes to informal merchant letters, eventually evolving into the modern bill of exchange.[6] By the 18th century, bills of exchange grew to become a crucial financial instrument in European trade, enabling merchants to facilitate transactions across the globe. These bills were developed by merchants to facilitate overseas trade in a more secure way. The late 18th century was the time of great trade between nations and hence for transactions came handy, the bills of exchange.

Merchants could use bills of exchange as payment for goods, drawing them on banks and allowing them to defer payment until a specified date. These bills were often secured by the goods merchants possessed, their anticipated profits, and their established reputation.[7] The bills of exchange would work like this: a merchant in England (Merchant A) would accept a bill of exchange from another merchant (Merchant B) as payment for goods to be delivered. The bill would be drawn in a London bank, allowing the selling merchant to receive payment in local currency before the goods would be dropped off. The purchasing merchant could defer payment to the bank that guaranteed the bill until the date specified on the bill. These agreements allowed merchants to establish a credit system that spanned across different locations and currencies, creating a flexible and efficient financial environment.

A concept of "discounting bill" also existed within the same timeframe that allowed holders of it to pass them as payment of goods and services and use them as investments, own profit, commission and created networks of credit and debt that connected individuals through collateral relationships. The different signatories on the bills of exchange served as a record of

[5] Usher, The origin of the bill of Exchange. 574

[6] Usher, The origin of the bill of Exchange. 576

[7] Poovey, *The financial system in nineteenth-century Britain.* 11.

the endorsers of the bill, with all signatories ultimately responsible if the final party failed to fulfill their obligation. This arrangement addressed issues with the informal merchant letter in the late 13th-century, as all of the endorsers could be held accountable, making the modern bills of exchange a more secure means of conducting transactions both financially and socially. According to the Joint Liability Rule (JLR) that enacted in both common and civil law jurisdictions specified that all endorsers, in addition to payer and issuer could be held liable for the full amount of the bill if the bill was not paid[8]. This rule emerged in France and little is known about the laws of bills of exchange in Britain. As a result of this secure blanket, bills of exchange not only served as a credit instrument but also as records of the credit and networks that connected different individuals. For this reason, some banks would be hesitant to rediscount their bills, as it would reveal the business history of their clients, prompting that the payment of bills of exchange really worked towards having a reputation in society.[9]

Bills of exchange not only facilitated the trading of goods but also played a significant role in boosting the English economy during the late 18th century. By examining this bill of exchange, we gain a better understanding of the interconnected world of the 18th century trade and finance, as well as the strategies employed by companies like the French East India Company to thrive in a highly competitive global market. Bills of exchange were not only crucial instruments of exchange but also records of the credit and trading networks that lied one individual to another. Therefore, this artifact serves as a testament to the sophisticated nature of historical commerce.

[8] Santarosa, "Financing Long-Distance Trade: The Joint Liability Rule and Bills of Exchange in Eighteenth-Century France.", http://www.jstor.org/stable/24550757. 693

[9] Poovey, *The financial system in nineteenth-century Britain.* 10

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