The world’s first stock exchange: how the Amsterdam market for Dutch East India Company shares became a modern securities market, 1602-1700

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Josseph de la Vega’s *Confusión de confusiones* is a special book. It consists of four fictitious dialogues between a merchant, a philosopher and a shareholder. The merchant and the philosopher are interested in the share trade and the shareholder explains to them how the trade works. Written in Amsterdam in 1688, it is the world’s first treatise on the stock-exchange business. As such, it has continually attracted attention from scholars. New editions, often marketed towards investors who are active on today’s financial markets, appear regularly. Moreover, *Confusión* was selected for the ‘basic library’ of texts that shaped Dutch cultural history – a remarkable achievement for a work that had originally been written in Spanish.¹

*Confusión* is also a mysterious work: very little is known about its author, it is written in a form of Spanish that must have looked archaic even to seventeenth-century readers and its composition is conspicuous, to say the least – about two-thirds of the book is devoted to biblical and mythological excursions. It is my aim to give a new interpretation of the original purpose of *Confusión* in this epilogue.

Several scholars have advanced theories on the purpose with which De la Vega wrote his remarkable book. Smith, in his introduction to the Dutch translation of *Confusión*, argued that it might have been used as a manual for people who were thinking about starting to participate in the stock-exchange business. The manual would then have principally been aimed at fellow Sephardic Jews, as *Confusión* was written in Spanish. Dissemination of the contents of *Confusión* among the Sephardic community in London might even have sped up the transfer of financial knowledge from Amsterdam to London. Smith noted, moreover, that there are indications that De la Vega was planning to have the book translated into French as well, which – if true – would be a strong argument for the manual-interpretation.² No contemporary copies in languages other than Spanish have remained, however. To be sure, only five

¹ As such, its full text has been made available on the Internet: http://www.dbnl.org/tekst/vega002conf01_01/
copies of the original Spanish edition of 1688 survive in libraries around the world.\(^3\) The fact that so few copies survive makes it hardly credible that *Confusión* was used as a manual. Also, the book’s long-windedness would have made it an impractical manual.

Cardoso and Israel suggested other interpretations of *Confusión*. According to Cardoso, De la Vega originally planned to write a manual, but slightly changed the aim of the book during the writing, because his own lack of success as a share trader reduced the persuasiveness of his account. He therefore used the book to demonstrate that ‘despite the inner or potential risks and dangers of financial operations, the dealings at the stock exchange were worth pursuing’.\(^4\) Israel is the only scholar who has repudiated the manual explanation altogether. He argued that the Jewish community of Amsterdam had to deal with a stream of (mildly) anti-Semitic propaganda in 1688. The activities of the Jews on the share market were a recurring theme in these texts. The purpose of *Confusión*, according to Israel, was to assist the Sephardic community in dealing with the negative attention. *Confusión* provided a survey of the positive and negative aspects of the Jewish activities on the stock exchange and thus helped its Sephardic readers to reappraise their own behavior.\(^5\)

My analysis of the workings of the seventeenth-century securities market allows for a reassessment of the contents of *Confusión*. I contend that De la Vega’s aim was to write a vivid account about a subject that attracted a great deal of attention at the time. The main purpose was to entertain its readership. De la Vega’s treatment of the stock-exchange business reveals that he was well-informed about it, but I doubt that he was a frequent share trader himself. First of all, I have not come across his name in primary sources. The trading-club ledgers of Jacob Athias and Manuel Levy Duarte would be the logical place to find a reference to De la Vega: they list the names of a large number of Sephardic traders and date from the mid-1680s, shortly before De la Vega wrote his book.\(^6\) De la Vega’s name does not appear, however.

Moreover, the price data in *Confusión* are questionable; De la Vega’s price of 365% for late August, 1688, stands in stark contrast to the lowest price for that month quoted by Jeronimus Velters: 463%.\(^7\) Finally, De la Vega’s treatment of some specific

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\(^4\) Ibidem 123.


\(^6\) SAA, PIG, inv. nrs. 687-8.

\(^7\) See chapter 5, section Market reactions to information, on page 156 ff.
aspects of the market is hardly convincing. This is most apparent in his analysis of the ban on short-selling and, following from it, the possibility to legally renege on forward transactions. He noted correctly that it was possible to renege on a forward deal if the seller did not actually own the underlying asset of the contract, but failed in his attempt to elaborate on the implications of the ban. He was right to say that sellers could also use the ban to let the court declare their sales null and void, but passed over the fact that the seller would then incur a considerable fine. Contrary to De la Vega’s belief, sellers would thus generally be less inclined to renege. In the following paragraph, De la Vega tried to assess the implications of the ban on the options trade, but his account gives the impression that he did not understand the principle of the regulation. In my view, traders could ask the court to nullify an option contract if the seller did not own the underlying asset at the time the deal was made and/or during the contract’s term. De la Vega, however, remarked only that the rules were ambiguous. Lastly, when he wrote about repos, he made mention of very speculative traders who did not use time accounts. However, as I have shown on page 131, time accounts were hardly ever used at all. De la Vega’s account thus gives the impression that his personal experience with stock-market dealings was limited.8

However, De la Vega’s general overview of the types of transactions used on the market and the risks involved in the various transactions is very good — although his style of writing makes parts of it rather difficult to grasp. He also proved his expertise on the subject by explaining that derivatives were not speculative instruments, but could also be used to mitigate risks. These sections could definitely have been used to teach readers about the basic workings of the securities market, but they form only a minor part of the book. De la Vega paid far more attention to all the various schemes used by collaborating traders who tried to make a profit by playing tricks on other traders. These schemes were no doubt employed by less honorable traders — and it is of course laudable that De la Vega warned potential investors about the tricks that were played on the market — but the amount of attention he paid to tricks and schemes is out of proportion. After having read Confusión as a layman in the field of stock-exchange dealings, one would have expected the securities market to be a place of unfair trades rather than a place where financial risks could be managed and controlled. Put another way, Confusión is not a very encouraging read.

In my view, therefore, De la Vega wrote Confusión for the entertainment of educated members of the Sephardic community. He took a popular subject – which he (rightly) expected would remain popular for some time –, did ample research to make his story plausible, used fictitious dialogues to make it a lively read, and put in a large amount of drama by emphasizing the dark sides of the share dealings, exaggerating the share price movements, and adding lengthy elaborations on religious and mythological texts. The result was a book that has too much drama and technical shortcomings to qualify it as a manual and too much emphasis on tricks, schemes and comparisons with mythological figures to make Israel's argument convincing that the book was aimed at providing a context for anti-Semitic texts that spoke badly of the financial dealings of the Jews. Those members of the Sephardic community who were experienced in the stock-exchange business and well versed in mythology and the books of the Old Testament probably simply found it a good read. They were personally acquainted with people who made or lost large amounts of money on the stock exchange and this book therefore appealed to them.