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The Birth of the Business Corporation East and West: Eurasian Trade Institutions and their Migration, 1400–1700

(Introduction, Summary of Chapter 1, Chapters 9-12)

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# Contents

**INTRODUCTION**

**PART I: THEORY AND METHODOLOGY**
1. TRADE, ENVIRONMENT, AND THE ROLE OF INSTITUTIONS
2. THEORETICAL FRAMEWORKS ON THE TRAJECTORIES OF INSTITUTIONAL DEVELOPMENT

**PART II: ORGANIZATIONAL BUILDING BLOCKS**
3. UNIVERSAL BUILDING BLOCKS: PEDDLERS, FAMILY FIRMS, SHIPS, AND BASIC CONTRACTS
4. VARYING ORGANIZATIONAL BUILDING BLOCKS: THREE INSTITUTIONS, THREE PATHS OF MIGRATION (SEA LOAN; FUNDUQ/CARAVANSELA; AND COMMENDA)
5. THE COMMENDA (FEATURES, ORIGINS, MIGRATION, MODIFICATIONS)

**PART III: THE BIGGEST LONG-DISTANCE TRADE ENTERPRISES ON THE EVE OF THE ORGANIZATIONAL REVOLUTION**
6. FAMILY FIRMS IN THREE CIVILIZATIONS
7. MERCHANT NETWORKS
8. TRADE BY RULERS AND STATES

**PART IV: THE CORPORATION TRANSFORMED: THE ERA OF IMPERSONAL COOPERATION**
9. THE ORIGINS OF THE BUSINESS CORPORATION
10. THE DUTCH EAST INDIA COMPANY (VOC)
11. THE ENGLISH EAST INDIA COMPANY
12. WHY DID THE CORPORATION ONLY EVOLVE IN EUROPE?

**CONCLUSION**
Introduction

Around the year 1400, long-distance oceanic and overland trade along the Eurasian landmass was still mostly conducted over short trajectories. Porcelain, making its way from China to the Middle East or Europe, changed hands many times in various ports in the South China Sea, the Indian Ocean, and the Arabian Sea and its gulfs. Silk and spices were exchanged between merchants in oases along the overland Silk Route. Merchants from several major civilizations—Chinese, Indian, Persian, Arab—and ethnic groups, such as Jews and Armenians, were major players in this high-value tropical goods trade. Europeans were marginal to this commerce, buying their share of Asian goods at the eastern Mediterranean entrepôts.

Business was generally conducted by sole traders or organized around small-scale enterprises: traveling peddlers, stationary and traveling agents, family firms, small partnerships, and ethnic networks. But by 1700 the scene had changed completely. Goods were making their way directly from China, Japan, and the Indonesian archipelago to northwestern Europe. They were transported mostly by sea, across the Indian Ocean and around the Cape of Good Hope into the Atlantic. Trade was controlled by English and Dutch merchants, organized on a much larger scale and in an impersonal organizational form: the joint-stock business corporation. Two such corporations, the English East India Company (EIC) and the Dutch East India Company (VOC), dominated the growing oceanic Eurasian trade.

In the fifteenth century there was no regular trade between Europe and Asia around the Cape of Good Hope. In the sixteenth century, following da Gama's discovery of the Cape Route (1497–98), 815 ships—most of them Portuguese and none operating on behalf of a business corporation—took this route on their way eastward to Asia. But by the seventeenth century, no fewer than 3,187 ships took the route, close to 95 percent of them operating on behalf of business corporations. Of these, 2,577 ships (80 percent of the total) were operated by the VOC and EIC alone. Dutch and English dominance in the long-distance trade gradually trickled-down to intra-Asian trade and was manifested in the growing presence of European merchants residing in Indian Ocean ports. This is not to say the Asians were pushed out of trade altogether, but, the longer the haul, the more likely it was to be handled by Europeans. Furthermore, the Europeans were the only merchants who connected Eurasia with the Americas (and their silver) across the Atlantic and the Pacific, thus creating a global commercial network for the first time in human history.

From another perspective, that of organizing business more generally, until around 1500, business enterprises throughout Eurasia were organized in quite similarly in family firms, partnerships, and ethnic networks. Thereafter, Western Europe diverged. Its larger businesses—first in trade, then in finance, then in infrastructure and transportation, and later also in manufacturing—were organized in the form of business corporations, many of them with joint-stock capital. This organizational form remained exclusively European for three hundred years, before it slowly migrated to other parts of Eurasia and the globe.

Another, more abstract, perspective identifies the shift from personal to impersonal exchange as a key developmental stage that was essential to the economic rise of Europe. Personal exchange, or

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cooperation, was based on family, locality, or ethnic kinship ties. Impersonal exchange between strangers was traditionally confined to simple and instantaneous bartering or cash transactions. The shift in Western Europe from family firms and closed partnerships to the joint-stock corporation constituted more than just a switch from one organizational form to another. It was a shift from personal cooperation to impersonal cooperation. This shift amounts to what can be termed an organizational revolution.

Research questions

The book as a whole addresses a set of wider research questions on the organization of trade as a whole and then zooms in on research questions that focus on the development of the joint-stock business corporation. The wider research questions are: Did the civilizations involved in pre-modern Eurasian trade use similar or different organizational forms for conducting their trade? As much as they used similar organizational forms was this because each of them reached indigenously and independently similar organizational solutions to similar functions? Or did some of them import and transplant organizational forms that were developed in other civilizations? Or, alternatively, did differently configured organizational forms that were functional equivalents develop in different civilizations? As much as they did not adopt similar or equivalent organizational forms, why didn’t organizational forms that proved to be efficient in one civilization migrate to and transplant in others?

The answer to these general questions with respect to the period to 1600 in parts II and III of the book leads to a culmination and focusing of the research questions in Part IV on the joint-stock business corporation in the period around and after 1600. Why did the joint-stock business corporation emerge exclusively in Western Europe? This question can be separated to three sub-questions: Why around 1600? Why in the context of long-distance trade? Why in England and Dutch Republic and no other Western European countries? The very last chapter of the book will deal with two comparative questions: Why wasn't the European business corporation, if so effective in organizing long distance trade, mimicked by other Eurasian civilizations for 300 years? Why institutions that had some corporate-like features, and were used in other civilizations (family lineage, waqf, guild), did not further evolve to compete successfully with the corporate-based European mercantile enterprises? While dealing with the organizational development the book will also address the question how consequential were these organizational developments. Were these new organizational innovations (as opposed to technology, violence or geography) a major cause of the rise to dominance of Western Europeans in long-distance Eurasian maritime trade?

To answer these questions, this book closely examines the role played by organizational forms in the transformation of Eurasian trade roughly between 1400 and 1700. Each of the three centuries examined here is distinct. The first, the fifteenth century, was one in which European merchants were not yet present in Asia. Asians organized their trade via family firms, merchant networks, and state-operated voyages, trading in high-value goods between China, India, and Arabia. The second century saw the arrival of the Portuguese, around the Cape, using their state apparatus to trade all the way to Cochin (Kochi) and Goa in India, Macao in China, and Nagasaki in Japan. In the third, the seventeenth century, the Dutch and English arrived, organizing their entrepreneurial activities into corporations and taking over much of the long-distance trade with India and Indochina.
A comparative perspective is essential in addressing the research questions posed by this book. It thus compares the organizational forms that were used in four major civilizations: Chinese, Indian, Middle Eastern, and Western European. We have here a unique opportunity, a natural experiment, for a comparative institutional analysis, because all four civilizations were involved in the same kind of business activity—long-distance trade—within the same environment, the larger Indian Ocean.

**Argument**

The book's core arguments are made on two levels, the first being less ambitious and narrower in scope, and the second being more ambitious and perhaps more challenging to defend. The first level aims to explain the emergence of the business corporation in Western Europe and the shift to impersonal cooperation in the context of Dutch and English corporations. The second level aims to explain the rise to dominance of Western Europe, in general, and England and the Dutch Republic, in particular, in long-distance Eurasian trade and eventually global trade. The first level contributes to the history of business organizations while the second to the history of trade and of economic development.

The first-level argument is that the organizational design of the EIC and VOC, the first long-lasting joint-stock corporations, enabled for the first time in human history the formation of a large scale multilateral impersonal cooperation. More concretely it enabled huge capital to be raised voluntarily and willingly from thousands of passive investors. In order to facilitated such a large scale impersonal cooperation credible commitment had to be conveyed on two within two relationships. The first commitment needed was that of the ruler not to expropriate the newly pooled together tangible capital. Such a commitment could be credibly conveyed around 1600 only in England and the Dutch Republic due to the restrained characteristics of their governments which we take here as exogenous. The second commitment needed was that of the entrepreneurs not to cheat or shirk the outside passive investors. The commitment devices designed for the VOC and EIC governance provided outsiders with a reasonable mix of participation in decision making, exit through the selling of shares, access to information and share in the profits. Without such institutionalized and credible commitments, the outsiders would have refrained from investing with the new, strange, and impersonal institution called the business corporation. The ability to convey credible commitment to strangers through the corporate form was a breakthrough on the way to impersonal investment and, ultimately, the modern economy. This impersonally pooled capital was used for regular voyages by numerous large and well-equipped ships on journeys that lasted several years. What is important for this line of argumentation is that the organizational revolution brought about around 1600 by the EIC and VOC in the context of long distance trade is a turning point in the history of business organization. It formed the basis for the future use of the joint-stock business corporation in the financial, transportation, colonial and even industrial revolutions.

The second-level (more ambitious) argument makes claims with respect to a more immediate economic and political impact of the organizational revolution on English and Dutch maritime trade performance. It argues that shipping, navigation, warfare, motivation to resort to violence cannot fully explain the rise to long-distance trade dominance of the English and Dutch. The new organizational form enabled the English and Dutch to deploy more capital, more ships, more voyages, more agents than other organizational forms enabled. The emergence of the joint-stock business corporation had significant
impact on trade within decades after 1600. It had a longer-term bearing on the history of trade, and the
globalization and imperialism that accompanied it.
The first (less ambitious) level of argumentation can explain Europe's later, longer-term rise in the
eighteenth and nineteenth centuries, when the model of the joint-stock business corporation, together
with the supplementary stock market, played a major role in the financial, transportation, colonial and
industrial revolutions. The first-level argument does not have to assert that the emergence of the
business corporation had immediate economic impact, namely that Europeans took over long-distance
Eurasian trade from Asians by the seventeenth century or that institutional factors, as distinct from
technological or military factors, were crucial in the taking-over of Eurasian trade by Europeans.
Historians who believe that the Europeans rose to dominance only in the nineteenth century, or who
attribute their rise to the use of violence, may nevertheless be convinced by the argument on the first
level. This level does not build on the validity of the second-level argument, while the second-level
(more ambitious) argument assumes the first-level argument to be correct.
The unfolding of the core arguments book has three meaningful byproducts. Due to the challenges
encountered in long-distance trade merchants were at the organizational cutting edge of the period
1400–1700. The book provides a survey—the first of its kind—of organizational forms used in Eurasian
long-distance trade in this period and the way the various organizational forms dealt with these
challenges. It is well known that Eurasia was a fertile ground for the migration of people, religions,
technologies and knowledge. The migration of institutions did not yet receive its due attention. The book
offers an account – the first of its kind - of the migration of trade organizations migrated throughout
Eurasia. In order to study the migration, and given the lack of an articulated theoretical framework for
studying institutional migration the book had to develop its framework for the migration and even more
importantly the resistance to the migration of institutions.

Theory, methodology, and sources

This study follows the evolution of institutions in the various civilizations, along two paths: indigenous
institutional evolution stemming from interaction with the immediate environment; and the migration of
institutions from other civilizations not part of the immediate environment. In order to be more precise
in the analysis I will employ a typology of three types of institutions and ask which of these types fits
each of the organizational forms studied and why. Type I institutions, are these originated and expanded
independently in various civilizations, on a local, indigenous evolutionary path; with respect to Type II
institutions, developments took place mostly as a result of emulation, transplantation, and importation
from other civilizations (that is, following an evolutionary path of diffusion from civilization to
civilization); and in Type III institutions, developments again occurred along the path of indigenous
evolution. But, critically, in Type III institutions the evolution took place historically in one civilization
only and not in various civilizations independently, as is the case with Type I institutions, and did not
migrate beyond the original domain as is the case with Type II institutions. My use of types here does
not assume that types are actual historical stages. The types are employed for analytical purposes, to in
order to identify the indigenous evolution of some organizational forms and the migration of others. I
do not wish to argue for a historical reality in which distinct institutional types had actual existence in
any essentialist sense.
As the book will show relatively simple organizational forms (Type I institutions such as the traveling peddler, traveling and stationed agents employed in bilateral relationships, small family firms, and general partnerships) developed locally and independently in various places along the Eurasian landmass. More complex, and more socially- and culturally-embedded, Type II institutions (such as the caravanserai, the sea loan, and the commenda partnership) were established more rarely, as far as we can tell, in only one or two places, and spread around much of Eurasia by way of emulation, transplantation, and importation. The most complex and embedded institution used in Eurasian trade in early modern times, the corporation, originated in only one civilization, Western Europe, and was not imported in the period covered in this book by any other civilization.

The shift from the prevalence of the Type I institution to the dominance of the Type II institution is not chronological; even when Type II followed Type I in time, the timing throughout the civilizations was not uniform. The shift was not well defined in time; it occurred, at least partly, before the period covered in this book. By contrast, the shift from Type II to Type III was sharp, and took place in a well-defined time and place: Western Europe around 1600. The ultimate Type III institution, the corporation, extended beyond family and ethnic networks, as it had to facilitate multilateral impersonal cooperation. But once this was achieved, the new institution allowed the accumulation of capital, the spreading of risks, and longevity of existence so important in Europe's Eurasian trade. Yet this Type III institution, which was more embedded in European civilization, also more vehemently resisted importation by other civilizations.

Chapter 1 will present the theories that will be used for studying the first path of development, the statics and dynamics of the development of institutions in interaction with their environment. Chapter 2 will present the theories that will be employed in examining the second path of development, the migration of institutions. The study of the first path relies to a great extent on preexisting theories, while the study of the second path requires the readjustment of previous theories and the formulation of a new theoretical framework. Chapters 3 to 5 examine the basic organizational building blocks, chapter 3 the more universal (Type I) organizational forms, their features and employment, chapters 4 and 5 the varying building blocks, those organizational forms that migrated (Type II) and were usually available in some parts of Eurasia but not in others, and their migration paths. Chapters 6 to 8 study the biggest organizational forms of the pre-corporation era, complex forms that used the basic building blocks, the family firm, merchant network and ruler operated enterprise. Chapters 9-12 takes the story into the corporate era, explaining both the emergence in England and the Dutch Republic and the non-migration (Type III) of the business corporation.

In order to avoid a too abstract and structural discussion the book will present microstudies of several organizations that participated in Eurasian trade. These will examine the details of various organizational forms, from agency and loan contracts, to partnership agreements, to corporate charters. They will also assist in understanding the functioning of the different organizational forms in real trade, drawing on quotes from historical organizational documents. By using a microstudy methodology, we can go deeper than a survey of the secondary literature would allow, and get a sense of the primary historical records—that is, a nuanced understanding of the period and its real persons and actual trade enterprises (as opposed to mere prototypes of organizational forms in the abstract).

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3 Note that the very basic institutions are not really multiparty business organizations. They are single individuals or two-party agreements, but for consistency I will term them 'organizational forms' as well.
Cases will be selected on the basis of two main criteria. The first is the pertinence of the organization to Eurasian trade, either as representative of a wider phenomenon or as forming part of a turning point. The second is the availability of extensive enough primary sources to enable an analysis of the organizational details. In addition, to comprehend these sources (which are often fragmented and in ancient language written in unspecified contexts), sufficient secondary literature has to be available to provide transcripts and commentary and preferably some historical analysis. The chapters in Parts II–IV of this book include microstudies of all the major organizational forms used in Eurasian trade, starting with contract, agency, and family firms and ethnic networks, continuing with partnerships and commendas, the political ruler, and ending with the corporation. The selected microstudies are also spread widely in terms of geography, from Quanzhou (Chinchew/Chinchu, Zayton), Nanjing, and Turfan (Turpan/Tulufan) in China, to Lisbon, London, and Amsterdam in Europe, via the Java Sea, Surat in India, Isfahan in Iran, Quseir-al-qadim and Cairo in Egypt, and Livorno in Italy.

Availability of data is a challenge because the standard sources on the history of trade, such as custom records, port dockets, artifacts found in archeological excavations, and travel narratives, rarely reveal enough about the organization of trade. The pattern of survival and preservation of records containing information about organizational details creates a bias in favor of European trade and organizations. The vast majority of surviving Eurasian trade records for the period 1500–1700 (located in archives in Lisbon, Amsterdam, and London) contain minute details of the organization of the Estado da Índia, the VOC, and the EIC, and only marginal trade information about their Asian counterparts. However, this book endeavors to offset this bias, at least in part. In the case of Asia, it draws on sources from earlier and later periods and on less conventional types of records, including: papyri from the Egyptian desert; contracts from caves in Western China; archeological surveys of shipwrecks from the Sea of Java; genealogical records from a Chinese port; wills from a German family archive; the reflections of a Guajarati family firm in the VOC archive; letters from the Cairo Geniza; account books and powers of attorney from an Armenian monastery in Iran; contracts of the King of Portugal from the state archive in Lisbon; an official history of a Ming Emperor; and incorporation charters issued by the Queen of England and the Dutch States General. Such are the kinds of primary sources used in the microstudies.

Preemptions

The mere asking of the question “why was European civilization the birthplace of the corporation?” is likely to be critiqued as representing an assumption that the corporation is an efficient institution and a necessary stage in economic development, and that Europe should be praised for developing it. Indeed, the book as a whole may be criticized as Eurocentric because it asks a question that seems to take Europe as the yardstick. I would like to preempt this possible first-sight impression. It is Eurocentric to an extent. But it is equally not Eurocentric, in a few important respects. As will become apparent, the Indian Ocean and the Silk Route are at the center of analysis. Much attention is devoted to Chinese, Indian, and Middle Eastern business organizations. The yardstick applied to address the research question “why did corporations develop only in Europe?” is not, in fact, Europe or the European path of development. Rather, it is the Eurasian long-distance trade that predated the European arrival. It will be shown that the European business corporation was developed due to Europe's difficulties and not because of an inherent European advantage. Similarly, the other core research question—"How did
different civilizations organize their long-distance Eurasian trade?”—does not use Europe as the yardstick.

Furthermore, the book is not Eurocentric in terms of the space devoted to each part of Eurasia. It surveys and analyzes trade organizations and their evolution, function, and effect in Eurasia as a whole. The timeframe of the book covers, consciously, a full century, 1400–1500, in which Europe was entirely absent from the scene. Much of the book is devoted to long-distance trade within the Indian Ocean and its peripheral seas, which was dominated by Asia—the Cape Route controlled by Europeans being the exception. Despite the scarcity of historical records dealing with much of Asia, significant effort was devoted to ensuring that the majority of the microstudies conducted are not about Europe. The book does not compare all the rest of Eurasia to Europe, but deliberately compares China, India, and the Middle East with each other. It acknowledges that non-European organizational forms (the family firm, the network, and other personally-based forms) had their advantages and enabled trade to flourish for centuries. It also shows that much of the migration of knowledge, know-how, and technology, and even institutions, was into Europe, not out of Europe. The corporation was the exception.

The book does not examine or apprise European colonization in Asia and the role of the EIC and the VOC in it. It does not hold violence to be a major factor in the early history of these companies and in their rise to long-distance trade dominance. It is likely to be critiqued for ignoring these deplorable chapters in the history of the two companies. The formal answer response to this critique is that timeframe of the book ends in 1700. Much of the resort to effective use of military force and the territorial expansion of the two companies took place in the 18th and with respect to EIC also 19th centuries. It is this effective resort to violence and colonialism which is widely known that often anachronistically pictures the early history as a forerunner. The will know violent Europeans encounters in the Americas are also wrongly assumed to reflect realities in Asia as well. The early EIC and VOC were trade enterprises. As will be shown in the book the Europeans had no naval or military advantages over Asian merchants and rulers. The idea of compelling Delhi or Beijing to yield to Dutch or English commercial or political demands was as absurd in 1600 as any. Until the late 17th century their territorial rule was confined to a few spice islands and port towns. They could not have ambitions to conquer large territories, establish colonies or subordinate Asian rulers. In a way, the assertion that the Europeans were super-powers in Asia thanks to their naval technology and resolute policies is Eurocentric and goes against the grain of the thesis of late divergence. The book focuses on the early history of the two companies, and on their organizational challenges and solutions. It does not preclude the possibility that the organizational innovations of the early 17th century enabled the next stage in the history of the companies, their turning into colonial enterprises, that relied on military might and excersized sovereign authority over a growing number of Asian people.

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4 Ironically this critique is not in line with the critique of the book as being Erocentric. When focusing on European colonization one is Eurocentric at least to some extent.
1 TRADE, ENVIRONMENT, AND THE ROLE OF INSTITUTIONS

(short summary of the chapter)

The expansion of trade from local to long-distance to Eurasian trade was a major challenge to merchants everywhere in Eurasia. Long-distance trade in both its maritime and its overland Eurasian environments was the most demanding business activity of the premodern world.

Indian Ocean shippers, navigators and merchants were involved before the arrival of the Europeans with voyages that were 4-6 times longer than voyages experienced by the Europeans any time before 1492. The Colombian discovery voyages were a leap forward in European standards. Yet the real leap forward for the Europeans took place with the first Cape Route voyages to India and beyond. A voyage from Europe to India was more than six times longer than the longest European or Mediterranean voyage and more than twice the voyage across the Atlantic to Central America. A voyage to China was three times longer than a voyage to the Americas.

Long-distance oceanic trade merchants had to deal with risks associated with transportation, navigating their way through unfamiliar routes in the Indian Ocean and the Silk Route. At sea, they had to confront risks such as storms, monsoons, reefs, and sandbars, and, overland, withstand sandstorms, winter storms, and a lack of water and food supplies. They had to bear political and military risks such as those posed by pirates, land bandits, and hostile and unreliable foreign rulers, both en-route and in the trade destinations, that could result in expropriation and even death. They had to match the supply of goods in one location to demand in a faraway and climatically and culturally different location. They had to assume market risks such as price fluctuations and lack of demand for exported goods. If they aimed at anything more than basic spot-barter transactions, they also had to manage credit risks, common means of exchange, and contract-enforcement risks.

In economic terms, long-distance Eurasian trade involved greater uncertainties than short-distance trade—the unforeseeable outcomes of oceanic currents and monsoons, pirates, inhospitable Asian rulers, and unknown market conditions. Often these uncertainties could not be quantified (even intuitively) into probabilities or converted into risk distributions. In more familiar trade routes, in which they could be converted into calculable scenarios, these were at the high end of the spectrum of contemporary business risks. They were greater than investment risks in any domestic activity such as retail, wholesale, crafts, or manufacturing, or in shorter-distance trade missions to more familiar destinations via more routine routes. But due to huge price differences between locations in goods such as spices and silver the potential rewards could be enormous. All of these factors placed long-distance trade organizations at the organizational cutting edge of the period 1400–1700.

The chapter surveys the historical study of trade by scholars working in the traditions of Smith, Marx, Weber and Braudel, and demonstrate that institutions have not received their due attention from these historians. These traditions have argued that geography, technology, and political willingness to use
violence explain Europe's rise to dominance in Eurasian trade. In this chapter I argue that these
explanations do not fully account for the ability of the English and Dutch to rise for dominance in
Eurasian maritime trade in the first half of the 17th century. The chapter asserts that institutions were
crucial in overcoming trade challenges. The organizational design of foreign trade had to be robust
enough to withstand capital-raising, agency problems, risk-spreading, liabilities, informational flows,
expropriation concerns, and more.
9 The origins of the business corporation

One institution, the business corporation, and two companies, the Dutch East India Company (VOC) and
the English East India Company (EIC), form the basis of the final chapters of this book.
In the following chapters I will first explain in chapter 9 why the corporation developed in late medieval
Europe. I will then present in chapters 10 and 11 microstudies of the two leading European corporations,
the VOC and the EIC. In these chapters I will explain why were European corporations transformed
around 1600 from public entities into joint-stock for-profit entities? why in Northwest Europe and not
elsewhere in Europe? and why were corporations so suitable for long-distance trade that they rapidly
took control of the Cape Route and rose to dominance in Eurasia trade as a whole, at the expense of
family firms, merchant networks and ruler operated enterprises? In the last chapter of this part, chapter
12, I will deal with the question of why the corporation was the ultimate Type III institution—in other
words, why China, India, and the Ottoman Empire did not develop corporate like entities at? And why
they did not imitate the European corporate form before the late nineteenth century?

What is a “Corporation”? The modern legal definition of a corporation is: An artificial person or legal
entity created by or under the authority of the laws of a state or nation, composed of an association of
numerous individuals, having a personality and existence distinct from that of its several members, and
which is, by the same authority, vested with the capacity of continuous succession, irrespective of
changes in its membership, either in perpetuity or for a limited term of years, and of acting as a unit in
matters relating to the common purpose of the association, such as buying, selling and owning property,
contracting with others, suing or being sued in court.1 The “Kintner regulations” that were applied in the
US in the period 1960-1997 in order to determine whether an entity would be taxed as a corporation
(taxable entity) or as a partnership (tax-through entity) listed six characteristics of an entity taxable as a
corporation for federal income tax purposes: (i) associates, (ii) an objective to carry on a business and
divide the gains therefrom, (iii) continuity of life, (iv) centralization of management, (v) liability for
corporate debts limited to corporate property, and (vi) free transferability of interests.2 As we shall see,
the first definition could be recognized by contemporary jurists around the year 1600 in England, the
Dutch Republic and much of the rest of Europe. The second definition would have been
incomprehensible for them.
I will use here a variation on the Kintner typology of the attributes of the business corporation. The
seven attributes listed below are familiar and uncontroversial.

PLEASE INSERT HERE FIGURE 9.1

The first two attributes could be found centuries before 1600 in religious and municipal corporations.
Attributes three to six were attached to the corporate form for the first time around the year 1600 as part
of the design and early evolution of the first two joint-stock business corporations, the EIC and the

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1 Paraphrased based on *Black's Law Dictionary Free Online Legal Dictionary 2nd Ed.* Black, Henry.
"Black's Law Dictionary". https://thelawdictionary.org/corporation/

VOC. Attribute number seven, which is now considered as one of the cornerstones of the business corporation was developed only after our period and outside the context of trade. To be clear, I do not argue that features three to six appeared out of the blue in 1600. Organizational forms and organizational attributes often have predecessor. They cliché that all Western European commercial practices had Italian origins is often correct, but with qualifications. Attribute three, equity investment, could definitely be found in use before 1600. General partnership, commend contracts and ship part-ownership were equity funded organizational forms, found in Italy and elsewhere in Europe. These organizational forms pooled together equity investment from several persons. The partners/part-owners shared investment in the business activity in return for sharing the profit if such would materialize, or losses if such occurred. But these organizational forms were of small scale, did not use the corporate form as a platform and had no longevity or delegated centralized governance. Transferable shares were used in Italy in the context of public finance and colonial undertakings. The *compera* was a financial scheme initiated in Genoa and mimicked by other Italian cities, in which money was lent to the city-state by a consortium of well-to-do residents in return to interest. Repayment and interest were secured by specific source of tax income. The shares in the syndicate became transferable over time. The *Maona* for the colonization of the island of Chios and the *Casa di San Giorgio* built on the *compera* and involved an additional activity, the delegation of one of the city’s main sovereign activities, the running of overseas colonies, to the *compera - maona*. These schemes relied to taxation, performed a relatively routine administrative activity (not trade) and in fact had characteristic more like those of transferable city bonds.

So the innovation with respect to attributes three to six was that they were attached for the first time to the corporate form and to each other. The various attributes could not be fully separated from each other. They supported and enhanced each other. For example, the lock-in of capital relied on the legal personality and the longevity. The delegated governance structure of the corporation had to undergo changes when it was applied to equity investment. Attributes three to six were unfamiliar to the greatest English jurist of the time Eduard Coke (1552-1634) and his contemporaries as corporate attributes. Chapter 9 will survey how did the corporation develop in the period in which it acquired attributes one and two that familiar to Coke and his contemporaries as corporate attributes. Chapter 10 and 11 will analyze the transformation of the corporate form of organization into what could be termed “The Joint-Stock Business Corporation” with the establishment and configuration of the EIC and VOC in the early 17th century. In this period attributes three to six first appeared. They appeared with respect to this subset of the universe of corporations, corporations involved in long-distance Eurasian trade. Attribute seven was still irrelevant at the time and was developed only in subsequent centuries when business corporations were increasingly funded by long-term debt finance and were subjected to liquidation due to insolvency. While from a legal perspective it may seem that this part of the book deals with the emergence of four new attributes of the corporation, from an economics perspective the formation of the EIC and VOC is an even more dramatic transformation. Equity investment was pooled together from hundreds of passive investors based on impersonal relationships. The investment was locked-in for a term of years. It was used for the formation of a new enterprise dealing with the risky business of long-distance trade. For this to be achieved major organizational obstacles had to be overcome with respect to the fear of

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4 Coke, Edward. 1853 [1628]. *A Commentarie upon Littleton.*
expropriation of the pooled assets by the rulers, collective decision making, agency problems and information asymmetries. This part of the book will examine the legal attributes the economic solutions which were designed within the context of the establishment of the EIC and VOC. It will also look at Asian and earlier European organizational forms in order to determine which of these components were in existence in them in functionally equivalent organizational forms that were not corporations, and which were new to these newly designed joint-stock business corporations.

The origins of the corporation

A long-standing debate surrounds the early history of the corporation. I identify four different approaches in the historiography of the corporation. The first, which views the corporation as a Roman jurists’ invention, was advanced by law scholars and historians of Roman law, such as Duff. They interpreted Roman legal texts and the corpus juris civilis as containing evidence for the existence of a corporate conception in classical Roman law. Recently, Malmendier suggested that the societas publicanorum, a society of government leaseholders, was the earliest predecessor of the modern corporation. Yet this institution, which appeared in the fifth century BCE and reached its height during the republic, was not reflected in later legal texts such as corpus juris civilis. More recently, Abatino, Dari-Mattiacci, and Perotti identified another Roman institution, the peculium, as a substitute for the corporation. The peculium provided de facto depersonalization by making a nonlegal person the fulcrum of the business: the slave. This format exhibited all the distinctive features of modern corporations, including asset partitioning, thereby providing a functional equivalent of the modern corporate form. Even if the identification of corporate features in the societas publicanorum or the peculium is widely accepted by scholars, these institutions, which might be very relevant for understanding Roman economy and may offer an interesting alternative to the corporation, had no direct continuation into the high Middle Ages.

The second approach in the historiography of the corporation argues that it is a product of eleventh–thirteenth-century revivers of Roman legal scholarship. According to that view, the glossators and commentators, the interpreters of Justinian Code, read into a few scattered statements by Roman jurists a coherent legal concept unrecognized by contemporaries, doing so not as a scholastic exercise but rather to serve the new needs of their age. Specifically, they responded to their changing environment in which associations such as independent cities, universities, colleges, and guilds were gaining importance. These associations needed an institutional platform for owning property, setting governance structures, resolving disputes, and the like that the corporation provided.

The third approach views the corporation as originating in medieval Germanic tribal traditions. It points to the communal spirit of German tribes as evidence of a corporate ideology. This view was advanced by German nationalists, notably von Gierke, in the late nineteenth century. Unlike Roman law and the south European Latin culture, which were individualistic in their orientation, the basic Germanic

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5 Duff, Patrick. 1938. Personality in Roman Private Law.
9 von-Gierke, Otto. 1900 [1881]. Political Theories of the Middle Age.
orientation was toward the group, the association, and the fellowship. This view lost support with the discrediting of German nationalism.

The fourth approach, by which I am the most convinced, considers the corporation an invention of the church and canon law. Several controversies that shook the Catholic Church between the eleventh and fifteenth centuries—including over investiture (the conflict between the emperor and the pope), conciliarism (the conflict between the College of Cardinals and the pope), and the papal schism (the split between Avignon and Rome claimants to be the true pope)—were often argued in corporate terms. The issues at stake included: who appoints the pope?; who appoints bishops?; does the pope have to consult or seek the approval of the council?; where did the authority and ownership of property lay when the seat of a pope, a bishop, or an abbot became vacant?; did the pope or Council of Bishops have the ultimate authority?; and was the church a corporation? Deep issues of hierarchy, centralization, and representation were discussed in corporate terms. We do not have to enter here into the history of the Catholic Church or the exact positions in the debates. What is important for our purposes is that the corporate concept was developed within these controversies and was intended to resolve organizational aspects of the Roman Catholic Church. The emerging law of corporations became the constitutional law of the late medieval church. The corporation provided legitimacy and working tools for the full range of ecclesiastical organizations, from the papacy to the monastery, fraternity, and religious order. The corporation served the objective of separation of the constitution of the church from that of territorial rulers.

Why did the Roman Catholic Church, out of all the organized religions, need such a legal–constitutional conceptual framework? Two factors played an important role. While several major religions developed as part of the apparatus of states, the Catholic Church aspired to separate from the emperor and other lay rulers. While several major religions were decentralized, this church was centralized and hierarchical. The combination of these two factors made it quite singular.

The fourth view can, without any difficulty, be reconciled with the second view, or even absorb it. The use of the corporate form to solve the organizational problems of towns, colleges, and guilds was a positive spillover from the church. Had the church not developed the corporate form, these other bodies would have undoubtedly taken a different organizational path.

Once the church had developed this form, the question of how to reconcile the canon law conceptualization of the corporation with Roman law texts had to be addressed. The glossators and commentators reread Roman law doctrines and institutions, not only in line with the new reality of towns and guilds, but also, or even primarily, in line with newly developed mediaeval canon law theory. After all, to take just two examples, Irnerius (1050–1125 or thereafter), the founder of the Glossators School at the University of Bologna, was involved in an investiture controversy, and Pope Innocent IV (1195–1254) taught canon law at the same University of Bologna before his ascendance to the papal throne. At this point, even the first view can be integrated into the fourth. Modern readers of Roman law found in it corporate conceptions that were inserted not by classical Roman jurists but rather by medieval legal scholars.

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10 Harold Berman is the most influential proponent of this approach. See Berman, Harold. 1983. *Law and Revolution*. See also ibid. Grant, Edward. 2001. *God and Reason in the Middle Ages*.


12 See also Feldman, Stephen. 1997. *Please Don’t Wish Me a Merry Christmas*. 15
The early European corporations

By the fifteenth and early sixteenth century, the corporation was already well established as an important organizational and constitutional tool in Europe. It was uniquely European, having been employed for several centuries to ecclesiastical ends. Political rulers did not use the corporate form for their purposes; they relied on hereditary or religious legitimation, and did not want to design participatory forms of governance. However, the corporate form had already spilled over into some municipalities. Cities in some regions of Europe assumed a level of independence and autonomy from popes and emperors and from the rural feudal system. They found the corporation to provide a good platform for organizing municipal governance and city-based economic activities such as craft guilds, merchant guilds, livery companies, regulated companies, and educational endeavors such as universities and colleges. Guilds—the most significant late mediaeval economically active corporations—had considerable social, fraternal, ritual, and even religious elements. They served as fellowships or brotherhoods that controlled and ritualized whole aspects of their members’ lives. They were total institutions in the sociological sense of administering most aspects of the members’ lives, not passive investment tools, and they disciplined their members accordingly, applying social and religious norms and sanctions. Membership was determined by status and not contract. In modern terms, they were not aimed at profit-maximization but rather were conceived as a regulatory order, performing public or semipublic duties. The features of the city-based corporation became quite stable. It had a legal entity separate from that of its members. Its legal personality secured longevity. It did not terminate with the death of any one individual: it was potentially immortal and subject to dissolution only in a strictly defined manner. A corporation could own and convey land, albeit at times with restrictions. It did not have to litigate under its members’ names, but could sue and be sued, for better or for worse, in its separate personality, in the same manner as individuals. It could make bylaws to govern its internal affairs. As a legal entity, a corporation could acquire additional franchises, liberties, and exemptions from the state, usually in the incorporating charter or act itself.

The first five centuries in the history of the European corporation can be divided into three periods. As with most periodizations this one isn’t neat. Yet the rough scheme is of a first period in which the corporation was conceptualized and used for legitimizing and organizing various elements within the Roman Catholic Church and was used for the constitutional and practical purposes of the Church. In the second period the corporate concept spilled from religious to lay contexts and was used by municipalities and other urban organizations in order to address their governance needs and consolidate their autonomy vis-a-vis Pops and Emperors. England, with its more centralized monarchy was the first to enter the third period. In that period the Crown monopolize to itself the privilege of creating corporations and used the corporate form as one of its policy promotion, income generation and control tools. Entities that viewed themselves as corporations from the second period were reincorporated by charters in the third period in order to assert and demonstrate the Crown’s monopoly on incorporation.


As can be seen from Figure 9.2 most corporations formed in England by royal charters in the third phase were universities, colleges and schools and livery companies and manufacturing companies, some of them reincorporation of craft guilds. The reincorporation of preexisting municipalities and ecclesiastical companies was sensitive due to political tensions between the Crown and such entities and as a result only few of these were incorporated by charters. The business of chartering trading companies was a small relatively to the whole business of chartering.

Prior to the sixteenth century, a number of groups of merchants in England, such as the Merchants of the Staple and the early Merchant Adventurers, traded with nearby continental ports, but these were associations of individuals usually with no formal corporate charter. They operated overseas on the basis of a license or a franchise. In the sixteenth century, the regulated corporation gradually replaced the merchant guild in the organization of English trade with Western European ports. The Spanish Company, whose trade also covered Portugal, was chartered in 1577; the Eastland Company, for trading with the Baltic Sea and Scandinavia, was chartered in 1579; and the French Company was chartered in 1609. The territorial monopoly of the Merchant Adventurers, that were first licensed in 1407, and again in 1505 and 1546, was extended in 1564 to include, in addition to Flanders, also the Low Countries and parts of Germany.

These corporations were termed by historians as regulated because they regulated the trade of their members. The regulated corporation (termed also the regulated company), was, in fact a descendant of the merchant guild. The term corporation rather than guild was used with respect to these 16th century organizations in order to emphasize that they, unlike the earlier guilds, were formed by way of a charter of incorporation issued by the English Crown. The guilds, as ancient associations, acquired their legitimation from the voluntary association of their members, from existence from time immemorial, or from establishment by municipalities. The formalization of the guild into the corporation was important for legitimizing the Crown's claim to monopoly over the creation of new corporations and its authority to regulate their activities.

As can be seen in Figure 9.3 the trade in regulated companies took place at the level of the members/merchants not at the level of the corporation. Members invested their own capital, provided their labor, assumed the risk, and either collected profits or bore losses. Members had to keep the trade regulations issued by the company. Regulated companies collected membership fees, annual payments, and dues on imported and exported goods. Money collected in this way was used to provide facilities and services for individual members, such as factories, embassies and consulates, and convoys. Thus, while each member traded separately, bearing investment and risk on his own account, some of the infrastructure was common.

Toward the end of the sixteenth century, long-distance trade to the outlying frontiers of Europe and to other continents—only entered into by English traders for the first time during this period—was ordered in a new and experimental organizational form: the joint-stock corporation. Unlike the regulated corporation, the joint-stock corporation traded in only one joint account. This meant that members shared not only overheads but all business outcomes of the corporation—that is, all profits and losses.

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Figure 9.3 compares the structure and hierarchy of a joint-stock corporation to those of a regulated corporation. The blue bidirectional arrows show where the trade took place in each case.

The first of these was the Russia Company (also known as the Muscovy Company), founded in 1553 and chartered in 1555. Its ambitions included the discovery of the maritime Northeast passage to Asia and to reach Asian markets overland. But eventually its main business centered on whaling and the fur trade. The Levant Company (Turkey Company) was formed in 1581 for trade with Turkey and the Eastern Mediterranean. The Levant Company traded with Asian goods, but its business patterns were outdated. Its merchants relied on Venetians and Arabs to carry the Asian goods to the vicinity of Europe. The two companies were not confronted with the new institutional challenges posed by the opening of longer-distance trade routes following the discovery of the Cape Route in 1497, but they did face the business challenge posed by the mass importation of Indian spices and pepper by the Portuguese to the European markets.

The experiment of both corporations with the use of joint-stock capital finance was not very successful. The initial investment in the joint-stock capital of the Russia Company covered neither the high expenses of establishing the new trade nor the losses of ships and cargoes. In later years, more calls were made upon shares, with no dividends in sight. As a result, in 1586, the company was financially restructured under the same legal form, but using short-term rather than longer-term capital, and organizing it in several separate accounts, each for a period of one to three years. We shall see that this technique was adopted by the EIC a decade and a half later. This change stemmed from the difficulty in collecting from the original shareholders. By 1622–3, this process had been taken one step further and the separate accounts were replaced by individual accounts. With this step, the Russia Company was in fact reorganized into a regulated corporation. The financial structure of the Levant Company was debated as the charter expired in 1588. The merchants opposing joint trade had the upper hand, and the new charter of 1592 incorporated the Levant as a closed regulated company with high admission fees.

Most early joint-stock companies were experimental, relatively small, and often short-lived. Importantly, they did not engage in the new trade possibilities—or the accompanying institutional challenges—that opened up after the discovery of the Cape Route to Asia. There were also numerous other short-lived English joint-stock adventures, involved in explorations, privateering, and one-off trade expeditions, some of them with Asian ambitions, some of them competing with the Dutch precompanies to which we shall turn in the next chapter. So by 1599, the joint-stock company model had failed to prove itself as a good way to raise funding, to manage trade, and to establish a long-lasting enterprise.

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21 Ibid. p. 273.
23 To extend the list, mention can be made of some abortive, short-lived, or otherwise minor companies: the Merchant Adventures for Guinea; the Senegal Adventures; the Gynney and Bynney Company; the Greenland Company; the Barbary (or Morocco) Company; the Canary Company; the Cathay Company; and the North West Company. See Scott, William. 1912. *The General Development of the Joint-Stock System* p. 105-129. For the history of the North East Company, which is typical of this category of minor companies, see Shammas, Carole. 1975. "The Invisible Merchant and Property Rights."
The quantum leap of the business corporation—which involved the raising of joint-stock capital on an unprecedented scale, relying on more sophisticated financial design on a longer-term basis—came only with the formation of the EIC and VOC, in 1600 and 1602 respectively. To the changing trade environment, the two East India Companies and the institutional quantum-leap we now turn.

The Dutch and English: Latecomers to Eurasian trade

The direct Portuguese trade with Asia, which amounted to buying spices, tropical commodities, and other Asian goods at source, put English and Dutch traders at a disadvantage. Together with the Venetians, these traders traditionally bought spices and other Asiatic goods at the Mediterranean entrepôts that served as the western terminals of the overland Silk Route and of the maritime Red Sea and Persian Gulf routes. Now that these routes were bypassed by the Portuguese, they had to buy the goods from the Portuguese in Europe at higher prices. The Portuguese dominance also extended to controlling the network that distributed Asian goods, particularly spices, in Europe. The English Levant and Russian companies found it hard to secure an ample supply of Asian goods at the western ends of these routes in the Ottoman Empire and on the Volga. The Dutch, who had so far focused their maritime attention on the Baltic and the Atlantic, also wanted their share of the growing Euro-Asiatic trade. In the closing decades of the sixteenth century, there were already signs of a weakening of the Iberians’ (now in the form of the Spanish–Portuguese Habsburg kingdom) control of the sea routes to Asia. These were manifested in the defeat of the Spanish Armada at the hands of the English, the advance of the Dutch Revolt, and the organizational crisis of the Portuguese ruler-owned Asiatic trade enterprise—the Estado da Índia.24

The EIC and the VOC were incorporated by state charter in 1600 and 1602, respectively. They were involved in similar business activities, namely oceanic trade in high-value goods between Europe and Asia, via the Cape Route.25 Both were both organized as joint-stock corporations, with huge capital and hundreds of shareholders. The formation of the companies occurred at a crucial juncture in the history of business organizations and stock markets. The two entities were significantly larger, in terms of capital and number of shareholders, than any earlier merchant company in England or the Dutch Republic. They were larger than any other Eurasian trade enterprise in history, with the exception of the Portuguese king's Estado da Índia and the Chinese state-operated commercial-cum-political enterprise headed by Zheng He. They remained the largest business corporations in Europe for the next two centuries and served as the basis for the formation of the British and Dutch Empires.26

What can explain the emergence of corporations in England and the Dutch Republic, out of all the European countries? The first explanation that comes to mind is Protestantism. Weber attributed the rise of capitalism to the Protestant ethic. But as we will see here, Protestantism played no role in the

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singularity of England and the Dutch Republic. The English and the Dutch were located at the very far end of Eurasia, hence their shipping and trade costs and information-obtaining costs were the highest, and their turnover time was the longest. Given their latitude, the goods they could offer (sheep wool and Atlantic cod) were least in demand. They were the last to enter the trade and thus had to be able to cross significant entry barriers in the form of competitors and knowledge. They could not rely on rulers to fund their enterprise, either by way of taxes, as did the Chinese, or by a combination of taxes and sovereign borrowing, as did the Portuguese.

The challenges faced by Northwestern European merchants in their efforts to enter Eurasian trade could not be resolved using vehicles such as a single self-financing investor, a two-party investment contract, cooperation within a small and closed group of family and kin, or any other personally-based association. Voyages to Asia were all-or-nothing undertakings. Insurance was still in its early stages of development in London, due to the rudimentary infrastructure with respect to legal framework, dispute resolution institutions, organization of underwriters and information flows. Infrastructure in Amsterdam was only a bit more enabling. No insurance underwriting was available for Asian voyages because they operated under uncertainty, most of which not even convertible to measurable risks and priceable premiums. Similarly, large scale loans were unavailable, not even subject to security in the ships or goods, because interest rates were either unpriceable or usurious. The English and Dutch adventurers had to break through the frontiers of well-established Type I and Type II Eurasian institutions. The challenges could only be met by designing a multilateral institution that would pool together capital from a larger group of investors, based on impersonal cooperation. As the investment was mainly in working capital, ships, crews, and goods in remote seas, no significant collateral could be offered to creditors. The extreme business environment made it more difficult to align the interests of entrepreneurial equity holders and passive debt investors. What they needed was a multilateral institution that could provide a good platform for equity investment, longevity, and capital lock-in. The joint-stock business corporation was invented to meet this need.

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10 The Dutch East India Company (VOC)

This chapter and the next are devoted to the microstudies of two companies I believe mark a decisive turning-point in history, an organizational revolution, —namely, the VOC and the EIC. I will begin with the microstudy of the Dutch VOC despite the fact that it was established two years after the English EIC, because it constituted a more natural passage from ruler-owned institutions to Type III institutions. The Dutch ambitions in Asia have to be understood in their wider historical context: the Dutch Revolt against Catholic Spain; the struggle for independence of the Northern Netherlands; the competition with the Portuguese—who, since 1580, had been ruled by the Spanish Habsburgs—over naval mastery in the Atlantic and oceanic trade routes; the migration of skilled and wealthy protestants from the Southern Netherlands; and the rise to economic and political power of the protestant urban middle classes—particularly shippers and merchants in Holland and Zeeland, and particularly in Amsterdam.¹

The precompanies

In the seven years that predated the formation of the VOC (1595–1602), the Dutch Asian ambitions were channeled into newly formed business entities called, in retrospect, voorcompagnieën or precompanies, meaning the precursors of the VOC. They are important for understanding the mix between continuity and change reflected in the organization of the VOC and the organizational differences between it and the EIC. The first of these precompanies was formed in Amsterdam by nine merchants in 1594,² and was named the Compagnie van Verre (Far Lands Company). Each of the entrepreneurial merchants invested his own money and, in addition, raised investments from others. Altogether, fl.290,000 was raised to purchase and equip four ships for the long and dangerous trip to Asia. The active entrepreneurs, known as the bewindhebbers, determined the business plan and received commission for extra efforts, while passive investors, the participanten, were entitled only to a share of the profits based on the sums they had each contributed. They invested through active partners who, supposedly, represented them. The first return trip to Bantam in Java and back took about two years. One of the ships and nearly two-thirds of the crew were lost, and the voyage was not a commercial success. But it served as a model for several additional companies that were formed in Amsterdam and other cities in the Netherlands; and the mere fact that Dutch ships had proceeded direct to the East and had returned with spices roused national enthusiasm. Altogether, sixteen voyages, composed of sixty-six ships in total, were sent by companies from various cities in the southern and northern Netherlands within this seven-year period, using the precompany model.³

The precompanies were a cross-over between share partnerships in ships and multilateral commenda. In various European ports, ownership of ships was divided into shares, often 1/16, 1/32, or 1/64. This organizational form was known in England as part-ownership in ships. The share was in the body of the

ship itself, not in the goods or in the business activity. The division into shares was carried out to spread risk and allow diversification of investment in ships. Investors could purchase small shares in a variety of vessels sailing to different destinations and exposed to unrelated risks. They could sell their shares in a ship in a secondary market of such shares without dissolving the partnership. Secondary markets in shares were quite active in major Dutch ports, as the capital of the ship was physically locked-in but the shares in it were tradable. As shareholders were not liable to losses beyond their investment, they could be quite passive. Such partnerships were recognized and regulated by the leading maritime codes of Europe and by city regulations of the Dutch cities.

The precompanies, unlike ship ownerships, were asymmetric in the sense that they had two classes of partners. Passive or sedentary investors entrusted sums of money to itinerant or otherwise active merchants. The precompanies were based, conceptually and most likely also historically, on the commenda. They were partnerships in the trade business and not in the ships themselves. According to one historical interpretation, they were a syndicate or a joint venture of several commenda contracts or limited partnerships, each of which was composed of an active merchant and his passive investors. According to another interpretation, each precompany was a partnership (not a syndicate of partnerships) comprising several active and several passive partners. Figures 10.1 and 10.2 illustrate these interpretations. Figure 10.1 shows how the structure of a precompany was based on the commenda, while figure 10.2 illustrates that the structure of a precompany was a limited partnership.

The precompany looks like an evolution of the medieval European commenda (the paradigmatic institution of our Type II) from a two-party agency agreement into a multilateral silent or dormant partnership (known in Germany as the stille Gesellschaft). The precompanies form can be viewed as an advanced and sophisticated Type II organizational form. An evolution of the commenda idea that originated in the Middle East eight hundred years earlier was soon to be transformed, or even transmuted, into an innovative Type III institution.

Microstudy 10.1: The VOC Charter

The intense competition between these precompanies had the effect of raising prices in Asian markets and lowering the price of Asian goods in Dutch and other European markets. The intense competition was also wasteful in terms of the multiple investments in infrastructure made by the various precompanies. In a bid to achieve monopoly prices, at least in the Netherlands, to save in infrastructure

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4 In the Netherlands, as elsewhere in Europe, one could also be a partner in a trading partnership. Such partnerships involved investment in goods or combined investment in goods and ships. They were often joint ventures formed for a single voyage, at the end of which profits were distributed. Occasionally they were partnerships for the long term.

5 For more information on the secondary market, see Gelderblom, Oscar and Joost Jonker. 2004. "Completing a Financial Revolution."

costs, and to coordinate the struggle against the Portuguese and the English, six city-based precompanies (from Amsterdam, Delft, Rotterdam, Enkhuizen, Middelburg, and Hoorn) unified into a single cartel, the United East India Company (the VOC), in 1602. The VOC was formed on the basis of these earlier business entities, and was chartered on March 20, 1602 by the States-General, the federal assembly of the Dutch Republic. Figure 10.3 shows a copy of the original charter of the VOC.

The chartering was an outcome of negotiations between the active partners of the precompanies then in existence, representatives of the cities and provinces, and representatives of the States-General. The preamble of the charter emphasized the company's private, or at least semiprivate, character and its profit-maximizing goal:

> We saw it fit to invite the administrators of the aforementioned companies to meet with us and to propose that it would not only be honorable, important and profitable for the United Netherlands but also for those who had commenced such commendable trade and were shareholders in it that these companies unite, and that by the creation of a single fixed and defined entity and by a common order and policy, the aforementioned trade be maintained, carried out and expanded to the benefit of all those inhabitants of the United Netherlands who wished to be partner to it.

The charter fixed the existence of the company and its financial structure:

> The United Company shall last for twenty-one consecutive years provided that there is a general audit every ten years. After ten years have elapsed, anyone may withdraw from the Company and take his capital with him...

It is noteworthy that two levels were addressed in these sections of the charter: the corporate longevity level and the capital lock-in level. Although this charter, unlike that of the EIC, does not allude to the creation of a corporation in so many words, in fact it creates an entity separated from the state and separated from human beings that can own property, transact, and hold privileges from the state. Furthermore, the charter contains a permission to issue a public offering of shares, grants all residents of

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10 The question of whether the incorporation also entailed limitation of liability is debated among scholars. See, for example: de Jongh, Johan. 2009. "Shareholder Activists Avant La Lettre: The Complaining Shareholders in the Dutch East India Company." in *Welberade (Festschrift of the Research Department of the Supreme Court of The Netherlands)*, edited by Duker, Pieterse and Schild. More generally, see de Jongh, Johan. 2014. *Tussen Societas en Universitas*. 

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the Netherlands the right to subscribe to such shares, and locks-in the capital so raised for a period of ten years—a long duration, yet half the longevity of the corporate entity:

All of the inhabitants of these United Netherland shall be allowed to be shareholders in this company and to do so with as small or as great an amount as they see fit . . . In the months that follow, the inhabitants of this land shall be kept informed of developments by means of public posters pasted in those places where they are usually pasted. As from the approaching 1 April, they will be admitted into this company and the moneys that they wish to invest may be paid in three installments [in 1603, 1604, and 1605].

The joint stock

Each city-based VOC Chamber opened its joint-stock share subscription counters and its own share registry following the issuing of the charter. The active members of the VOC, those who were active partners in the precompanies, led the marketing of shares and opened subscription offices. Information about the new company, the lucrative Asian trade, and government support was circulated in various ways. By the last week of August 1602, mania had erupted. Altogether, 6,424,588 guilders was raised across all six chambers, as shown in table 10.1. The table also notes the number of subscribers in the Amsterdam and Middelburg chambers, and calculates the average value of an individual share (in guilders).

The number of subscribers in Amsterdam was 1,143 and in Zeeland (Middleburg), 264. One can make a guess that, assuming the ratio of capital to shareholders in other chambers was similar, the number of shareholders in the VOC as a whole was approximately 1,815. The capital and the number of investors were by far higher than in any previous Dutch enterprise or the recently established EIC, or any other known Eurasian trade enterprise.

It is very likely that some of the money came through social networks. But the number of investors, the fact that many of them came from professions that were not connected to trade, and the wide geographical area from which investors came suggest that they were quite heterogeneous. It seems that many investors decided to place their money with an anonymous company—on the basis of business plans—and not with familiar faces. This was a major shift from personal to impersonal cooperation—from a local bewindhebber attracting a few passive investors in a precompany, to a united VOC with approximately seventy bewindhebbers, about 1,800 shareholders, and a capital of nearly 6.5 million guilders coming from six cities.

The initial public offering of shares was not accompanied by additional offerings. Bearing in mind the original capital of 6,424,588 guilders, ninety years later, in 1693, it was still 6,440,200 guilders, the

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12 Subscription books for the other chambers did not survive.

slight increase resulting from technical adjustments. The company’s activities and investments throughout the century were financed through retained profits and loans, and not through the raising of additional equity.

The first profits account was set to be conducted after ten years. Investors were allowed to withdraw their capital, principal, and profits from the company at that exit point but not before, and their full exit was dependent on raising capital from the new investors in a second joint stock. The investors in the first joint-stock were not allowed to simply strip and divide the VOC assets at the end of any voyage, and not even in 1612. Shareholders were not entitled to accounts at the end of each voyage, which meant they were not entitled to information or dividend, the latter being at the discretion of the active shareholders. In fact, dividends were distributed only once in the first ten years, in 1610, and even then they were in kind (spices) and not in cash.

The governance structure

The VOC governance structure reflected the fact that it was a merger of preexisting precompanies. It had six city-based chambers, one in each of the cities in which bewindhebbers who invested in the precompanies resided. As mentioned earlier, each chamber had two classes of VOC shareholders: bewindhebbers and participanten. As in the precompanies, the bewindhebbers had the status of directors/governors and took an active role in management of the chamber; the participanten were not allowed to take part in decision making. The bewindhebbers of each chamber met regularly to discuss managerial issues, while there was no general meeting of all the shareholders, either on the chamber or corporate level, and thus participanten had no access to information and no voting rights. Each chamber had an Assembly of Directors (with between seven and twenty members, based on size as decreed by the VOC charter) and various offices and services, such as an audit office, treasury, warehouses, and shipyard. The VOC had a central management function, the board known as the Heeren XVII (the Seventeen Directors), which was in charge of general policy. These directors operated in assembly and through committees, and were assisted by a lawyer. Only chamber governors were eligible to serve as VOC directors. As can be seen from figure 10.4, the management structure of the VOC reflects both the fact that it was a merger of preexisting companies and that it was oligarchic, having two classes of shareholders.

The VOC and the state

The VOC was granted several privileges by the state. The most important of these was a territorial trade monopoly:

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15 More accurately, bewindhebbers were required to hold a minimum amount of shares—1,000 Flemish pounds-worth (500 for Hoorn and Enkhuizen)—to qualify for their status. They could not sell their status as bewindhebbers in the market. That status was hereditary. They were allowed to buy a larger share in the profits but they could not, by this, gain more voting power.
16 Gaastra, Femme. 2007. "The Organization of the VOC."
No person regardless of constitution or capacity save those of the aforementioned Company as constituted within these United Provinces shall be permitted to sail east of the Cape of Good Hope or beyond the Straits of Magellan for the next twenty-one years . . . Infringement thereof shall be punishable by confiscation of ships and goods. . . . officials of the aforementioned Company shall be permitted to enter into commitments and draw up contracts with the rulers . . . in the name of the State General of the United Netherlands.17

The VOC was also granted sovereign powers within its monopoly territory:

They may also build fortifications, and secure places, appoint governors, armed forces, officers of law . . . in order to retain the place and keep good order, as well as jointly maintain police and justice so as to promote trade.18

Furthermore, it received a commitment not to have its assets expropriated, be they ships or goods, either through taxation or conscription:

The spices, Chinese silk, and cotton cloth that this Company shall bring back from the East Indies shall not be taxed more than they are now, neither upon entry nor upon departure Unless the Company gives its permission, none of the ships, weapons or ammunition that belong to the Company shall be used in the service of the country.19

The charter can thus be viewed as an agreement between the Dutch Republic and the group of directors and investors in the newly formed company on the privileges, rights, and obligations of the VOC. Was it a credible commitment by the Republic?20

The success of the VOC was important to the government. The VOC promoted the policy aims of the Dutch Republic by expanding Dutch influence into the Indian Ocean and by diminishing the political and naval power of Iberian and English competitors.21 It did so at no expense to the government. The Asia policy of the Dutch Republic did not have to be funded through tax collection. On the contrary—if profitable, it could generate additional revenues for the Republic.

In the Dutch Republic, unlike in England or Portugal, the state and the merchants did not compose of clearly distinct entities or interests negotiating with each other. The state was not dominated by the Crown and its court, by the nobility, or by landed classes more generally.22 The balance of political power in the Dutch Republic had moved toward mercantile interests before the chartering of the VOC.

This was so partly because of the level of urbanization, partly because of the resentment toward pro-
Spanish landed groups, partly because of the federal structure of the republic, and partly because of the
dominant position of Amsterdam and its merchants in the politics of the province of Holland.23
The federal government facilitated the formation of the VOC by coordinating among the city-based
groups of merchants and city-based precompanies, supporting them in forming a horizontal merger and
by granting them a monopoly.24 This move was a sign of government commitment to the enterprise. It
also indicated potential monopoly rents—a fact that acted as a device for attracting investors. The
federal government colluded with the active promoters to ignite interest in the company and optimism
about its prospects. To summarize, in the Dutch Republic the federal structure of the state, the overlap
between political power and economic power, and the political will to expand trade all helped ensure
that the VOC’s assets would not be expropriated by the state and that its charter would not be repealed
unilaterally. The clustering of vested interests—not the rule of law as was the case in England—made
the VOC charter a credible commitment device.

The lock-in of capital

The shift from a single voyage to a long-term enterprise was motivated by factors that did not
correspond well with voluntary cooperation with outside investors. The government played, according to
my interpretation, another, unnoticed, role. After luring investors to invest in the company, it locked
them in. The VOC charter issued by the federal government locked-in the invested equity capital for ten
years. As it turned out, during these years the passive investors did not receive financial accounts, and,
even at the end of the first joint stock, the accounts they received were partial and unaudited.25 As we
have seen, they took no part in corporate management. They were paid dividends for the first time only
in 1610, and, even then, in spices and not cash. In 1612 they were locked-in again, involuntarily, for the
remaining duration of the charter and the corporation.
Despite the preexistence of a stock market, in which city, province, and Dutch Republic bonds were
traded, the VOC did not simply raise equity capital on a purely voluntary basis in that market. Its
promoters relied on the networks and reputation that served the precompanies, and on the support of the
state. More than this, they wanted to raise capital for a relatively long term, without deterring outside
investors. But the VOC promoters did not reveal this intention in full. In fact, they changed the rules
retroactively. The state was willing to issue a charter that did not disclose in full the disempowerment of
the passive investors; the state assisted the insiders to lure the passive investors; and eventually the state
was willing to legitimize the change in the rules of the game and the lock-in of the passive investors.26
Why did the insiders want to lock-in the external investors of the VOC? The shift from a single voyage
to a long-term enterprise was motivated by the need for longer-term capital that would support several
voyages. As the insiders were not certain that the outsiders would voluntarily agree to invest their
money for such a long period, given the uncertainties involved, they decided to shift to involuntary lock-
in. The mechanism that had performed quite well in the earlier period, that of per-voyage partnerships

26 Harris, Ron. 2010. "Law, Finance and the First Corporations."
and precompanies, was based on repeat investment transactions and on the reputation of the managers. It could not survive the transition into a long-lasting enterprise. The VOC was not formed for a single voyage, but as a perpetual enterprise. The intention was to send annual voyages to Asia and maintain permanent agencies and warehouses—fortified, if needed—in India and Indonesia. For this reason, its charter incorporated a new and separate legal entity that would exist for at least twenty-one years. Further, the charter created joint-stock capital—that is, capital generated by the investment of numerous individuals in a common pool capital, which would exist for ten years and would not be easily dissolved even at that stage. The VOC was formed to assure continuity, from voyage to voyage, in the flow of commodities between Asia and Europe; to coordinate among competing Dutch city-based companies; and to overcome Portuguese and English competition. It was an end-game. Once capital was locked-in, maintaining a reputation with investors in the primary market was not essential. The rules of the game between insiders and outside investors could be changed unilaterally ex-post.

The intention to move from repeat-game to end-game was obscured by the insiders. Passive investors were asked to put in their money in annual installments over a four-year period. These installments may have conveyed to the passive investors that it was “business as usual” despite the formation of the VOC, and that they were still investing per voyage. But, in fact, they could not withdraw their money at the end of every voyage or even every year. Further, once they had subscribed, they were legally obliged to pay all four installments in full, irrespective of the performance of the VOC.

As described earlier, even when the VOC was doing well and making profits, its dividend policy was very restrictive. The active shareholders retained control of the joint-stock capital of the VOC through the city chambers and the Heeren XVII for a period of no less than ten years. They offered passive investors no voting rights, no information on trade, no account of profits, and thus no share in control. The active shareholders used their positions as both merchants and city magistrates to exercise political influence on provincial and federal governments and to unilaterally lock-in the external investors by way of the charter. They could (and, in fact, did) lock-in the passive investors again at the end of the ten-year period by using their political clout to amend the terms of the original charter and extend the duration of the holding-together of the joint-stock capital.

Once locked-in, the passive investors became agitated. As well as expressing dissatisfaction with their legal status, many of them were also disconcerted at the realization that the VOC did not aim only at maximizing profits and returns. The VOC was also being used by the financial–political elite to promote the military, religious, and political aims of the republic and the provinces. 27 For example, it financed armed ships to attack the Spanish–Portuguese fleet in the Indian Ocean and capture territorial strongholds. The passive investors began to sense that profits were compromised at the expense of political aims. Investment in territorial strongholds and in war could be interpreted as intending to promote longer-term profits and not necessarily as nonbusiness investment. But, for the passive investors, it was another indication that they were not going to see any return anytime soon and that the lock-in left them powerless.

It was not easy for them to organize their protest. But, in time, they came together to challenge their lack of voice, information, and dividends. Following protests by Isaac Le Maire and a short-selling of shares that led to a drop in the share price, in 1610 the company distributed the first in-kind dividend,28 in the

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form of spices. The 1612 dividend was in pepper and nutmeg, with only 7.5 percent awarded in cash. The dividend in spices advantaged the active investors, who, as merchants, could accumulate stock and had better access to the market. The demand of the passive investors to participate in management was avoided throughout the first joint stock, and, even in 1612, the state assisted the active shareholders to delay and eventually refuse the demand.\textsuperscript{29} On these two fronts, the passive investors did not achieve much; however, they were more successful with the exit option.

The VOC and the stock market

The Dutch revolt against the Habsburg Empire that began in 1568 placed new demands on Dutch public finance.\textsuperscript{30} By 1574, the public debt of Holland, by far the largest (and best-documented) province, stood at 1.4 million guilders. By 1600, it had reached nearly 5 million guilders,\textsuperscript{31} and kept rising throughout the seventeenth century.\textsuperscript{32} Much of the borrowing was from lenders with close ties to the state, and some of it was forced on involuntary lenders. The province facilitated the creation of a secondary market in its bonds to allow liquidity for its coerced creditors. In turn, the secondary market in bonds made use of the well-developed Amsterdam commodities marketplace with its regularly published (since 1583) price list and institutions designed to facilitate information-flow and transaction cost-reduction. By the end of the sixteenth century, Amsterdam, the dominant city in Holland and in the federation as a whole, was an active marketplace for commodities, freight, insurance, foreign currencies, and government bonds.\textsuperscript{33}

There appears not to have been any significant trading in shares of precompanies, probably for three main reasons: the precompanies were limited in time to one venture; the number of members of each was small; and they were personally connected and unwilling to include outsiders. The VOC was a much larger and more impersonal enterprise. Its shares were not bearers’ shares, and no share certificate was issued to holders.\textsuperscript{34} Thus, no physical asset could be conveyed by private contract. However, its charter included a clause that allowed transfer by registering the transfer in the VOC books in the presence of two directors and paying a small fee. Shortly after the formation of the VOC, its shares were

\textsuperscript{30} The tax burden had to be increased and wartime gaps in tax collection had to be filled by borrowing. As the federal government did not have the administrative apparatus or the political power to collect taxes, the seven provincial states that comprised the United Provinces had to carry the burden. They negotiated a formula to split this burden between them through a quota system. Each of the provinces, in turn, allocated part of the burden to the city magistrates and tax farmers within its territory. de Vries, Jan and Adrianus van der Woude. 1997. \textit{The First Modern Economy}. p. 91-129
\textsuperscript{32} Some scholars place its timing in the 1570s, and others around 1600. Some call attention to the fact that municipal borrowing began in the fifteenth century. Some stress the introduction of public borrowing, while others view the reorganization of taxation as equally important. Some argue that the fundamental change was achieved by a shift to the level of the province while others believe that it was accomplished on the city level. Several scholars argue that, on the debt side, it was the shift from short-term debt to long-term debt in the form of annuities that allowed more creditworthiness and increased borrowing, while others argue that transferable short-term obligations were in higher demand. Some argue that the liquidity of the market was limited due to the variation in bond types among various issuers and the resulting lack of standardization. Some argue that the suppliers of credit were mostly \textit{rentiers}, while others claim they were primarily merchants in search of liquid investment. See Tracy, James. 1985. \textit{A Financial Revolution in the Habsburg Netherlands}. ‘t Hart, Marjolein. 1993. \textit{Making of a Bourgeois State}. Fritschy, Wantje. 2003. "A Financial Revolution Reconsidered."
\textsuperscript{33} Braudel, Fernand. 1982. \textit{The Wheels of Commerce}.
\textsuperscript{34} van Dillen, Johannes. 1958. \textit{Het oudste Aandeelhoudersregister van de Kamer Amsterdam}. p. 32-4.
also traded in the various City Chambers. The Amsterdam Beurs building was built in 1611, shortly after the establishment of the Bank of Amsterdam (Wisselbank) in 1609. The Tulip Mania of 1636–7 manifested the sophistication and centrality of the Amsterdam markets. Thus, while passive shareholders of the VOC had no voting rights, in contrast to the shareholders of the EIC, and their initial investment was locked-in for ten years, they were able to exit the company by selling their shares. An important study by Gelderblom and Jonker convincingly documented the volume of Amsterdam Chamber VOC shares traded in the years 1603–12. Roughly 0.5 percent to 1.5 percent of the shares were traded every month. Nearly 33 percent of the shares changed hands in the first decade (see figure 10.5). The Amsterdam stock market became sophisticated, with full-time brokers, a meeting place, and several non-spot transactional designs. Figure 10.5 presents the yearly transfers of shares of the Amsterdam Chamber of the VOC between 1603 and 1612. The numbers on the vertical axis indicate the percentage of the transfers from the total stock of capital.

The exit option through the sale of shares in the secondary market was introduced because of the need to offset the lock-in of capital for decades, given the nature of business in long-distance Cape Route Eurasian trade. The option was exercised with growing frequency by passive investors, partly offsetting the oligarchic and cooperation-damaging effects of the other institutional features of the VOC.

The VOC in Asia

The company’s charter was renewed in 1622 and then again on several occasions during the seventeenth century and beyond. The monopoly was extended as part of the extended charter. By 1610, some seventy-six ships had been sent by the VOC to Asia around the Cape, and 117 in the following decade. Altogether, an unprecedented number of 1,770 ships were sent eastward by the VOC during the seventeenth century. The VOC was able to beat the Portuguese, at sea and on shore, to conquer many of their factories and forts—including Malacca, Hormuz at the entrance to the Persian Gulf, Galle in Sri Lanka, Quilon and Cochin on the Malabar Coast, Southern India, and parts of the Spice Islands (Moluccas)—and to establish its presence from the Cape of Good Hope and the Persian Gulf to Formosa and Japan. Batavia in Java became the headquarters of the VOC in Asia. It was the hub of Dutch inter-Asian trade and the informational hub of their entire Indian Ocean and Cape Route business. The Governors General and the Council of the Indies (Raad van Indië) managed the Asian affairs from there, receiving instructions from, and reporting to, the Heeren XVII in Amsterdam. Figure 10.6 shows the hierarchy of the Dutch colonial administration in Asia.

While the VOC managed its Asian affairs through a centralized hub, in the case of the EIC, as we shall see, each factory collected information about affairs in its respective region and reported directly to the headquarters in London. So in the EIC there was no central hub in Asia that collected, verified, and processed all information about the state of affairs in Asia. All such communications had to arrive at a hub that was many months of travel away. This physical distance affected information-flows, monitoring of agents, and business outcomes. Information that flowed to Batavia from all over Asia allowed the Governor General and his staff to cross-check information arriving from various agents, enabling better monitoring. Jan Pieterszoon Coen, the founder of Batavia, was the ultimate centralizing Governor General (1618–23 and 1627–29). But Batavia monopolized and controlled information-flows to Amsterdam in a manner that made it harder for the headquarters and the seventeen directors to effectively monitor the senior agents in Batavia. The EIC designed its own model that created a different way of trading-off between fast information-flow and control of agents in Asia by headquarters in Europe. Figure 10.7 shows the trade routes and the commodities traded by the VOC in the seventeenth century. It gives a sense of the magnitude of the VOC-based Dutch mercantile empire in Asia at its height, after the victories in the second and third Anglo–Dutch Wars.

The VOC rose to the position of the leading player in the Cape Route trade of spices and silver, sending more than 230 ships per decade eastward in each of the last four decades of the seventeenth century. It also become a major protagonist in the Indian Ocean trade of silk, porcelain, cloth, and precious metals, with a presence in Japan, China, Taiwan, the Spice Islands, Java, Sri Lanka, and India, among other locations.41

Conclusion

What can explain this extraordinary business accomplishment? On first reflection it is not clear why the outside investors were willing to buy an inferior type of share in the VOC. Why did they invest without receiving in return voting rights, information, or at least a better-defined right to dividends? The VOC possibly relied on three methods for raising initial capital: social networks, prior business reputation, and government inducement and support. Payment for the shares was made in three (eventually four) installments over the years 1603–7.42 The installments were paid according to the need to send annual voyages to Asia. This structure may have led investors to assume that the VOC was not dramatically different in its financial structure from the precompanies. So the VOC was a transitional organizational form, between involuntary and voluntary, personal and impersonal. Indeed, it was a business corporation and not a state-owned enterprise, one that raised capital in the open market and not by way of taxation. But investors were not fully informed and the

rules of the game were changed by political means ex-post. On the other hand, passive investors in the VOC were eventually given an option to exit the corporation by selling their shares in a functioning stock market. The VOC was not as redistributive an organization as the Estado da Índia, but nor was it as profit-maximizing a business corporation as the EIC. It promoted business ends but also political ones. Its managers and directors, its active investors, overlapped with the Dutch Republic's state apparatus.

The VOC was an endemic Dutch institution; though formed two years after the EIC, it did not mimic it. It was created using a building block that was available elsewhere in Europe, including in England: the corporation. But the Dutch configuration was unique. It resulted from the Dutch federal political structure and the history of Dutch maritime trade. The VOC was therefore a Type III institution in our typology.

The VOC did not represent, at its inception, a full shift from personal to impersonal collaboration. But as it continued to evolve, and as investment through the secondary stock market became the norm, the VOC gradually became more impersonal. Nor did it represent full detachment between the State and the corporation. In the first decade of the VOC, the republic and the corporation insiders worked hand-in-hand to attract and capture outside investors. But with the passing of time, the lock-in was eased, information and dividends were distributed, and the voice of the passive investors became more influential. Having analyzed this transitional institution, we now turn to the EIC.
Chapter 11: The English East India Company

The English only belatedly and slowly developed an interest in these parts of the globe. Initially, English pirates only aimed at plundering the ships of other European nations en route, rather than establishing their own trade. English merchants who wished to import Asian goods, operated via Russia by way of the Russia Company, and via the Eastern Mediterranean by way of the Levant Company. English explorers, such as Martin Forbisher and John Davis, devoted much of their attention to discovering the North West and North East passages to India, which they never found. Prior to 1600, only a few sporadic attempts to reach Asia – by Francis Drake (1577-80) and Thomas Cavendish (1586-8) – and a single attempt to send merchant ships to Asian markets around the Cape of Good Hope – led by James Lancaster (1591) – were made before the end of the 16th century. By the close of the 16th century, conditions for direct English trade with the East Indies were created. First, the victory over the Spanish Armada in 1588 made sailing routes south on the Atlantic and past the Cape of Good Hope more accessible to English ships. Second, the exclusion of English merchants from sharing in the Portuguese East Indies trade became a concern for the English. Third, the formation of the pre-companies and the growing Dutch activities in Asia in the closing decade of the 16th century alarmed those English merchants with Asian interests. The English learned a double lesson: that the Iberians were not invincible and that the Dutch soon would be.

Microstudy 11.1: The EIC

In September 1599, a group of London merchants held a number of meetings that, we now know, turned out to be the founding meetings of the EIC. The group was dominated by members of the Levant Company who felt it was crucial for them to enter the oceanic trade with Asia, now that the Dutch precompanies had joined the Portuguese in using the Cape Route to the Indian Ocean markets. No written records of the deliberations on the design of the financial–organizational form of the EIC survived. It is not clear that any were even produced at the time. Matters may have been discussed orally and informally before the first formal meeting and before the initiation of minute-taking.¹ The promoters (the intended inner circle of members) decided to work on two parallel tracks—one for obtaining a royal charter that would incorporate them as a corporate entity and permit them to enter trade with new territories, and the other for raising equity capital for voyages to the East Indies from a large number of passive investors. By employing this dual track, the promoters of the EIC coupled the familiar legal structure of the corporation with the less familiar element of joint stock. Let us now discuss each of these tracks.²

¹ Thus, the explanations for the design of the EIC and the reasons for that design are somewhat speculative. They are based on an analysis of the available organizational options in 1600 England, on those of the postformation concerns and discussions preserved on record, and on theoretical insights as to the advantages and shortcomings of each of these.
The charter track

The promoters set up a committee that negotiated with the Privy Council for a charter of incorporation, customs privileges, license to export specie, monopoly, and possible political and military support. In October 1599, the talks failed because Queen Elizabeth I was negotiating a peace treaty in the ongoing Anglo–Spanish War, with Philip III the new King of Spain, and believed that by granting the charter she would hinder the relationship with her new potential ally. But deterioration of relations with Spain and further Dutch successes ultimately convinced Elizabeth to grant the charter to the EIC, which she did the following year, on December 31, 1600. But she promised no investment or naval support. The company, unlike the Portuguese Estado da Índia and the Dutch VOC, was very much on its own. The first part of the charter is quoted verbatim here, with a few omissions, to give a sense of its style (the bold type is my emphasis):

Charter granted by Queen Elizabeth to the East India Company.
Dated the 31st December, in the 43rd year of Her Reign. Anno Domini, 1600.
ELIZABETH, by the Grace of God, Queen of England, France, and Ireland, Defender of the Faith, &c. To all our Officers, Ministers, and Subjects, and to all other People, as well within this our Realm of England as elsewhere, under our Obedience and Jurisdiction, or otherwise, unto whom these our Letters Patents shall be seen, showed, or read, greeting.
Whereas [the 218 named] Petitioners unto us, for our Royal Assent and Licence to be granted unto them, that they, at their own Adventures, Costs, and Charges, as well for the Honour of this our Realm of England, as for the Increase of our Navigation, and Advancement of Trade of Merchandize, within our said Realms and the Dominions of the same, might adventure and set forth one or more Voyages, with convenient Number of Ships and Pinnaces, by way of Traffic and Merchandize to the East-Indies, in the Countries and Parts of Asia and Africa, and to as many of the Islands, Ports and Cities, Towns and Places, thereabouts, as where Trade and Traffic may by all likelihood be discovered, established or had . . . greatly tendering the Honour of our Nation, the Wealth of our People, and the Encouragement of them, and others of our loving Subjects in their good Enterprizes, for the Increase of our Navigation, and the Advancement of lawful Traffick to the Benefit of our Common Wealth . . .
Do give and grant unto our said loving Subjects, before in these Presents expressly named, that they and every of them from henceforth be, and shall be one Body Corporate and Politick, in Deed and in Name, by the Name of The Governor and Company of Merchants of London, Trading into the East-Indies . . . we do order, make, ordain, constitute, establish and declare, by these Presents, and that by the same Name of Governor and Company of Merchants of London, Trading into the East-Indies, they shall have Succession, and that they and their Successors . . . purchase, receive, possess, enjoy and retain lands. Rents, Privileges, Liberties, Jurisdictions, Franchises and Hereditaments of whatsoever Kind, Nature, and Quality so ever they be,

to them and their Successors . . . And that they . . . may plead and be impleaded, answer and be answered, defend and be defended, in whatsoever Courts and Places . . . as any other, our liege People of this our Realm of England . . . And . . . may have a common Seal, to serve for all the Causes and Business of them and their Successors. 

In contemporary constitutional terms, incorporation was considered an essential component of the monarch’s exclusive and voluntary prerogative to create and grant dignities, jurisdictions, liberties, exemptions, and, in this case, franchises (monopolies and corporations). This authorization was normally given in the form of charters or letters-patent. The law of corporations was classified by contemporaries as part of the Law of the King, the core of the English constitution. From a formalistic legal perspective, the new EIC had a charter and a legal status similar to that of regulated corporations, municipal and district corporations, the corporate bodies of the Universities of Oxford and Cambridge, the Royal Society, the Society of Antiquaries, and the craft guild-like livery companies of the City of London. The charter and incorporation track of the EIC was a continuation of a tradition that was longer and more developed than the Dutch corporate tradition.

Its most distinct attribute, as evident in the charter text, was that it was incorporated as “one body corporate and politik,” a separate legal entity. It had a full set of legal capacities and privileges: to own land, litigate in court, and hold franchises—such as monopoly. The charter did not refer to the limitation of liability of members of the corporation. This was not surprising because it did not refer to the joint-stock finance of the EIC at all. Furthermore, the modern doctrine of limited liability had not yet emerged; the company did not rely on debt finance and no conflict of interest between equity holders and creditors was in sight. Some degree of asset-partitioning was evident from the fact that the company was a separate legal entity and no indication was given as to the right of creditors of its members to dissolve it or withdraw any of its assets.

The EIC was incorporated in its first charter for a period of fifteen years, ending on December 31, 1614. For the same duration, the EIC was granted an exclusive trade monopoly for “all the Islands, Ports, Havens, Cities, Creeks, Towns and Places of Asia, Africa, and America, or any of them, beyond the Cape of Bona Esperanza [Good Hope] to the Straights of Magellan.” The monopoly meant that other subjects of Elizabeth could not trade with that part of the globe without EIC’s permission. In the second charter, granted in 1609, James I decreed that the EIC should “for ever be, and shall be one body corporate and politick” and enjoy all the aforementioned privileges of incorporation indefinitely, making the corporate body and the monopoly perpetual, subject to recall with three years' notice. This did not make the joint-stock perpetual, as we will see shortly.

One could conceptualize the charter as a unilateral grant by Queen Elizabeth. Alternatively, it could be conceptualized as an agreement between Elizabeth, on the one hand, and the 218 incorporators, on the other.

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The joint-stock track

The high working capital threshold needed for entering the oceanic Asian trade was beyond the means of any individual or small group of individuals. Even those with sufficient wealth, such as members of the landed aristocracy, did not have enough liquid assets. The high risks involved in such a project could deter risk-averse investors from investing a considerable share of their liquid capital in it. The exceptionally high capital needs of oceanic trade, coupled with the level of risk involved, made it necessary to raise small amounts of money from a large number of investors, including outside sources. Thus, individual investors, family firms, partnerships, and even the regulated company were unsuitable for this new and demanding task. Equity investment rather than loan capital was needed.

The second track, that of raising joint-stock capital, was where the innovative institutional action was going to take place, so to speak. The first recorded meeting of the EIC promoters on September 22, 1599 was devoted to advancing this solution and inviting potential investors to commit. A list of subscribers was prepared, noting the names of the 132 individuals who signed for total capital of over £30,000. Individual sums varied between £100 and £3,000, with £200 being the most common sum. By the time the charter was granted (on December 31, 1600), there were 218 chartered members, presumably all subscribers. This was the first and last formal encounter of the two tracks. All investors up to that point were listed in the charter. Further subscriptions were accepted up to the departure of the first voyage (February 13, 1601), and by then the total number of subscribers had reached 232 and the total capital had risen to £68,937.

It is important to note that, while the basic financial structure of the EIC was set before its charter of incorporation was granted, the charter did not reflect this structure. It was practically identical in content to the charters of contemporary regulated corporations. Its 218 members were not referred-to as shareholders. This later gave rise to dual terminology, referring to members of the corporation as brethren, at freedom or at liberty, and to shareholders in the stock of any voyage as adventurers. The charter did not grant different privileges to subscribers of different sums and did not relate to matters such as the issuing of further shares, additional calls on shares, dividend payments, or the like. It was taken for granted by the members that profits on the initial investment would be divided, based on the share of each adventurer in the joint stock, as was the practice in partnerships. But it was also taken for granted that each adventurer would have one vote in the General Court, irrespective of the amount subscribed. This was a concept taken from the model of the regulated corporation, in which each member had one vote.

The real challenge for the promoters of the EIC, because of the exit option at the end of each voyage, was not to convince investors to subscribe £68,373 for the initial voyage, substantial as that sum was by contemporary standards, but rather to draw additional investment to the joint-stock of each subsequent voyage. The court minutes of the EIC in its first few years demonstrate that it devoted more time to attracting outside investors than to the charter or to any other business matter. The minutes are full of calls to raise more capital and send more ships, goods, and silver, due to requests from agents in Asia, and to match the large number of ships sent annually by the major rival and competitor, the VOC.

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1 Ibid. See The Charter of 1600 on p. 275.
2 In the contemporary Julian calendar, the year began on March 25, thus the voyage left fourteen months after chartering.
The raising of additional capital beyond the first voyage was accomplished through separate accounts, which were not mentioned in the charter. A new account was formed for each voyage to Asia, and members could decide whether, and how much, to invest in each one. Expenses at home and abroad relating to a specific voyage were recorded in the relevant account. At the end of the voyage, the proceeds from the sale of the imported goods, less expenses on exported silver and goods, shipping, wages, and bonuses, were divided pro-rata among the investors in that voyage. As the investment was mainly in working capital, liquidation of the account was, theoretically, not overly problematic. Whatever fixed capital was left, mostly in the form of surviving ships, was sold to the next voyage and transferred to the next account. But, due to a range of factors (the use of the same ships for freighting in Asia of goods pertaining to more than one voyage, the mixing of goods from different voyages in a factory or warehouse, and accounting complications), the joint-stocks of two voyages (1 and 2; 3 and 5) would occasionally be merged.

Almost £400,000 was raised in the years 1603–12 for voyages 2–12, about six times the initial investment. The promoters of the EIC and, later, its directors were preoccupied with raising equity capital from a large group of passive equity investors. Altogether £464,284 was invested in twelve joint-stocks, used for twelve voyages, within just thirteen years. This was an unparalleled sum in English history.10 Table 11.1 details the capital (in pounds) invested in each of the EIC voyages, together with their profits and losses.

Achieving such a high level of investment required the circle of outside investors to be widened. This widening was not reflected in the charter, which still listed only the 218 original members. Table 11.2 details the number of members or investors in EIC charters and voyages.

My entire database, covering all lists of members and shareholders from the first meeting (1599) to the second charter (1609) contains 410 names.11 Rabb’s list, covering the period to 1630, includes 1,318 names of EIC onetime shareholders.12 The EIC had fewer than the 1,800 or so initial 1602 investors of the VOC, but was still larger than any other Eurasian trade enterprise surveyed in this book. Insiders had to maintain their reputation when managing the EIC, its voyages, its business, and its distribution of profits, and nurture the relationship with outside investors so they would invest repeatedly in the ongoing voyages. I recorded in the database the names of investors from each of the joint-stock subscription lists so as to identify repeat investment. Table 11.3 details how many people who invested in an EIC voyage subsequently repeated, investing in the following voyages or in the second charter.

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10 Compare to VOC. Sum in today's currency or in silver.
11 Database held with the author. For further information about the database, see Harris, Ron. 2005. "The Formation of the East India Company." p. 6-7.
We can observe from Table 11.3 that 156 of the 232 investors in the first joint-stock reinvested in the third, while 181 of the 208 investors in the third joint-stock were listed in the second charter. But only forty of the 232 investors in the first joint-stock invested in the fourth. This empirical observation, combined with theoretical insights, suggests that the outside investors made deliberated decisions (based on risk propensity and wealth constraints, and relying on imperfect available information) on whether to reinvest or not. But this is a hypothesis that requires further research to be well established.

Not only the mere size and the expansion of the investing group, but also its diversity, support my claim that the EIC represented a breakthrough to impersonal cooperation. K. N. Chaudhuri, the leading historian of the seventeenth-century EIC, provided the first hint. He wrote: “From the very beginning of its trade the East India Company operated as an outlet of investment. It thus drew its capital from a heterogeneous body of investors who can be classified broadly into two groups.” Chaudhuri identified the first group as that of City merchants who invested large sums, were actively involved in administering the company, and were often directly involved in trade by buying goods from the company and selling them at home or reexporting them to the Continent. The second group was of passive investors who came from several other social groups. Chaudhuri correctly noted that the EIC had insiders and outsiders. He did not, however, identify the problem of cooperation between the two groups as a dominant factor in the institutional design, and did not analyze how the institutional design of the EIC enhanced cooperation.

The social–economic background of the shareholders in the EIC cannot be identified easily in historical records. Membership in other corporations is well recorded. Let us first examine in which other companies, if at all, EIC members were involved (table 11.4).

Levant merchants were at the core of the EIC group—the insiders. At least twenty-three of the 132 present at the first EIC promoters’ meeting in September 1599 were Levant Company merchants, and seven of the fifteen directors appointed at that meeting were also Levant merchants. The first governor and seven of the twenty-four original chartered committee members were Levant merchants. Levant Company members provided 25–33 percent of the capital invested in the first, third, and fourth voyages. The Venice Company, established in 1583, was a predecessor of the Levant Company. Its members were involved in a pioneering voyage to the Indian Ocean and became the core of the Levant Company. Of the five former Venice Company members who joined the EIC, four became EIC directors in 1600. The insiders also included members of the Russia Company. Of the twenty-four original EIC

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14 To simplify future discussion and adapt it to modern theoretical analysis, I will group the various investors in the EIC into *insiders* and *outsiders*. The insiders—the group of entrepreneurs who promoted the EIC—enjoyed superior information about Asian goods, Asian markets, and the state of the routes to Asia.

15 Brenner, Robert. 1993. *Merchants and Revolution*. p. 21-22. There are no investment records for the second voyage. The database constructed for the present work, based on Rabb’s memberships in the Levant Company, holds slightly different numbers: nineteen of those present in the first meeting, five of those appointed directors there, and eight of the committee members identified as Levant members.
directors, five were members of the Russia Company. In addition, a few captains, navigators, and explorers who had been involved in searching for routes to Asia (in circumnavigation and in predatory privateering of the Portuguese Asian trade in previous years) can also be viewed as insiders. Some of the key figures in this active group of promoters were Thomas Smythe, Paul Bannyng, Thomas Cordell, Thomas and Robert Middleton, and James Lancaster. These insiders evaluated the EIC’s financial needs and selected the institutional design that would attract a larger group of passive investors into the new and evolving enterprise.

Potential passive investors in the EIC, the outsiders, could come from a wider circle and a variety of social and professional groups. They included members of the gentry and the aristocracy who were willing to undertake moderately speculative investments in the Asian trade, as they would, within a few years, in North American and Irish settlement and plantations. They included English merchants who were involved in the traditional large-scale wool- and cloth-based trade with Europe—the active members of the Eastland, Spanish, and, particularly, Merchant Adventurers-regulated corporations. Other potential external investors came from among London’s well-established manufacturers, retailers, and artisans: tailors and mercers, skinners and drapers, goldsmiths and ironmongers. Members of all three groups could not devote much personal attention to the Asian trade but would consider diversifying their limited fortunes within an appropriate institutional framework.

Table 11.5 shows the percentage of merchants and nonmerchant shareholders in various companies. Note that the table presents membership only in long-lasting overseas trading companies.

<PLEASE INSERT HERE TABLE 11.5>

As can be seen from table 11.5, while only 0.4 percent (Merchant Adventurers) to 2.9 percent (French Company) of the members of the various regulated companies were nonmerchants, the latter accounted for 14.4 percent of the members of the EIC. This indicates that at least this difference can be attributed to outside passive investors. But, in fact, some of the merchants were also outsiders—such as those who traded actively with nearby European destinations and invested passively in India trade.

In 1613, a first longer-term joint-stock was raised, for a period of eight years. A second joint-stock was raised in 1617 for fifteen years, even though the first was due to dissolve only four years later. A third joint-stock was raised in 1632 for ten years. Capital was separately raised in 1628, 1629, and 1630 for three Persian voyages, while the second joint-stock was still in effect. In 1641, an attempt was made to form general stock. In 1651, the various pending joint-stocks of the company were integrated into one permanent stock. To sum up, experiments were made using both ad-hoc capital and capital for a term of years, and at times the former was more profitable than the latter. Additional capital was sometimes

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16 In a study covering the period 1575–1630, Rabb identified almost 43 percent of Levant Company members (157 altogether) also as EIC members, and about 19 percent of EIC members (230 altogether) also as Levant Company members. Rabb, Theodore. 1967. Enterprise and Empire. p. 108 (see table 11.5). The percentage of overlap from the Levant side decreases as it covers members for the period from 1581 to 1630, but the EIC was formed only nineteen years into that period.


raised by issuing new shares to new members, at other times by calling on existing shares, and in some cases through short-term loans rather than raising additional equity. In some circumstances, the entire capital, if not lost, was divided at the end of a voyage; in others, capital was divided up to the amount of the initial investments, while profits were reinvested for future use; and in yet others only the profits were divided, while the initial investment was retained by the company until the end of the joint-stock term. One can even find evidence of several models coexisting simultaneously. Yet, toward the middle of the seventeenth century, a general pattern of development can be identified within the EIC: from ad-hoc per-voyage capital (one to three years, invested in specific ships), to capital for limited duration (eight to fifteen years), and finally to permanent and continuous capital.

The total capital of the EIC grew steadily over time, with only a few fluctuations. As mentioned, the capital for the first voyage of 1601 was £68,000; the capital of the first joint stock of 1613 was £418,000; and the general permanent stock of the company was £370,000 in 1657, £740,000 in 1682, and £1,488,000 in 1693. In 1709, after the “old” EIC and a “new” East India Company competed for a few years, they merged into a single firm, the United Company of Merchants of England Trading to the East Indies, which had a stock of as much as £3,163,000. The EIC capital reached an all-time high of £6,000,000 in 1794. Throughout most of the seventeenth century, the EIC was the largest joint-stock company in England (in capital) and second in Europe only to the VOC. By the eighteenth century, the EIC was second in capital only to the Bank of England and had overtaken the VOC to become the largest trading corporation in the world.¹⁹

The charter did not envision the joint-stock finance in general, nor the creation of a separate account for each voyage. Interestingly, the promoters of the EIC did not view the charter as preventing or constraining the development of the corporation as a joint-stock corporation. Pairing the financial tool of equity investment in joint-stock with the legal concept of the corporation represented a major innovation. However, this innovation created a whole new set of problems and gaps that had to be dealt-with. From the start, the promoters of the company were determined to finance it with joint-stock, but they do not seem to have asked the state for permission for such a move. While the charter created an organizational platform for the joint-stock, it did not create any overlap between the organizational structure and the financial structure. The result was discrepancies between initial membership and future membership, and between financial rights and management rights. It took most of the seventeenth century to close these gaps, via a lengthy process of learning-by-doing and modification of both the joint-stock and the charter.

**Governance structure and voice**

The general governance structure of the EIC was indistinct from that of many earlier corporations. The charter of incorporation defined the basic governance structure of the EIC, which included a governor, a deputy governor, a committee of twenty-four—also called the Court of Committees (and after 1709, the Court of Directors), and a General Court. In fact, the full official name of the EIC (until 1709) was The Governor and Company of Merchants of London Trading into the East-Indies. The General Court was composed of all members of the company.

Initially, every member, regardless of his status or level of investment in the joint-stock, had one vote in the General Court. The court convened at least once a year, in the first week of July, and elected the governor, the deputy, and the committees. The General Court was empowered by the charter to remove the governor or any of the members of the committees from office on the grounds of “not demanding themselves well in their said office.” Committees (directors) of the EIC, unlike those of the VOC, could come from among all shareholders, were nominated for only one year, and could be removed from office.

For the governance structure of the EIC, see figure 11.1.

The EIC’s governance structure was more centralized than that of the VOC, as it had no organs, similar to the Dutch “six chambers,” on the city level. England was not a federal state and London was its center of political and economic gravity. The EIC had only central organs that were all based in London. The EIC, unlike the VOC, had only one class of member. Votes in the General Court, whether to vote-in the Committees (Board of Directors) or for any other type of decision among members, were all based on the 1600 charter that set the one-vote-per-member rule. As an institution, the young EIC was unprecedented—democratic, representative, and egalitarian, unlike the oligarchic VOC. This principle was also followed by the traditional voting scheme in corporations, regulated companies, colleges, cities, guilds, and the like. It did not take into account what was going on at the same time on the second track, that of raising capital. In other words, the sum invested as a share in the joint-stock did not affect voting rights.

Gradually, the strict equality of members the EIC voting model altered toward a scheme that allocated votes based on investment, as we know it today. The 1609 charter granted one vote for every five hundred shares, making this the minimum holding to qualify for voting. In practice, most of those who passed this threshold had one vote, or two at most. The 1609 change may have been made to convince those shareholders who did not subscribe to any voyage beyond the first (in which the standard subscription was £240) to invest further to secure a vote. This arrangement was retained in the 1661 charter. The 1693 charter established a capped system of one vote for every thousand shares up to a maximum of ten votes for holders of ten thousand shares or above. In the 1698 charter, a scaled method was established: one vote for holders of £500 in shares and above; two votes for holders of £1,000 and above; three votes for holders of £2,000 and above; four votes for holders of £3,000 and above; and a maximum of five votes for holders of any amount over £4,000. A minimum of £2,000 in shares was set

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20 Shaw, John. 1887 [1774]. *Charters relating to the East India Company.* See the EIC Charter in this chapter, p. 275
21 For discussion on the governance structure of the VOC, see Chapter 10, p. 275
23 This arrangement was retained in the 1661 charter. Ibid. p. 32. See The Charter Granted by Charles II on April 3, 1661.
24 Ibid.
as qualification for directorship.\textsuperscript{25} This process obviously strengthened the influence of large shareholders in directors’ appointments and in management affairs.\textsuperscript{26}

The charter authorized the EIC to make by-laws that further detailed the structure and function of the three basic organs. For example, the by-laws ordered that a General Court be summoned whenever ships arrived from the Indies and that the Court of Committees be called upon receipt of letters from the Indies.\textsuperscript{27} In addition, nonmembers were not permitted to attend meetings of the General Court (and speakers would be bareheaded, would address no one but the Governor, and would not interrupt the speeches of others).\textsuperscript{28} The Court of Committees was to execute the orders of the General Court with respect to the sale of imported goods and the purchase of provisions and merchandise. Every task within the power of the committees was to be performed by at least two of its members, not by a single individual. Such tasks could not be assigned to others and were to be performed personally by committee members only. The governor was given the responsibility of summoning the courts and executing their orders. Accountability to the General Court was not abstract but established through detailed procedures.

The charter, together with the by-laws, created a participatory framework for managing the EIC. Participation was embodied not only in the structure of the organs of the EIC but also in the procedures that determined its functioning. Dates and circumstances of meetings and elections were prescribed in advanced in these constitutive documents. The institutional design forced collective decision making: insiders’ proposals could not achieve a majority without the support of a large number of outsiders, as the latter enjoyed equal voting rights. This participatory governance structure, which ensured a voice for all shareholders, was not only provided-for in the charter and by-laws—it successfully functioned in the early years of the company when members were active, regularly attended general meetings, asked questions, and voted.

\section*{Information-flows}

The level and quality of information about Asian trade held by EIC members and potential investors varied. Levant and Russia Company members were already involved in importing Asian goods to England from the entrepôts of the Persian Gulf and Red Sea, maritime, and the overland Silk Routes in Russia and the Eastern Mediterranean. They had access to information about goods, markets, and risks. By contrast, merchants who were members of the Spanish Company or the Eastland Company were one step removed from the sources of information. Merchant adventurers and French Company members possessed even less information. Both of these groups had experience in overseas trade but they did not deal with Asian goods or markets. Aristocrats, landed gentry, London manufacturers, and artisans had the least access to information of all the collectives.


\textsuperscript{26} See Harris, Ron. 2005. "The English East India Company and the History of Company Law."

\textsuperscript{27} EIC. 1621. \textit{The Laves or Standing Orders of the East India Company}. p. 2. The printed version of the by-laws was published in 1621. To the best of my knowledge, no earlier version has survived. I surmise that this publication reflects, at least partly, the by-laws as they existed in the early 1600s.

\textsuperscript{28} Ibid. p. 4, 7.
Insiders possessed information on the supply and demand for Asian goods. They were better able to appreciate the risks involved, and they were willing to be actively involved in the running and management of the new enterprise. Outsiders naturally had less information than insiders. They did not view the EIC as a place of employment but rather as a relatively passive investment, hence they could not invest much time or resources in monitoring the insiders.

This information asymmetry proved to be a major challenge, in terms of achieving cooperation. To entice outsiders, the insiders could not rely only on presenting the general prospects of oceanic trade with Asia, or promising a fair share of the profits. They had to credibly commit to provide information that would reduce the asymmetry, and they had to provide tools for acting on the information. An institutional innovation was required to enable this and to successfully raise huge amounts of capital from outsiders, and the EIC delivered this. While outsiders were willing to explore new investment opportunities, particularly ones with high expected returns, they could not have done so had the EIC not been designed to protect their interests. As investment by outsiders is indicative of an institution’s ability to facilitate effective impersonal cooperation, the fact that the EIC embodied cooperation-enhancing attributes is, in itself, supportive evidence for the insufficiency of personal cooperation. Though this may seem a tautological argument, it is not, as long as no other explanation for these attributes is offered.

The governance and financial structure of the EIC therefore induced information-flows. The need to draw members into investing in subsequent voyages, beyond the first voyage and joint-stock, compelled the insiders to provide them with information. The need to arrive at majority decisions with respect to major business decisions made the provision of information a precondition for voting. The EIC by-laws paid much attention to the preparation and auditing of accounts and their presentation to the General Court. Further, the governance structure created a variety of opportunities for the informal flow of information. The two company courts served as hubs, at which information arriving from agents in Asia, from those en route to and from Asia, and from insiders in London was shared with outsiders. The physical presence, at regular intervals, of all members and shareholders in one location, helped reduce informational asymmetry. Mandatory disclosure of information, provision of information as part of the decision-making dynamics, and informal gathering of information at meetings all ensured a continual flow of information from insiders to outsiders. Obviously, not every piece of information was verifiable, not all participants received it at once, and asymmetry did not disappear altogether. But one should look at the quality of information-flows comparatively. The flow of information to EIC outsiders was considerably greater in both quantity and reliability than that to the Italian and German lenders of the Estado da Índia or to the passive shareholders of the VOC. The more impersonal and voluntary the cooperation in an institution, the more information had to be provided to outsiders, so as to protect their investment, allow them to exercise their voice effectively, and monitor risk levels, accounts, and dividends.

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29 For simplification I create a binary distinction between insiders (members of Levant and Russia Companies) and outsiders (the rest), though the actual distinction in availability of information was graduated.


31 Harris, Ron. 2000. Industrializing English Law.
Liquidity and the exit option

Exit options for EIC members were not mentioned in the charter of incorporation. The charter only envisioned hereditary transfer of membership from father to son, as in guilds and regulated corporations. It did not view the membership interest in any corporation, including the EIC, as commodified or freely transferable. However, the joint-stock financial structure, coupled with the corporate structure, de facto permitted exit. One means of exit was by collecting the principal and dividend paid at the end of a voyage and refraining from reinvesting in the next one. The second was by selling the share in any given joint-stock while that stock was still active. The first type of exit was available only at the end of any given voyage, and the second at any point at which a buyer could be found. Thus, members of the EIC were given a unique exit option not available in the VOC or in later English companies. Membership in the EIC, in fact, amounted to an option to invest in any of the future voyages. Some did, while others did not. In this sense, the corporation included potential, though not necessarily actual, investors. While potential investors had a voice in the majority-based decision to undertake a new voyage and raise more money, those who opted not to subscribe for a specific voyage could not share in its profits. Contributions to each of the first twelve voyages were made by different individuals, all supposedly members of the corporation. Membership allowed potential investors to receive first-hand information about the outcome of past voyages, the status of ongoing voyages, and the prospects and business plans of future ones. They were given the opportunity to exit by deciding whether or not to participate in emerging business opportunities. Hence, the more viable exit route at this stage in the history of the EIC involved opting out of an undesirable voyage rather than exiting the corporation altogether.

One intriguing outcome of the per-voyage stock and of the exit option at the end of each voyage was the creation of a framework for repeat transactions. The outsiders were not locked-in for a long period of time, and cooperation had to be reestablished separately for each voyage. The repeated interaction effectively allowed outsiders to evaluate and reevaluate the performance and reliability of the insiders. Normally, reputation mechanisms function either in a repeat-transactions context, in which the sanction for breach is the loss of future transactions, or in a personal-exchange context, in which the sanction for breach is a social sanction within a network. The unique structure of the EIC compensated for the shift from network-based cooperation to impersonal cooperation by structuring the investment of outsiders in a repeat-transactions form. This organizational model provided the insiders with an opportunity to accumulate a positive reputation and secure impersonal passive investment for the longer term.

The second type of exit was not a trivial matter, for two reasons. First, the charter of the EIC did not recognize unrestricted transfer of membership. In practice, this meant that, while a member could transact with a new entrant and promise to convey to him his right to dividend, principal, and profit in full, he could not transfer membership privileges or the right to vote and receive information, unless approved by the EIC Court. In the first few years, the court did not always grant approval speedily. To exit the initial investment in an ongoing voyage, a member had to match with a buyer and sell to that buyer his share in a specific pending joint-stock. He had to do this without the aid of a functioning market or prestructured low-cost transactions. Networks based on kin and family connections could assist in matching sellers of EIC shares with buyers. But this was not an adequate solution for the widely held and impersonal corporation the EIC turned out to be.
The selling of shares was somewhat facilitated by the EIC’s institutional structure, via which the corporation served as a focal point for sellers and buyers. In the general meeting, potential buyers could locate a seller, acquire information on the proper price of the shares by learning about the state of affairs in Asia, and derive some sense of the market price of the good in question. These meetings functioned more like annual fairs than like modern capital markets in which shares of various corporations are traded.

To acquire a sense of the frequency of transactions and the liquidity of the nascent share market, I have constructed a database, the first of its kind, of transactions in EIC shares. It is based on reports in the EIC minutes on transactions presented for approval in the EIC Court. From 1601 until the introduction of the new EIC charter in 1609, I identified a hundred transactions altogether, not including the allocation of shares in profits to employees. Figure 11.2 offers a visual representation of the data. The vertical axis on the left and the grey columns represent the total transaction amount in pounds. The vertical axis on the right and the black dots represent the number of transactions. For example, in 1607, the number of transactions was forty-seven.

Taking into account that the EIC minutes for the period 1604–6 were lost and that 1600 and 1609 were not full years, the annual average can be extrapolated to be around forty transactions. This number is high for an environment that was devoid of a functioning stock market. Still, liquidity was limited. If a transaction could not materialize, either for lack of approval or for failure to match with a buyer, the investor had to hold his share until the end of the voyage, in the hope that it would be successful and that there would be a final settlement of accounts for the voyage. Thus, the more viable exit option at this stage in the history of the EIC still involved opting-out of a specific voyage rather than exiting the corporation altogether.

With free access to an effective stock market, the liquidity of VOC shares was higher than that of EIC shares. Nevertheless, I assert that the liquidity of EIC shares was higher than any historians, economists, or legal scholars have hitherto attributed to it (in fact, to any pre-1688 English business corporation). A market in stock developed in London only late in the seventeenth century. Throughout much of that century, the shares of the EIC were traded in company meetings, on a personal basis, or by ad-hoc matching. The number of transactions in EIC shares began to increase after the Restoration, from an annual average of forty-four in 1661–63 to an annual average of 655 in 1688.32 After the Glorious Revolution, things changed more dramatically. A market in government debt emerged. In the 1690s, a handful of corporate shares – the EIC, Bank of England, Royal African Company, and Hudson’s Bay Company –”free-rode” the government bond boom and were traded together with commodities, insurance policies, foreign currencies, and government stocks (bonds, in modern terms) on the Royal Exchange.33 The formation of the Bank of England contributed to the trade in bonds and shares. Around 1700, as the halls of the Royal Exchange became overcrowded, some brokers moved their activities across the street to coffee houses in Exchange Alley.34 With the South Sea boom of 1720, a larger

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number of companies, mostly short-lived, made use of the English stock market. In 1773, new premises were built by the stockbrokers in Sweeting’s Alley behind the Royal Exchange and named the Stock Exchange. The development of an active government bond market, market liquidity for corporate shares, and stock market infrastructure in England came much slower and later, a lag of a century or so, than those of the Dutch. In the Amsterdam Beurs, as we have seen, public bonds were traded as early as the late sixteenth century and VOC shares from 1602. But by 1700, London and Amsterdam had stock exchanges unparalleled anywhere else in Eurasia (with the possible exception of Paris).

EIC’s capital needs were fundamentally different from those of English merchants trading with Europe. The problems faced by the EIC were not of investing in infrastructure in the form of forts, ports, warehouses, and the like, as some scholars mistakenly assume. What the new enterprise needed was primarily working capital, rather than fixed—a fact that influenced its institutional design. The EIC was designed institutionally as it was (coupling a corporation with a per-voyage equity financial investment) to facilitate cooperation between insiders and outsiders. To expand beyond personally-based social networks, a repeated transactions-based reputation mechanism was designed in the form of per-voyage joint-stock. The EIC offered external investors voice and information on a level far higher than in the VOC, in an attempt to attract their involvement and thus offset the lack of liquidity in the absence of an effective market for shares in 1600 England. The EIC was designed in a manner that would allow its members an exit option despite the lack of a preexisting stock market. This option had to be formulated in an unusual way, unfamiliar to modern scholars who view exit through the market as the standard route. The large number of actual investors in the EIC, and their diverse social origins, are the best evidence of the fact that impersonal cooperation was achieved and that the EIC was able to break through the glass ceiling of traditional personal and network-based cooperation.

**Credible commitment**

The charter details the exchange between Elizabeth I and the investors. The Crown provided monopoly, incorporation, and enforcement of the monopoly against interlopers, possibly naval support, and political backing. The merchants, on the other hand, provided money in various ways including upfront cash and future custom and tax payments, promotion of the Crown’s foreign policy, and ships for the navy in times of war. As we have seen, the charter also specified the deal between insiders and outside investors in which the former were to provide voice, information, and an exit option in return for capital invested in the EIC. But was the charter just a piece of paper that could be revoked at will by the

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Crown? Or was it a binding and enforceable agreement between the Crown and a group of merchants, and an agreement between insiders and outsiders within the EIC?
The same problem that North and Weingast identified with respect to the Crown’s commitment to repaying debts also applied to its commitment to respecting charters. The Crown, as long as it remained an absolute sovereign, could do whatever it wished. It had no constitutional or institutional devices by which to credibly restrain itself, in the present, from taking a particular course of action in the future. The Crown could revoke a charter at will, issue a new, competing charter, or refuse to enforce privileges granted in a charter. Similarly, the insiders could approach the Crown and request a change in the institutional rules of the game in their favor, at the expense of the outsiders, as did the directors of the VOC. There was no third-party enforcer of the agreement. This is a classic “credible commitment” problem. The Crown, as a sovereign exercising prerogative authority, could backtrack and revoke commitments. Thus, it could not credibly commit not to revoke. The charters would therefore lose their value, and the market for charters would be doomed to collapse altogether.

The evolution of “credible commitment” devices in England in the period 1558–1640 is therefore impressive. Although, in doctrinal constitutional law, the granting of charters was still within the prerogative of the Crown, in fact parliament and the judiciary became highly influential institutions in the charter-granting arena. Parliament protested unilateral decisions by the Crown to grant charters (particularly monopolistic ones) or to revoke them. Gradually, case-by-case, the common-law courts began to review the validity and scope of charters issued by the Crown. New constitutional ideas, developed in public discourse relating to the clashes between the Crown and parliament and the judiciary, constrained the Crown’s prerogative. These new ideas were mixed by shrewd jurists with old narratives and memories, in a bid to give them apparently ancient origins and thus render them entrenched and unalterable. The Crown had to take into account the vested interests of both the charter grantees and their competitors, because these interest groups had access to parliament and the courts of law, and had the option of refraining from doing business altogether or seeking alternatives overseas. In short, the Crown became constrained by reputational mechanisms, institutional devices, the consolidation of an independent judiciary, and new constitutional ideas. All of these amounted to a gradual shift from an absolute monarchy to a nascent rule-of-law monarchy.

Indeed, in some cases the Crown’s overall ability to grant charters actually weakened. With respect to some of the activities for which the Crown wished to grant charters and monopolies, the outcome was an inability to grant or commit to them, because parliament or the judiciary could override its decision. With respect to other grants, uncertainty as to the validity of the charters grew. At the end of the period, when England deteriorated into full-blown civil war, Charles I obviously could not uphold his commitments, and thereafter the Commonwealth had to decide which to preserve. However, the test of commitment devices is not whether they hold up through a revolution, but rather during the normal life of a regime. After all, even modern liberal democracies are neither fully committed nor fully credible. They often have to pay a reputational and political price for this, but so did Elizabeth I, James I, and Charles I when revoking their charters.

The argument made here is relative, not absolute, on several levels. It is not absolute because I cannot offer a counterfactual or a historical English state that presented fully credible commitments or was

40 This section is based on Harris, Ron. 2013. "Could the Crown Credibly Commit to Respect its Charters?"
41 Ibid.
altogether predatory, against which to compare the late Tudor and early Stuart state. There is no benchmark to which the level of chartering activity in the period 1558–1640 could be compared, to infer from this the level of credibility of the English state. The Crown was better able in this period to convey credible commitment with respect to charters than to loans, because the use of charters had a longer history that, over the generations, facilitated the development of legal and institutional constraints. And it was able to convey greater credible commitment than in the past because of the general constitutional developments of the period, which strengthened the status of parliament and the common law. The English Crown could also convey commitments that were more credible than those of other European countries because of its judicially developed constitutional doctrines and the balance of powers between merchants and the state. A business corporation of the magnitude and longevity of the EIC could only be formed in a political system in which a space was created that was safely beyond the sovereign's ability to breach his past commitment and to repeal the charter and expropriate the pooled property of the chartered corporation. Such a space had to be protected by credible means from the sovereign's freedom to disregard it at will. As we just saw, England was such a state. The Dutch Republic was also such a state, but due to a different configuration, its federal structure, and the dominance of merchants in its politics. Most other European and Asian states were not.

The EIC in Asia

How did the EIC make use of its institutional innovation and the capital it successfully raised? Foremost, it sent ships around the Cape to Asia—seventeen in its first decade and seventy-seven in the second decade (1611–20). The following decades witnessed fluctuations in the range of 58–134 ships per decade. The total for the seventeenth century was 807 ships going eastbound around the Cape. As early as the first voyage of the EIC, in 1602 some factors were left behind in Bantam, and in this way the first EIC factory in Asia was established. The second voyage was instructed to go there to bring home goods bought by the factors of the first voyage who were stationed there. In 1607, the third voyage was instructed first to go to Mocha and Aden, and to Surat in India, before going on to Bantam and other Indonesian destinations. Later voyages frequented additional ports in the Persian Gulf, in Eastern India, in Southeast Asia, and in the Indonesian archipelago. By 1613, Surat had become the major EIC factory in Western India. The presence of resident EIC employees in Indian Ocean ports gave rise to a private trade by these employees. The private trade provided these employees with supplement income and practically made the more enterprising of them wealthy people. But it was not detrimental to the company. As Erikson recently established the private trade enhanced the flow of useful information to the company, expanded its trade network and encouraged enterprising behavior of company agents. The increased autonomy of agents in Asia and the growing decentralization did not go by without reaction. In 1614, an attempt was made by the EIC board to appoint a factor-general for the entire Asian trade and to authorize this person to organize and supervise four regional factories. This attempt at rationalization and centralization, similar to the way the VOC was organized around Batavia, did not last. Bantam and Surat became the two main EIC trading centers in Asia. In addition, factories were established in other ports and market towns, from Yemen and the Persian Gulf, through various parts of the Indian subcontinent, to Indonesia. At some point, the chief factors at both Bantam and Surat were

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42 Erikson, Emily. 2014. *Between Monopoly and Free Trade.*
raised to the status of presidents, and councils were established alongside them. Growing Dutch pressure drove the English out of Bantam in 1682, with the result that the Indian subcontinent became its center of activity. Bombay, acquired from the Portuguese in 1661, gradually became the EIC administrative headquarters in Western India. By the end of the seventeenth century, Madras, acquired in 1639, became the company’s major trading center on the Coromandel Coast and in Southern India in general. By the 1680s, Calcutta had emerged as the company’s center for the growing Bengal and Central India trade. All three fort cities, Bombay, Madras, and Calcutta, were raised to the status of presidencies in the eighteenth century. In 1772, the president of Fort William–Calcutta was made governor-general, with some seniority over the other presidents.

This chapter, Chapter 11, and the book as a whole do not set out to explain British imperialism in India, Dutch Imperialism in Indonesia, or Europe's imperial expansion more generally. The book deliberately ends in 1700, before imperialism really took hold. This and the previous chapter focus on the era in which the EIC and the VOC were primarily trade enterprises. Their territorial presence in Asia was subsidiary to their trade objectives. In the seventeenth century, the EIC conquered and purchased a few strategic positions that served as factories and ports in the trade enterprises. Its territorial and colonial ambitions in India really took off in the First and Second Carnatic Wars (1746–48, 1749–54) and the Seven Years War (1754–63), in which it fought the French in India and intervened in the war of succession for the throne of the Nizam of Hyderabad. After the loss of the North American colonies in the American War of Independence (1775–83), the Second British Empire was built around India. Even those scholars, notably Stern, who view the EIC as acquiring the characteristic of a territorial colonial power, exercising jurisdiction over locals, sovereignty and governance early in its history, do not attribute such powers to the EIC before Cromwell granted it a charter in 1657 to govern the Atlantic island of St. Helena (an important stopover on the way to the Cape) and the move of the company's factory from Mughal Surat to Bombay once this was granted to it in a charter of Charles II in 1668. I am sympathetic to Stern’s argument that territorial concerns became more prominent as early as the 1668 Charter of Bombay rather than by the 1757 Battle of Plassey, as common wisdom held. But even the earlier date is late enough to justify the analysis of the first seventy years of the EIC in terms of trade and finance. In its first decades, the EIC was preoccupied with raising capital and conducting trade, and its institutional design addressed foremostly these concerns. But the important historical phenomena of colonialism and imperialism are beyond the scope of this study.

A European perspective

The VOC and the EIC were totally different from any other entity that predated them in human history, but they did have much in common with each other—not least, in my view, three very important underlying characteristics. First, they endeavored to undertake the most challenging, risky, and complicated business activity contemporaries could imagine: the longest-distance trade possible on the globe, carrying American silver, through Europe, around Africa to Southern and Eastern Africa, and bringing back Asian goods in return. In this respect, the English and Dutch were challenged a little more than the Portuguese and far more than any other enterprise or ruler. Second, they pooled together

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resources on a level beyond the means of any individual or family and beyond the reach of any social network. The VOC and EIC were both based on outside investment, and brought about the transformation from personal to impersonal cooperation. Third, they were separated from the ruler and from the state apparatus. They were formed in an intermediate space between the state and the family, in which associations of individuals and families could freely exist. England and the Dutch Republic were singular in providing the precondition for the creation of such a protected space that would, to some degree or other, be resilient to state expropriation of the property and capital accumulated by such associations. In short, the two corporations used similar building blocks, the corporate entity and joint-stock finance. Their similarities are summed up in table 11.6.

But the two institutions were different in their organizational details, which are best demonstrated in the attributes of their shares (see table 11.7).

According to my analysis, these differences result from several factors. The first and most important is the position of merchants in society and in politics, followed by the federal structure of the judiciary and the availability of a stock market. The Dutch Republic was dominated by merchants, who had accumulated substantial wealth before the beginning of Asian trade, and additional wealth during the existence of the precompanies—and these increased their political influence. Merchants in the Dutch Republic enjoyed political influence, not only because of their absolute wealth compared to that of landowning classes, but because the political and constitutional structure of the Republic, a federation, was favorable to them. The aristocracy was divided throughout the various provinces, while merchants were concentrated in several strategically positioned cities and particularly in Amsterdam. In England, a unitary political system, the Crown and parliament, although located in London, was dominated by the nationwide landowning classes. It took the merchant classes at least another century to gain substantial political power.

In the Dutch Republic, the active shareholders used their positions as both merchants and city magistrates, in Amsterdam and other cities, to exercise political influence on provincial and federal governments and to unilaterally lock-in the external investors by way of the charter. The VOC can be viewed as closer in its relationship to the state than the EIC to the Portuguese Estado da Índia. Because of the overlap between the merchant elite and the political elite, the VOC enjoyed more state support. But, at the same time, it was also more willing to advance the political goals of the Dutch Republic at the expense of pure business goals. Admittedly, the two could not easily be distinguished from each other. It could be viewed as a dual private–public enterprise, more private than the Estado yet more public than the EIC. Organizationally, it had much more in common with the EIC than with the Estado. In this sense, I accept Steensgaard's view that, if one has to draw a clear distinction, it is more accurate to view the Estado as a distributive enterprise and the EIC and VOC as revolutionary profit-maximizing enterprises. The distinction is made by the existence of joint-stock and equity investment by outside passive investors and the expectation of the investors to receive a share in the profits.
The VOC could continue the lock-in of the capital of passive shareholders because an exit option through the secondary market was made available. A bond market was in place in the Dutch republic by the late sixteenth century and the trade in VOC shares could take advantage of its infrastructure. In England, the bond market developed about a century later, after the Glorious Revolution. The early seventeenth-century EIC could not offer exit through a secondary share market. It could not conceive a long-term lock-in of external equity finance and instead had to offer exit at the end of each voyage. In addition, the EIC had to offer more voice, in return for the constrained exit option. As a result, the EIC governance structure was less oligarchic and hierarchical, and more voluntary, democratic, and participatory than that of the VOC.

Of the two leading companies, the VOC seemed to do better in the short run. It raised more capital, had more members, and sent more ships. For the numbers of English and Dutch ships traveling eastbound along the Cape Route, see figure 11.3.

The English matched the Dutch, in terms of number of eastbound ships, only in the last two decades of the eighteenth century.

The two companies were by far the largest business enterprises of their time in Europe. They were able to raise joint-stock capital on an immense scale, unparalleled by earlier enterprises—with the exception of the Fugger family firm, the richest firm in Europe of the previous century and the chosen banker of European rulers.

Table 11.8 compares the capital raised by the English EIC in its first twelve voyages, 1601–12 (taken from table 11.1), the capital subscribed by the Dutch EIC in its first charter (1602) and paid in four installments (taken from table 10.1), and the wealth of the largest family enterprise of the previous century, the Jakob Fugger the Rich family firm (based on his estate inventory following his death in 1525 and taken from the text of the microstudy in Chapter 6, starting page Error! Bookmark not defined.). The magnitude of their capital is compared on the basis of exchange rates between coins and silver weight or silver equivalent of the relevant coins. The capital of the VOC is expressed in guilders, that of the English EIC in pounds, and that of the Fugger inheritance in florins. The average exchange rate between pound and guilder in the period 1603–10 was 10.553. The florin was presumably a money of account of the Habsburg Empire that was equivalent to one guilder, which was the money of account in the Netherlands. The silver price/equivalent in the Netherlands in 1602 (for the VOC) was 11.17 g of silver per guilder; in England in the period 1601–12 for the EIC it was 0.4640 g of silver per English penny; and the price of

45 The guilder equivalent of the pound was calculated based on the average guilder-to-pound exchange rate between 1603 and 1610, taken from Denzel, Markus. 2010. *Handbook of World Exchange Rates*. The lowest exchange rate in this period was 10.232 guilders for one pound and the highest was 10.875 guilders for one pound, while the calculated average was 10.553. This was compared to a calculation in a memo prepared by Marcel van der Beek for Oscar Gelderblom (on file with the author). I thank both of them. Van der Beek checked the amount of gold in the coins representing the value of one pound of coins, converted it from English to Dutch weight, checked the amount of Dutch gold ducats that could be manufactured from this amount of gold, and finally calculated the value of this amount of ducats in Dutch guilders and pennies. The exchange rate for 1610 based on this calculation was 10.36, within the range of the previous calculation and thus confirming it.

silver in the Netherlands (in the absence of prices for Augsburg) in 1527 for the Fugger family firm was 18.8 g of silver per guilder.47

In nominal exchange values, the VOC was the largest of the three, the EIC second, and the Fugger a distant third at ratio of roughly 64:49:21, and in nominal silver values at ratio of 72:52:40. However, it is important to remember that the passage of three quarters of a century between the Fugger observation and the VOC and EIC observations coincided with the height of the European price revolution. While the Fugger family firm’s capital in 1525 equaled the purchasing power of 40,044 kg of silver, by 1610 this capital would have equated to the purchasing power of only 22,812 kg of silver, due to the fall in the purchasing power of silver in Europe.48 This perspective would make it scope even smaller compared to the VOC and EIC. But assuming that the Fugger fortune was not held in silver but rather in goods for the next seventy-five years, then its 1525 value would have to be inflated to calculate its value in real terms in 1610 or so. Pfister calculates the annual cost of a consumer basket in Augsburg (where the Fugger family firm headquarters were located). The cost of the basket in 1525 was around 150 g of silver, while by 1610 it had gone up to around 450—an increase of approximately 300 percent.49 Others, using different baskets and methods, reported price increases of comparable magnitude for other parts of Western Europe and Britain.50 So adjustment of the Fugger firm’s 1525 value, in line with consumer goods inflation up to 1610, raises its value to about 8.5 million guilders—making it larger than that of either the VOC or EIC.

**Comparing the two companies**

Was the corporate organizational form more efficient than other forms, such as ruler-owned enterprises or family firms? We have few useful yardsticks for dealing with this question. Comparing profitability or even transportation costs is not feasible when it comes to comparing such varied civilizations as China, India, and Europe of the seventeenth century. The best form of data to which we have access is ship count. It is available in the most comprehensive manner for only one route—but this, the Cape Route, is really telling. Within a short span of years, ships operated by companies dominated the Cape Route. In the second decade of the seventeenth century, the VOC and EIC together sent 194 ships past the Cape to Asia, while Portugal sent only sixty-six ships. In the third decade of the century, they sent 199 ships compared to sixty, respectively, and the rising trend in both the number and size of VOC and EIC Cape Route ships (and decline in Portuguese ship numbers) continued throughout the seventeenth century. To the best of my knowledge, there is no record of any Asian ship sailing the Cape Route on its

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48 This is an estimate of the purchasing power of the Fugger family firm in 1610, based on silver prices in 1610: 10.71 g of silver from the Netherlands per guilder.


way to Europe in the seventeenth century; European corporations dominated oceanic Eurasian trade in that era. The evidence for this is conclusive. The question of whether European corporations dominated long-distance intra-Asian trade in the same century is justly debated. It is unlikely that European corporations dominated short-distance maritime trade in the South China Sea or the Bay of Bengal. Figure 11.4 provides a visualization of the number of ships going past the Cape on their way to the Far East. According to the figure, Portuguese ships dominated the Cape Route until 1581, while the VOC and EIC dominated the Cape Route from 1591. The figure also shows the trade volume: the Portuguese sent 150 ships at most (1501), while the VOC and EIC sent almost four hundred ships at most (1671).  

Was the business corporation a Type II institution within Europe? The corporate form migrated within the confines of Western Europe in the seventeenth century. It was the most common form of organization for European Eurasian trade at its seventeenth–eighteenth century height. Yet most of the other companies, with the exception of the EIC and VOC, were small in scale or short-lived or both. Let us examine the other East India companies formed in Europe in the seventeenth and early eighteenth centuries.

The Portuguese organized their trade in the sixteenth and early seventeenth centuries to be state-owned, and later state-licensed. Their shift to the corporate form of organization was a reaction to a decline in trade and shipping in the face of successful competition in the early seventeenth century from the expanding VOC and EIC. The 1628 incorporation was a third attempt at incorporation, following failures in 1587 and 1619. This was just one more experiment by the Portuguese to reorganize their trade, one of many over the previous century and a quarter. In 1682, the Crown issued two foundational documents, the “altar” and the “regiment” (taken together, roughly equivalent to a charter). The company (Companhia do comércio da Índia) was incorporated for twelve years. The Crown took it upon itself to invest 1,500,000 cruzados in the venture. Part of the investment was in kind, in the form of ships. King Philip III granted the company monopoly over the main Asian goods, including pepper, cinnamon, coral, and ebony. He committed not to withdraw his share of the profits before the end of the twelve-year term, nor to intervene in the management of the company. These privileges and commitments were meant to make the Portuguese company attractive to private investors, yet it was unsuccessful in raising sufficient capital from outsiders. Most of the capital, about 80 percent, was eventually invested by the Crown, and much of the rest was invested by other public bodies such as towns and villages. The company was never fully separated from the state, its capital, its aims, or its personnel. Ultimately, it was unable to attract enough private investors and was dissolved five years into its twelve-year term, in 1633.

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51 Country of origin does not denote the organizational form used, but it is a good proxy. Indeed, the late-sixteenth-century English companies were operated by groups of merchants, and the early Dutch ships by precompanies. However, from the early 1600s, English and Dutch companies were corporate-operated. The vast majority of Portuguese ships were not. A few between 1628–33 were operated by the Portuguese East India Company (Companhia do comércio da Índia). Ships of other European nations were few in numbers and mostly company-operated. See de Vries, Jan. 2003. "Connecting Europe and Asia."

What can explain the Portuguese failure? They used the same building blocks as the Dutch and English—so one could attribute the ultimate failure to factors that have nothing to do with institutional issues. The English and Dutch may have had better technologies, more successful economies, and stronger navies. But I cannot fully isolate institutional concerns from these factors, and would like to contribute to the discussion by offering an institutional explanation. My hypothesis is that the Portuguese Crown could not credibly commit not to expropriate outside investors. Expropriation did not have to be outright taking; it could take the form of prioritizing political over business considerations. It could take the form of assessing Crown in-kind investment above its market value, or favoring the Crown when it came to dividend distribution. It could take the form of competition by the Crown, restrictions imposed on certain activities, or new taxation. The Portuguese Crown functioned free of institutional restraints that would prevent it from expropriating. When dealing with syndicates of the leading Italian and German merchant and banking firms of the sixteenth century, of the caliber of the Welsers, Fuggers, and the like, the Crown was subject to severe sanctions for breaching the Asia or Europa Contracts. But investment by numerous individuals in the open market was very different to investment by a well-organized syndicate of wealthy merchants and bankers. Such individuals would not invest without credible commitment. The absence of devices that could be used to credibly commit led to low investment; and that low investment by private individuals led to an enterprise that sent only thirteen ships to Asia and dissolved within five years.

Elsewhere, France had experience with the corporate form since 1604. Three short-lived and unsuccessful companies for trade with Asia were formed in 1604, 1615, and 1626. A somewhat more successful company was set up in 1642 and renewed in 1652, but it seems not to have been active beyond the island of Madagascar. The most significant French Company, Compagnie des Indus Orientals, was planned by Jean-Baptiste Colbert and chartered by King Louis XIV in 1664 for fifty years, with monopoly for trading between the Cape of Good Hope and the Straits of Magellan. It resulted from the fusion of three earlier companies, the Compagnie de Chine, the Compagnie d’Orient, and the Compagnie de Madagascar. It, too, was influenced by the model of the VOC. But before long, the state assumed influence over the affairs of the company at the expense of the shareholders. The government initiated the company, while the king set the capital, personally contributed one fifth of the capital, decided on the distribution of dividends, and forced shareholders to make additional payments on shares. He invested one fifth of the offered capital. The French East India Company established factories in today’s Reunion and Mauritius in the Eastern Indian Ocean and in Pondicherry in southern India. The French sent only sixty ships around the Cape in the period 1600–60, while the French Company was able to send between thirty and forty per decade for the rest of the century. This was much more than in the earlier period but only a fourth of what the EIC sent and one eighth of the number of VOC ships going east. The French East India Company was dissolved in 1723. The company was, at most, a joint private–public enterprise like that of the Portuguese. In the French case as well, the Crown was too absolutist and was not able to credibly commit to private equity investors. There was no space separating Crown and state in which private business corporations could develop.

The Danish East India Company (Dansk Østindisk Kompagni, or OK) was established in 1616 and lasted until 1650. It was initiated by two Dutch immigrants from Rotterdam, its design influenced by

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the VOC model and its governance structure oligarchic. In 1625, the Aulic Council of the Holy Roman Empire, whose seat was in the Habsburg Court in Vienna, began an initiative to form an East India Company. It negotiated with the Hanseatic cities and with the King of Spain. The proposed company was inspired by the models of both the EIC and VOC. But the endeavor was terminated in 1629 with the closure of the Hanseatic Diet.  

Meanwhile, the Brandenburg Company, established in 1682, was Dutch-dominated, despite its Prussian base, and ended up being more involved in Africa than in Asia. It was succeeded in 1752 by the Emden Company that traded primarily with Guangzhou in China. The Ostend Company was chartered in 1722 by the Habsburg King Charles VI. It was an Austrian–Flemish trading company for trade with the East and West Indies, and its capital was raised mostly from merchants in Antwerp and Ghent. It sent out twenty-one ships before suspending its activity in 1731 due to British political pressure. The Swedish East India Company (SEIC) was established in 1731 by a Scottish merchant, a former supercargo for the Ostend Company who wished to take advantage of the vacuum created by its liquidation. The base of the SEIC was in Gothenburg, and all incoming and outgoing ships had to go through that port. It traded mostly with Chinese goods, primarily tea.

The European companies took the form of either the EIC or the VOC model. Some of the companies, the Portuguese and French, were formed in absolutist states in which the king was highly involved, expropriation was immanent, and companies were not really separated from the ruler (and did not take off). Some of the companies, the Danish, Brandenburg, Ostend, and Swedish, were more of a platform for groups of interlopers from Britain, the Dutch Republic, and Denmark. They were operating in the eighteenth century environment of well-known routes and markets and routinized trade, in which the corporation was more of a rent-seeking monopolistic enterprise than an efficient enterprise using the joint-stock corporation form to cross entry barriers and engage in a trade otherwise inaccessible to individuals.

It seems as though various East India companies in different parts of Western Europe were not Type I institutions and were not invented independently again and again from scratch, based on a similar building block (the corporation) and similar business needs. Knowledge about the formation and the success of the VOC and EIC circulated around. Just as immigrants carried with them technology, in our context they also conveyed know-how. In particular, the itinerant Dutch were involved in some of the other European companies. The charters of companies such as the Danish and Portuguese include phrases that suggest the drafters had in their possession the charters of the VOC and possibly also the EIC. The plurality and proximity of political entities and the competition between them created fertile ground in Europe for copying institutional innovations. But knowledge and even willingness to import do not ensure successful transplantation.

The corporate form served as the constitutional basis of the Catholic Church wherever this prevailed. Orthodox Eastern Europe was not accustomed to it, but the newly reformed protestant parts of Western and Central Europe were. In Western Europe itself, the joint-stock business corporation was, in a sense, more of a Type II than the Type III institution it was globally. But only in a sense. East India corporations were formed throughout Western Europe, yet in some countries the joint-stock business corporation transplant was rejected or did not function well. To the extent that we refer only to well-
functioning business corporations, then the business corporation form can be viewed as a Type III institution after all, confined for a long time to England and the Dutch Republic.

Both locations were, by then, protestant. Was the business corporation a Type III institution because of its linkage to Protestantism? Despite the temptation to explain this by Weber's protestant ethic thesis, this does not hold.58 My argument is that the relevant difference between England and the Dutch Republic, on the one hand, and Portugal and France, on the other, was not in the newly introduced Protestantism and the work ethic, devotion, and calling that its theology entailed. Rather, the relevant difference was in the political structure. In England and the Dutch Republic, the ruler (or state) was constrained and therefore could not do as it wished. In Portugal and France, the ruler could expropriate the pool of assets created by the investment of private individuals in joint-stock companies. In England, a nascent rule of law allowed the Crown to credibly commit not to expropriate. In the Dutch Republic, a combination of federal political structure and the central role of merchants in the political elite made expropriation impossible.

We began this part of the book with three questions: Why did corporations develop only in Europe, and why, within Europe, in its Northwestern corner? Why were European corporations transformed in around 1600 from public entities to joint-stock for-profit entities? And why were corporations so well-suited to long-distance trade as to rapidly take control of the Cape Route and rise to dominance in Eurasia trade as a whole, at the expense of Type I and Type II institutions such as family firms and merchant networks?

We now have most of the pieces of these puzzles. Corporations developed in Europe because of the unique needs of the Roman Catholic Church, which sought to separate itself from secular territorial rulers and maintain a hierarchical structure. They were used for organizing joint-stock for-profit enterprises when Western Europeans aspired to enter long-distance trade with Asia and particularly when European merchants entered Cape Route oceanic trade with Asia, without reliance on platforms provided by rulers and states. They could best thrive in England and the Dutch Republic because, in these countries, a space was created between the state and individuals in which corporate entities could fully develop and flourish. In both of these countries, the state could credibly commit not to unilaterally revoke the charter of incorporation and not to expropriate the merchants and investors.

The corporations, and in particular the EIC and VOC, became dominant in the Cape Route trade because they could raise more capital from more people than any other organizational form but the ruler himself. Unlike the ruler, joint-stock corporations were rational in the sense of accounting for business activities separately from other activities such as waging European wars. They were more focused on making the highest possible profits for their equity investors (or at least some of them). They could not raise the required capital through taxation, as could the Portuguese or the Chinese. Their size and span afforded them huge informational advantage over family firms and partnerships. As these large corporations employed many agents, they had to deal with more agency problems. But the information-flows and cross-flows within these firms could presumably improve monitoring of agents by the headquarters in London or Amsterdam and the VOC Asian headquarter in Batavia. The expansion and success of these firms suggest that, on the whole, informational advantages, with respect to the business itself and with respect to the monitoring of agents, offset the new agency problems created in the transition from personal to impersonal enterprises.

12 Why did the corporation only evolve in Europe?

Introduction

This chapter resolves a further, simple but important, historical conundrum: why were corporations Type III institutions and not Type I or Type II?; why did corporations not develop indigenously in the rest of Eurasia?; and why did they not migrate from Europe to the Middle East, India, and China in the three centuries between their first introduction, in the context of business and trade in Europe in the sixteenth century, and their eventual introduction in Asia in the late nineteenth century? The answer to these questions can be illuminated by considering three further subquestions: was there demand in Asia for long-distance trade institutions of large magnitude, such as the business corporation?; was this demand supplied by institutions other than the corporation, which were its functional substitutes?; what were the obstacles and resistance to the development or migration of the corporation in the Middle East, India, and China?

Why were corporations absent in the Islamic Middle East?

Demand

The geographical challenges for the organization of long-distance trade, in terms of travel distances and maritime and overland accessibility, were less pronounced in the Middle East than in Europe or China. The Middle East was more conveniently located with access to the Mediterranean, the Indian Ocean (through the Arabian Sea), and the Silk Route. It was not as conveniently located as littoral India, which had immediate ocean access and was more centrally located. Middle Eastern traders had to go overland to the Red Sea or Persian Gulf and then sail through the Straits of Bab-el-Mandeb or Hormuz, which were at times blocked. But thanks to their location they did not need to go around the Cape of Good Hope, as did the Europeans.

Under the Umayyad Caliphate (661–750 CE), the trade of Islamic merchants expanded from a small-scale regional incense trade between Yemen and the Eastern Mediterranean to a large-scale trade stretching throughout the Middle East and beyond. The Abbasid Caliphate (750–1258) moved its capital to Baghdad and the main routes taken by its merchants to the Persian Gulf and Central Asia. The conquest of Baghdad by the Mongols in 1258 caused, according to most historians, the decline in the Arabs’ use of the trade route leading from the Mediterranean to Baghdad, Basra, Hormuz, and the Indian Ocean. The Red Sea route rose at its expense. The Fatimid dynasty (909–1171), the Ayyubid dynasty (1171–1250 in Egypt), and the Mamluk Sultanate (1250–1517), whose center of gravity was in Egypt, served as the basis for traders active in the Red Sea and the Indian Ocean and connecting to the Mediterranean (such as the Geniza merchants). The Seljuk Empire (1037–1194) and its offspring the Sultanate of Rum (1077–1307) provided their merchants with convenient overland connections to Central Asia and India.

60 See also Peacock, Andrew. 2015. The Great Seljuk Empire.
Generally speaking, Middle Eastern rulers refrained from direct involvement in Eurasian trade. They did not construct or equip ships, did not send armies or navies, and did not employ agents or traders to serve them. The support of these rulers for private merchants was mostly indirect, by allowing them access to maritime and overland Western ends of the Eurasian trade route. Another important role of the political rulers of the Middle East was in blocking the access of European merchants to Eurasian trade routes. Italian merchants were dominant in the Eastern Mediterranean, despite experiencing fluctuations in trade volume due to political and military upheavals, for example before, during, and after the Crusades. In buoyant periods they could buy Asian goods in Antioch, Aleppo, Acre, or Alexandria, but their access to points further east, on the Silk Route and the Indian Ocean, was sporadic. Before the arrival of the Portuguese, the political rulers in the Middle East in fact provided Arab and Persian private merchants, through political means, with exclusivity of access to these Eurasian overland and maritime routes from the West. One exception in which the rulers played a direct and significant role is that of the sixteenth-century Ottoman Empire, to which we will turn shortly.

Private Arab and Persian merchants had travelled eastward throughout the history of Islam. Indeed, as we saw earlier, one could find Arab and Persian private merchants in large numbers in India, Indonesia, and Tang and Song China.61 There are sporadic reports of a group of Jewish merchants, the Radhanites, according to which they traded over long routes, stretching from Western Europe to China. Their place of origin was probably in the Abbasid Caliphate and their heyday in the ninth and tenth centuries.62 The Karimi merchants seem to have been the leading Middle Eastern long-distance merchants in the late Middle Ages.63 They travelled with goods between Cairo (and possibly also other Middle Eastern cities) and Aden, the Malabar coast of India, and even China. They specialized in the spice trade, but may have dealt with other goods as well. Their period of operation was between the twelfth and fifteenth centuries. The unifying characteristics of the Karimis are debated among historians. Some argue they were members of an ethnic group or a clan; others believe that any great merchant, wealthy merchant, or any merchant trading in Asian goods, was called a Karimi. Their form of organization is also debated. Some believe they united to form convoys to India, some view them as a guild or as a corporation (though providing no analysis of corporate features and no supporting evidence), others as sharing the same funduqs (for example in Alexandria, Fustat, and Aden), and others still as wealthy individual merchants having no common organizational infrastructure and fiercely competing with each other. But there is a consensus among the handful of historians who have studied them that they were private merchants, self-financed entrepreneurs, not operating on behalf of the Ayyubid or Mamluk rulers of Egypt, and not even connected to the state as large landlords or tax farmers.64

The Ottoman Sultanate, which began as a small Western Anatolian principality in 1299, became the ruler of the Middle East and an empire stretching from the gates of Vienna to Algiers and to Basra, Mecca, and Aden during the reigns of Selim I (1512–20) and Suleiman the Magnificent (1520–66). The

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Ottoman naval expeditions in the Indian Ocean in the sixteenth century were an exception in the history of Middle Eastern trade with Asia, which in most other periods was initiated by private merchants. This was not a case in which trade followed religion or immigration or led the way, but rather one in which the political flag set the pace and direction of events. The full scale of Ottoman state-run involvement in the Indian Ocean was only recently reconstructed by Giancarlo Casale, who wove together primary sources found in Ottoman and Portuguese archives. After annexing Egypt in 1517, the Ottomans expanded further south to Mecca and Medina, Aden and Mocha in Yemen, and the East African coast. They also expanded to Baghdad, Basra, and the Persian Gulf coast. Suleiman, who commanded a large fleet in the Mediterranean, began constructing a fleet in Suez to serve his Red Sea and Indian Ocean ambitions. For the next several decades, Suez was the basis of what was initially called the Red Sea Fleet and, later, the Indian Ocean Fleet. In 1538, a fleet of some ninety galleys sailed to India. Other naval expeditions left Suez in 1546 and 1548, with the aim of regaining control of the Red Sea from the Portuguese. The 1548 fleet recaptured Aden, captured Muscat, and gained control of Oman. It fought the Portuguese navy and the garrison of Hormuz, but was unable to fully capture the city. It captured Bahrain, and finally reached the Ottoman port of Basra. On its way back to the Red Sea, it became engaged in skirmishes with the Portuguese navy, lost ships, and ended up fleeing to India. A smaller fleet operating out of Mocha was able to capture several Portuguese merchant ships in various locations between Diu in Gujarat India and the East African coast. In parallel to their naval activity, the Ottomans also used diplomacy, trying to ally with Muslim rulers all the way to Aceh in Indonesia, encourage the operation of Ottoman merchant ships in small contingencies, and send small exploratory and cartographic expeditions.

The Ottoman state-operated maritime presence in the Indian Ocean subsided toward the end of the sixteenth century. One explanation for this was the Portuguese navy’s superiority in ships, guns, navigation, and maritime tactics. This is not a fully convincing justification. The Ottomans did quite well; they sailed freely in the Sea of Arabia, and in some skirmishes they sunk and captured Portuguese ships. In others they lost only due to bad luck. Another explanation is that the European faction in the Sultan's court won over the Asian faction, and the Ottomans decided to invest their state military and financial recourses in the Balkans and Central Europe rather than in the Indian Ocean. The second explanation, in other words, is that the Ottomans did not want to be involved in Eurasian maritime trade. The first is that they wanted but failed militarily to support their trade. Either way, just as the Chinese rulers retreated from the Indian Ocean prior to the arrival of the Portuguese, the Ottomans retreated from the Indian Ocean shortly before the arrival of the English and Dutch corporations. One could not argue that the corporations were better organized for the task of long-distance maritime trade than were rulers of empires.

**Cities, guilds, universities: The building blocks of the corporation**

Why could the Ottomans not follow a developmental path similar to those of the English and Dutch rather than those of the Portuguese or Chinese, and design their own corporations? To answer this question with respect to the sixteenth or seventeenth century, one has to go back in time and look for the building blocks of the corporation in the pre-Ottoman Middle East. The Middle Easterners did not
search for new constitutional frameworks for organizing their religion, cities, guilds, and universities, as did the Europeans in the late Middle Ages. The fact that religion was not separated from the state, that cities were not autonomous enclaves within states, and that higher education was not conducted independently of state and religious organizational frameworks reduced the demand for new organizational forms.

In Islam, neither cities nor schools were in search of innovative organizational forms. Cities were neither independent political units nor even distinct subunits of governance. The Greek city–state tradition evaporated in the Middle East before the rise of Islam. Territory-based provinces that comprised both cities and rural areas were the administrative units. As much as there was some level of internal organization in cities, it was initiated from above as a means to more effectively extract taxes from city dwellers. City councils were organized by caliphs and sultans with the purpose of achieving collective responsibility of city elders for tax payment, not as self-governing juridical or political institutions. The most important point for our needs is that Islamic cities did not develop corporate institutions, and did not need to.

A similar analysis applies for guilds. Islamic merchants and craftsmen were much less organized than their late medieval European counterparts. With time, Islamic merchant and craftsmen organizations slowly evolved. But in the period relevant for us, the couple of centuries before the development of the first Western European merchant corporations, Islamic merchant and craft associations had no distinct corporate features. The same was true of religious schools, such as madrasas. In the early Islamic centuries, these were often state-owned. When their independence grew they relied on the waqf, to which we will soon turn, as their organizational platform.

Overall, the lack of demand for autonomous and complex organizational forms for cities, madrasas, and guilds in the Islamic Middle East reduced the demand for institutional innovation in these realms. This is not to suggest that Islamic cities, guilds, or madrasas were not vibrant. They definitely were, in the heyday of Islam. Were they the focal point of innovation, as European cities arguably were? Or were they unconducive to economic development? This debate is not for me to resolve here. What is important for my argument is that, due to their organizational structure, no demand formed for developing protocorporate or corporate institutions in late medieval Islam. The notion of corporate personality did not develop in Islam. The city, the university, and the guild were, along with the Catholic Church, the breeding ground of the Southern and Western European Corporation. As a legal entity detached from individuals, the corporation was not recognized in Islamic legal texts, and nor was it used in Arab civilizations for semipublic purposes. The fact that corporations were not developed in the semipublic context curtailed their development in the business context in the early modern period.

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The Waqf

The Islamic waqf is relevant for our discussion in several ways. Some argue that the waqf was a quasi-corporation. Others argue that, though different from the corporation in its features and structure, it was a functional substitute for the corporation, at least in the latter's semipublic fields of activity. Did the waqf serve as the corporation's functional equivalent in long-distance trade as well? Did it facilitate long-distance trade in ways that were different from that of the corporation? Is it perhaps relevant for us because it hindered the development of the corporation in Islam?

Characteristics

A waqf was created under Islamic law by a founder—a Muslim who endowed land or other immovable property. The act of endowment separated the waqf property from the founder's privately owned property, granted its ownership to God, and defined the consumption of its usufruct perpetually.71 The purpose of the foundation of the waqf had to be considered charitable or pious, not profit-making, and the property given to it was, in principle, inalienable. The waqf’s purpose was advanced by enjoyment of the property itself (albeit in a manner that would not consume it) or of the income generated by utilization of the property. A caretaker (mutawalli)—or trustee, if we use trust analogy—was initially appointed by the founder, and in future generations according to the founder’s instructions. The caretaker's role was to oversee the waqf’s property, implement the purpose of the waqf, and make sure that the waqf’s beneficiaries received their share of the usufruct.72

What was the legal status of the waqf’s property? The beneficiaries were not the owners of the property; similarly, the caretaker held it in trust but did not own it. The common interpretation in the Hanafi School of Islamic law was that the property was not owned by anyone, it was God's property, as long as it remained waqf property. Though some modern scholars argue that the waqf was a separate property-owning legal entity, this view is not grounded in history and is rejected by most scholars.73 The waqf is classified into two groups, depending on the purpose for which its revenue is applied: waqf ahli (family waqf) and waqf khayri (charitable endowment). In the family waqf, the revenue is devoted to the descendants of the founder.74 In the charitable waqf, the revenue is devoted to the expansion and maintenance of public institutions. Another classification of the institution is the distinction between land waqf and cash waqf. The land waqf is more passive. The cash waqf can also be utilized to fund projects considered beneficial for society. The endowed cash can be invested or loaned out to earn income, and target projects are financed by earned income.75

History

73 Zahraa, Mahdi. 1995. "Legal Personality in Islamic Law."
Philanthropic endowments, possibly forerunners of the waqf, have a history considerably older than Islam, and it is very likely that Islam was influenced by somewhat similar institution in earlier civilizations, such as Ancient Mesopotamia, Greece, Rome, the Byzantine Empire, or Sassanid Persia. It is generally accepted that the waqf did not exist in pre-Islamic Arabian law. The Qur'an makes no explicit mention of the concept of the waqf. The waqf in its Islamic form appeared about a century after the birth of Islam, in the middle of the eighth century, and increasingly came into use in the ninth-twelfth centuries.

Function

The waqf was used, as we have seen, for two basic purposes, private and charitable. The founder of the waqf could entrust its management to whomsoever he chose, including his offspring. The founder of a family waqf could stipulate that its caretaker (mutawalli) would earn a handsome salary, could appoint himself as the first mutawalli, and, in that capacity, could hire his relatives as salaried employees of the waqf. He could channel much of his family's wealth to the waqf and devote its resources to enhancing his and his family's financial wellbeing and security. The foremost use of the private waqf was for bypassing the rigid rules of Islamic inheritance law that considerably restricted the testator's discretion, limited the bequests to one third of the estate, and required equal division of the rest of the estate between legal heirs. The waqf provided flexibility in intergenerational transfer of wealth, allowing property to be held in one pool (rather than having it dissolved over time into ever-diminishing pools of assets), achieving the equivalent of primogeniture. This type of private use also enabled the founder to use the waqf to shield property from taxation and expropriation. Over time, the waqf was also increasingly used for its second major role, semipublic purposes, and for the provision of public goods, such as the building and running of mosques, hospitals, bathhouses, religious schools (madrasas and zawiyas), and other social and charitable services. As we have seen, it was used for the construction and maintenance of khans and caravanserais that served the Silk Route and other trade routes. The waqf was the legal organizational form that supported these essential infrastructures that, in turn, facilitated overland Eurasian trade. Though the waqf did not embody all the characteristics of the corporation, the two did have some features in common. The waqf allowed the holding of a separate pool of assets, implying both perpetual holding of property and a degree of entity-shielding of the assets from creditors of the beneficiaries. It enabled the separation of ownership from control and the employment of agents. Its formation, like the chartering of a corporation, was a device for credible commitment by the ruler not to expropriate its property. However, it did not constitute a property-owning institution in a fuller sense that included full transferability of that property. It did not provide governance or decision-making bodies, and its activities, more than those of a corporation, were constrained by the “dead hand” of its creator. There were practical ways to circumvent the creator’s instruction, but the legality of these practices was

80 See Chapter 4, p. 174.
questionable. A waqf could not expressly assume profit-making business purposes, and the interests in a waqf could not be traded in a stock market or otherwise. Ultimately, then, the waqf did not provide a full substitute for the corporation.

Migration

The waqf spread from its place of origin in the Middle East. It was used not only by Arabs, but also by Iranians, Turks, Slavic Muslims, and even non-Muslim minorities in these regions. By the twelfth century it had arrived in India. Even Hindus picked up the terminology and used it to describe their own endowments.

The origin of the English trust has long been a subject of debate between legal historians. Early and fragmented evidence for the usage of the predecessor of the trust, called the use, as a means of evading taxation appears in the thirteenth century, with more considerable evidence accumulating for the fourteenth century. Most scholars debated whether the origins of the trust could be found in Roman law, Germanic law, a combination of the two, or the unique circumstances of feudal Norman England. More recently, several scholars have pointed out that the waqf and the trust share similarities in terms of function and form, and have speculated that the origin of the English trust can be found in the concept of the waqf. The period during which the trust first showed up in England corresponds with the height of popularity and usage of the family waqf in the Middle East. The English trust resembles the family waqf, not the charitable endowment for the provision of semipublic services. This resemblance could be explained by the timing of the alleged waqf–trust link, which was before charitable waqfs were widely used.

Three possible geographical links have been offered for the migration of the waqf to Europe and eventually to England: via Spain, Sicily, and the Holy Land. In Spain, Christian and Muslim civilizations neighbored and, in some regions, even coexisted during the long Reconquista. This was an opportunity for learning about Islamic practices, including that of the waqf. Sicily can be regarded as a link because it was invaded by Normans, just as was England in the relevant period. The Normans of Sicily could have learned about the waqf from the Fatimid, because the island was ruled by Muslims for more than two centuries before the Norman conquest, and knowledge of the trust could have been transferred to England by the Normans. A third possible link is the Crusaders. Franciscan friars returning from the Crusades in the thirteenth century were looking for a means to commit to a propertyless lifestyle. At the same time, they wanted to maintain collective property, at the command of their order. The Templars feature in another version of this third link. Whatever the linkage, it has to

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85 An interesting piece of evidence for the Islamic origins is offered by the 1264 statute of Merton College, Oxford, thought to be one of the earliest colleges in England. According to one study, had it been written in Arabic, it would have been considered a valid waqf-creating document due to the stark similarities. See Gaudiosi, Monica. 1988. "The Case of Merton College."
account for the fact that the idea of the waqf was planted in England while entirely skipping continental Europe.

The resolution of this dispute about the origins of the trust is beyond the scope of the present book. What is of particular interest for us are the parallels between this debate and that surrounding the origins of the Italian commenda. Though the two debates unfolded entirely separately, both the timing and geography of the migration and the methodology for trying to identify the origins and links (morphological similarities, timing, agents) are analogous in both cases. The difference is that the commenda was transplanted on the continent, in civil law jurisdictions, while the waqf was transplanted in England, a common law jurisdiction. The debates would definitely benefit from conversing with each other.

In sum, the waqf was a Type II institution that migrated within Islamic civilization and apparently in modified form—and, to a debatable extent, also beyond it. Its pattern of migration is somewhat similar to that of the funduq, more limited than that of the commenda (which reached all of Europe to the Baltics and China), and, in a way, diametrically opposite to that of the sea loan.

**Institutional dynamics**

The basic business organizational unit in the Islamic Middle East was the family. This form is to be found in the records of Qusayr al-qadim, a Red Sea Port in Egypt. It is to be found in the Cairo Geniza records, which reflect Jewish practices but are believed by most scholars to reflect the surrounding Muslim practices as well. Both of these sources were surveyed in previous chapters as part of our case studies. Kuran argued that the communal and family oriented vision of early Islam disfavored the introduction of larger and more formal social and organizational forms. Larger impersonal entities could end in factionalism of the kind that is unlikely to emerge in family- and tribe-based entities.

Furthermore, demand for an institution that would serve large-scale business enterprises did not develop, because inheritance and partnership law splintered business entities in the Islamic Middle East into small economic and social fragments. Atomistic enterprises were unable to act collectively to lobby political and legal elites to introduce corporate forms of organization. When the need arose to exceed the boundaries of the family, say to enable long-distance travel, to avoid physical risk, or to cross cultural and linguistic barriers, the family employed commissioned agents, usually in destination ports, and commenda agents, usually as itinerant agents. Muslim merchants usually traded with their own capital; they did not borrow money in the form of sea loans, due to the strict Islamic prohibition on usury. In Indian Ocean trade, Middle Eastern merchants could also make use of the services of nakhuda, the person, distinct from the captain, in charge of goods and mercantile and financial activities on board ship. This uniquely Indian Ocean institution allowed merchants to freight unaccompanied goods. In overland trade, Middle Eastern traders, many of them peddlers, could benefit from a well-spread chain of funduqs, khans, and caravanserais stretching from Spain and North Africa to Central Asia and beyond. These buildings-cum-institutions were owned and operated in many locations by waqfs.

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86 See Chapter 5, p.201
The direct involvement of rulers in the Eurasian trade of Middle Easterners was very rare, with the exception of the sixteenth-century Ottomans. This could be explained by the political friction in the region. It could also be explained by the geographical accessibility and by the low financial entry barriers. Individuals and families could trade without the need to resort to state support.

What can explain the fact the corporation did not develop in the Middle East? The first explanation is that there was simply no demand for the corporate form. Family-based organization, expanded by agents, commenda, and the like enabled trade to flourish for many centuries. The second possible explanation is that there was demand but no supply. Islam as a religion was not organized separately from rulers and states, and did not develop a separate constitution for its religious institutions. Islamic law did not recognize corporate entities. No corporate building blocks were formed within Islamic law because cities, academic institutions, and guilds were not independent from rulers and territorial administration. Islamic rulers were not willing to open up a space between their sovereign powers, on the one hand, and society, on the other, in which institutions separated from both the state and the family could exist for long durations without the threat of expropriation by the state.

A third potential explanation, related to the second, is that as much as there was demand it was met by institutional supply, but the supply set Islam on a path that did not lead to the corporate form. When demand for organizing activities with semipublic purposes was first created in Islamic civilization, it was supplied by the waqf because the waqf that was introduced early in the history of the Islamic civilization was already available. There was no need to invent a new corporate form. The waqf was gradually adapted from private family purposes to charitable and semipublic purposes. Because of this, no demand emerged in the Islamic Middle East for indigenously developing or importing the corporation to organize activities promoting such business purposes. By using the waqf for semipublic purposes, Middle Eastern Muslims did not have to encounter the absence of the corporation until the early modern era. However, the structure of the waqf had rigidities that prevented it from being adapted to adequately match the full scale of semipublic institutions.

Institutional responses to changing demand were different in different civilizations. When the need arose, the waqf was not suited to for-profit business purposes. The Chinese family lineage was more amenable to adaptation for business ends than was the waqf. It was increasingly used for business purposes, including maritime trade, by the time of the Ming dynasty. Parallels between the waqf and the trust are striking. The trust, which was debatably an offspring of the waqf, was initially designed for dealing, in the context of the family, with the holding of land and its intergenerational transfer. When the need arose to use the trust for holding intangible property and for organizing for-profit businesses, the adaptation process was slow and painful. It was in progress by the middle of the nineteenth century, but by then the corporation had bypassed it. So the similar path of the waqf and the trust proved to show less flexibility than the paths of the corporation and family lineage. The reasons for the different level of flexibility of different institutions are partly inherent to the institutional configuration of features, and partly a result of the interaction with outside pressures for change and resistance to change. The discussions in this book provide initial explanations. But much more can be achieved once the question is on the research agenda.

Although demand for a new institution for business and trade purposes did appear by the seventeenth and eighteenth centuries, the people of the Middle East were already locked-in to the waqf path. The waqf had an early start compared to the corporation. As a result, by the time the corporation emerged in Europe and became available for importation to the Arab–Islamic civilization, much of the institutional demand by semipublic organizations was already supplied by the waqf. This is a path-dependency explanation.92

Up until the sixteenth century, Middle Easterners did well with their organizational menu. In the sixteenth century, the Ottomans were still neck-and-neck with the Portuguese in the Western Indian Ocean. The usefulness of the corporation to long-distance Eurasian trade was demonstrated by the VOC and the EIC only in the seventeenth century. Even then, there was only slow appreciation of the contribution of institutional factors to northwestern European success. Even when Arab and other Middle Eastern merchants recognized the advantages of the corporation, they could not introduce it without some support from the political and legal elite. By the time the advantages of the corporation were fully appreciated by wider circles and by rulers, European corporations already dominated Eurasian trade. It took the Ottomans two more centuries to fully appreciate the need for the corporate form and to overcome political and legal resistance to it. The first predominantly Muslim-owned joint-stock company in the Ottoman Empire was formed by sultan Abdulmecit in Istanbul in 1851.93 It was based on the European model, not as an adaptation of an Islamic institution. Only then did the corporation shift from a Type II to a Type III institution.

**Why no corporations in India?**

Corporations were introduced to India only very late, in 1866, as a colonial transplant from Britain.94 Why was the corporation not developed indigenously in India before the arrival of Europeans? Why did the Indians not copy the model of the European corporation once they witnessed the success in India of the EIC and VOC, starting in 1600?

India was the most conveniently located of the four major civilizations discussed in this book. To use Abu-Lughod's words, it was "on the way to everywhere."95 Its ports were on the Arabian Sea and the Bay of Bengal. Its merchants did not have to sail for more than one season to reach Persia, Arabia, and East Africa, or, going the other way, to the Indonesian archipelago or to Southeast Asia. Their access to the Indian Ocean did not depend on political circumstances outside of India. They could not be blocked in the Middle East, as were the Europeans, or in Red Sea and Persian Gulf straits, as were the Arabs. India’s central location and easy access also had the reverse effect, making its ports accessible to foreign merchants.

In addition, because of its tropical location, Southern India was an exporter of goods that could not be produced in the other three major civilizations of Eurasia. Spices, particularly pepper, attracted maritime merchants from more northern locations such as the Middle East and China. Middle Eastern merchants sold spices in their own markets and also served as intermediaries in the supply of pepper and spices to

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92 See Harris, Ron. 2000. *Industrializing English Law.*
Europe. India was less of an importer because much of its consumption could be grown and produced somewhere in the Indian subcontinent. Indian merchants were only rarely to be found in China, while Arabs and Chinese were often recorded in India. After the fall of the Song dynasty and the taking-over of Southern China by the Yuan dynasty, Chinese merchants were restricted from traveling to India, and Arabs rose to dominance in the Indian maritime trade. Abu Lughod asserts that wealth, rather than poverty, kept India from playing a more active role in the world trade system. These two reasons made the Indians’ need to develop long-distance maritime trade superfluous in some eras, along with the organizational capabilities related to it.

The more powerful Indian political entities of our period, the Delhi Sultanate and the Mughal Empire, were centered in the plains of Northern India. They had strong familial, cultural, and religious connections with Turkic, Persian, Mongol, and Timurid dynasties in Central Asia. They were not oriented toward the Indian Ocean and were only marginally interested in maritime trade. As much as they were, this was confined to activity in the ports of Gujarat, notably Surat, after its annexation in 1573, and to a lesser extent the ports of Bengal, after its annexation in 1576. Delhi, the Punjab, and Sind were connected to Afghanistan, central Asia, and Persia via overland routes, some of them connecting to the East–West Silk Route. The overland trade was conducted by private merchants, some peddling, some employing agents and commenda partners, and relied on diaspora communities and on social networks.

South Indian Hindu rulers were more oriented toward oceanic maritime trade. But, by our period, they lacked the political power, economic resources, and motivation to be involved in long-distance overseas trade on a large scale. A notable earlier exception is that of the Tamil Chola dynasty. In the eleventh century, its kings launched naval expeditions from their Coromandel Coast ports to Sri Lanka, the Maldives, Burma, the Malay Peninsula, and Sumatra. The evidence for these expeditions in inscriptions is so sporadic and indirect that a few historians doubt they ever occurred. But recently some support was found for Indian presence in Southeast Asia in archeological findings from the region and in the Chinese sources. Among those who assert the expeditions did take place, a few argue that these were merely political–military expeditions, but most view them as commercially motivated. They were the Cholas’ attempt at the Indian Ocean trade, a response to the arrival of merchants from Song China and Fatimid Egypt in Southern India.

The absence of control or direct involvement by territorial rulers and the low entry barriers allowed individual merchants and family firms to engage in maritime trade. The family firms of Virji Vora and Mulla Abdul Ghafur, already discussed in the chapter on Type I institutions, are good examples of the upper end of these organizational forms.

Did Indian civilization develop more complex organizational forms such as guilds and corporations? This debate goes back to Weber, who argued that the caste, the basic Indian societal organizational

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100 Some scholars view them as political–military expeditions that derived from the interference in Chinese trade by other countries. See Sen, Tansen. 2009. "The Military Campaigns of Rajendra Chola."
102 See Chapter 6, p.232
structure (which was based on Hindu religion), determined social position and occupation, and left no space for voluntary associations. Weber's argument has since been disproved by sociologists who today view the caste as varying considerably over time and space, as applying to non-Hindus, and as creating primarily endogamous groups and a sense of affinity that did not predetermine occupation.103 The more recent literature recognizes the existence of guilds in medieval India. Names such as the Nanadesi guild, the Manigramam guild, and the Five Hundred Lords of Ayyavolu guild are often mentioned in the literature.104 But there is no consensus as to the institutional structure of Indian merchant guilds. Some view them as a means for rulers to collect taxes from merchants. Others view them as basic informal communal units, either connected or unconnected to the family clan or the caste.105 Scholars infer, based on fragments from ancient Hindu texts and inscriptions, that Indian merchant associations exhibit features similar to those of European guilds. These included formation based on a charter from the ruler, self-regulation, and corporate entity. Davis found evidence for corporate groups in the ancient Dharmaśāstra.106 Khanna holds the sreni to be an Indian corporate form that existed from ancient times to the Islamic invasion.107 The sreni organized craftsmen and merchants in the Indian subcontinent, and was an association of persons rather than capital or property. Each sreni organized an identified branch in a defined locality, and was similar in some respects to the European guild. Recently, Khanna claimed that the sreni was, in fact, a predecessor of the business corporation,108 but there is no evidence that it was actually used for the same range of functions as the corporation. Other scholars do not attribute such features or even an important role to the sreni. The texts and inscriptions often refer to donations and dedications to temples, and it is argued that one cannot read too much into them in terms of guild- or corporate-like organizational features of the donating community or association. According to Arasaratnam, the concept of joint-stock was being used in some forms already in the merchant guilds of the fourteenth–sixteenth centuries. The fall of the Vijayanagara empire, under which the guilds had flourished, led to the destruction of the institution, leaving individual merchants operating on their own.109 As the European investment in Indian trade increased during the seventeenth century, trade expanded and became more routine and more closely linked to the needs of European markets. There was a trend of Indian merchants grouping into joint-stock companies that were inspired by the older organizational form to manage the supply of textiles to the Europeans.110 Brennig indicates that these partnerships were not indigenous and were established as an effort on the part of the Europeans to improve the trade. This constituted an attempted transplantation of a European commercial institution.111 We can learn from Lucassen, De Moor, and van Zanden regarding significant differences between European and Indian guilds that might explain why the latter did not evolve into corporations. European

110 Ibid. p.85.
guilds were permanent, in time achieving corporate entity, and were city-based organizations of individuals with similar occupations that were recognized (eventually by way of charters) by political rulers. One of their main purposes was to defend and maintain trade monopoly rights. They played a central role in influencing European urban politics, culture, society, and economy.\footnote{Lucassen, Jan, et al. 2008. "The Return of the Guilds." p. 6.} Indian guilds arguably did not exhibit such characteristics; they were neither based on a corporate governance structure nor on a commitment in the form of a charter issued by a ruler. The current state of research does not support a conclusion that India developed an organizational form that was a functional equivalent to the business corporation or a form that was on a developmental path to becoming similar, in its features, to the European corporation. There was no Indian equivalent to the Chinese family lineage or the Islamic waqf. This can be explained by the absence of pressure to take institutions to new frontiers. Due to India's location and limited demand for imported goods, trade could be conducted perfectly well by using family firms. Exports were dominated in the first centuries of the second millennium by the Arabs and Chinese, and after 1500 by the Portuguese, all of whom had access to Indian ports. Chinese and Western Europeans had to stretch their institutional barriers when searching for tropical goods from a starting point in the western Atlantic and China. To conclude, the Indians did not have the impetus to develop the corporation, because they were entirely well positioned and well served without it.

Why no corporations in China?

\textbf{The demand side}

China, a huge and prosperous economy, was in most respects self-sufficient and did not rely heavily on the importation of goods. It imported spices, pepper, and a few other tropical goods from the Indonesian Archipelago and Southeast Asia more broadly. It imported silver from wherever it could source it, primarily Japan and the Americas (via Europe or Manila).\footnote{See Chapter 1, p.46.} It could export a variety of goods, from silk to porcelain. But, in most periods, the central rulers of China were able to provide subsistence to their subjects based on availability of goods within their own empire. When contacting foreign countries, either for political patronage or for their goods, the Chinese emperors often decided that international exchange of goods would take the tributary format, based on rituals and political format, rather than using the market-mediated for-profit format.\footnote{Kang, David. 2010. East Asia Before the West Five Centuries of Trade and Tribute.} They could decide how to share the tributary system to allow luxury goods into China and provide the opportunity for added profits for those wishing to export from China. The Song rulers further developed an institution that had originated in the Tang era for that purpose, the Office of Maritime Affairs, headed by a high-ranking government official. The office was in charge of managing China’s connections with other countries—receiving foreign tribute missions, checking incoming merchandise, assessing its value, and charging a customs tax. The government had the right of first refusal on merchandise, and private merchants could only buy what the government passed on. Only the foreign merchants who went through this official process were allowed to trade freely along the Chinese coast, and only the handful of ports in which such an office was established could be frequented...
by foreign merchants. The Office of Maritime Affairs was also in charge of purchasing all the Chinese products to sell them collectively to the foreign merchants. Quanzhou, in Fujian, Hangzhou, in the Yangtze River Delta, and Guangzhou, on the Pearl River in the South, are prime examples of port cities with such offices serving as hubs of long-distance trade. Foreign tribute missions began to frequent these ports in Song times.

In addition to the official missions, the Chinese rulers encouraged the development of international maritime trade. Foreign ships began frequenting these ports in growing numbers. Most foreign merchants who came to Quanzhou and Guangzhou originated in Srivijaya kingdom (Java) and Champa (Vietnam). However, ships also arrived from more distant locations, such as India, Persia, and the Arab world. Over time, significant diaspora Muslim communities settled in these ports, serving as agents and brokers of foreign maritime merchants. The foreigners in the port cities of Southeast China settled for the most part in designated neighborhoods known as *fanfang*.

Non-Han dynasties, notably the Yuan, not only encouraged foreigners into China, but prohibited the Chinese from going abroad. They did so to weaken the economic and political power of Han Chinese merchants, preferring to ally with foreigners. There was a significant inflow of Muslims to China in Yuan times, overland from the territories in the west conquered by the Mongols, and on ships, as privileged merchants. Muslims dominated both overland and maritime trade during the Yuan, curtailing the development of Chinese long-distance trade institutions.

When China made its own leap into trading around the Bay of Bengal and the Arabian Sea, led by Zheng He in the early Ming period (early fifteenth century), it was the state, not individual merchants or merchant organizations, that served as the organizer of these massive long-ranging voyages. Thereafter, the Ming rulers reversed their foreign and mercantile policy, turning to one of closure and isolation and denying Chinese merchants free access to overseas markets. Whatever the demand for foreign goods, and whatever the political attitude toward foreign trade, the location of China at the far eastern flank of Eurasia required Chinese merchants on export trips to travel long-distance.

**The supply side**

**The Chinese state**

The population of the Chinese state was larger than that of all the European states put together. Portugal had a population of about one million at the beginning of our period, the Netherlands just over two million, and England around three million, compared to a Chinese population of nearly ninety million. The tax base of China was also of a different magnitude, as was its civil service

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116 See Chapter 8, p. 275.


examinations-based bureaucracy. The two features together created a significant state capacity to impose taxation, pool together resources, and make use of tax revenue.\textsuperscript{120}

Thus, China had the viable option of conducting its long-distance trade based on the supply of capital, staff, and institutional structure by the ruler. And indeed, as we have seen, it used this ability for financing and organizing the huge voyages of Zheng He that went as far as the Western Indian Ocean.\textsuperscript{121}

But the reliance on a capable state platform did not relieve the Chinese enterprise of all problems. The magnitude of its aspirations was such that even tax-based finance created backlashes. The involvement of the emperor and his senior court eunuch led to the mixing of business and political motivations, aims, and accounts. The Chinese ruler operated trade-cum-tributary voyages led by Zheng He—like the Portuguese ruler-operated Carreira da Índia—were redistributive and nonrational, in Steensgard's (and Weber's and Polanyi's) terms. They were neither profit maximizers nor shareholder-owned. The presence of a bureaucratic state overshadowed the private sector. Smaller partnerships, major family firms, and even lineage corporations, to which we are about to turn, could rely on state-provided infrastructures. At times, as the case of the Pu lineage demonstrates, there was a strong symbiosis between the state and the family framework. The same person could serve, at the same time, as senior state official \textit{and} as manager of the family business, the two functions being inseparable.\textsuperscript{122}

The Chinese family lineage organization

The Chinese kinship organization, sometimes called the lineage corporation, is considered by some historians, anthropologists, and even legal scholars as the Chinese variant of the corporation.\textsuperscript{123}

According to a second version, it was a Chinese functional equivalent of the European business corporation—equivalent in function but not in form. Was the lineage corporation a Type I institution based on the universally available extended family? A uniquely Chinese Type III institution? Lineage is a fundamental element of Chinese society. Extended families, comprising more than one generation of adults, were common in many civilizations. The lineage was a more complex societal form than the extended family found in other societies. Ever since Freedman called attention to lineage in 1958, it is considered by anthropologists, sociologists, and historians as a cornerstone of Chinese society.\textsuperscript{124} To understand it, we need to concisely survey the history and attributes of lineage. There is a historiographical debate as to whether lineage developed organically and gradually, from below, out of the family structure, or invented from above as part of the neo-Confucian revival, as a means for the court and the civil servants to monitor and control rural society in the provinces and to marginalize Buddhism. In theory, individuals on the same genealogical patrilineal line who maintained significant social relationships were considered members of the same lineage. Members of the same lineage usually lived near each other, in the same community, village, or set of villages. But some social historians and anthropologists argue that lineages were constructed in retrospect to include kin and non-

\textsuperscript{120} Huang, Ray. 1974. \textit{Taxation and Governmental Finance.}

\textsuperscript{121} See Chapter 8, p. 275.

\textsuperscript{122} See Chapter 6, p. 247.

\textsuperscript{123} For example, Ruskola, Teemu. 2000. "Conceptualizing Corporations and Kinship."

kin alike. They show that family genealogies were invented to establish common ancestral origins for families with similar surnames, for the purpose of promoting solidarity and maintaining public order. We do not have to take sides in these debates.125 Whichever way lineages were formed, the core bond of a lineage was ancestral worship, which was rooted in Buddhism, Taoism, and earlier protoreligions. What followed was a prototypical organizational and financial form of the lineage.126 All members of the lineage, and only the members, worshipped the same ancestors. Ancestral worship took place on lower levels as well, in the family, the branch, and the sublineage. However, the lineage-level worship was the most important because it represented the widest circle connected to the same ancient ancestor. The worship ceremony involved gathering in ancestral halls, admission of the ancestor's spirit tablet, making sacrifices, and other rituals. The construction and maintenance of ancestral halls was funded by credit associations, which raised money in the form of donations or in some cases by charging for services.

Individual families contributed the money, credit associations pooled it together, but who would own the newly created pool once invested in real property? The assets of the lineage (ancestral halls, temples, genealogical lists, and other resources needed for worship) were built and held by the lineage. Some anthropologists, for example Cohen, refer to this property as corporate property and to the lineage as a corporate entity.127 Historians, more cautious when using Western legal terminology outside Europe, and lawyers, more aware of the legal features of corporations, term them lineage estates or lineage trusts. The lineage organization held property separately from individuals and families. Initially, the only common property held by lineages was ancestral halls. With the passage of time, income-generating land was also held, followed by more movable, liquid, and intangible assets accumulated in the lineage's pool of common assets. Gradually, the lineage organization assumed political, military, charitable, and educational functions in addition to the traditional religious and social functions. In the economic context, the lineage was first used in support of agriculture and as a sort of mutual insurance. Wealthier lineages that held more liquid common property gradually became active also in manufacturing and trade.128

In recent decades, several historians studied the family lineage as a framework for organizing business. We will begin by showing how it was used to organize production, and then move to trade. Zelin, one of the pioneers of the field, studied long-lasting salt production firms such as Fu-Rong salt-yard in Zigong in Sichuan between the late eighteenth century and the early twentieth century.129 She shows that lineage trusts were explicitly formed as a way to pool together and incorporate business property and separate it from household property and from daily consumption, even though the language of formation was that of ritual and ancestral worship. Here, all members of the households who invested in the salt well (the heart of the salt yard development project) and their subsequent descendants became shareholders in the trust. Profits, after subtracting for business expenses and a rough calculation that we can identify as

127 Cohen, Myron. 2004. "Writes of Passage in Late Imperial China."
depreciation, were distributed annually among the shareholders. While lineage trusts, as such, continued to be based on membership in the lineage, which was determined by birth or marriage and was closed to outsiders, they bought and sold salt manufacturing shares and developed portfolios that included both wholly-owned family firms and shares in a variety of non-kin ventures.

Pomeranz studied the Yutang Company, a maker of soy sauce, pickled vegetables, and various specialty foods in Jining, a Grand Canal port in southwestern Shandong province, in the period 1779–1956. He showed how a lineage-based family firm was able to function throughout several generations, developing large-scale production and operation while allowing the lineage to maintain its status and remain firmly established in officialdom and the landed elite.

Billy So, in his examination of the case of two lineages of different standing in South Fukien, takes us to maritime trade and concludes that reliance on a cohesive and wealthy lineage provided an enormous advantage. Merchants coming from such lineages could raise capital for maritime ventures within the lineage. They were also considered more credible by outside equity investors, joint venture partners, and creditors. These outside investors could turn to the lineage for mediation and compensation in case of failure or dispute. Merchants from respectable lineages were more determined to protect their reputation; a merchant from an eminent lineage was much less likely to flee the homeland, leave behind unpaid debts, and settle elsewhere. The family lineage lowered the risk of investment by outsiders in the maritime venture and lowered the financial costs; and it was gradually transformed into an institution that provided an infrastructure for individual merchants.

Faure studied the relationship between lineage and business in the Pearl River Delta and particularly the Guangzhou region. He documents the use of contractual instruments, lineage trusts, and shareholding in the eighteenth century as tools used by the lineage framework for business purposes. McDermott studied Huizhou, also located in the Pearl River Delta but in Guangdong province. He shows how institutions emerged out of older lineages, such as ancestral halls and credit associations of commercial partnerships, in the form of what he identifies as commenda-like contracts, agency partnerships, and joint-share partnerships. The merchants studied by McDermott took two older forms: lineage forms, on the one hand, and partnership forms, on the other, blending them together from the late Ming era.

According to McDermott’s analysis, the lineage provided solutions to business organization problems such as the longevity and management of assets that were pooled together. He did not identify limitation of liability of the partners or a resort to a formal market in shares.

The connection between lineage and economic activity is manifested in different ways in all of these studies. It varied over time, between regions, and across sectors. I would like to tentatively suggest that it could take place on three levels. The first was that of the association between members of the lineage, based on the fact that they were kin and relatives. Their bonding took place without any resort to the lineage's evolving institutional structure. On this level we observe an informal association much like those of any traditional extended family. The second level was reliance on credit associations—a reliance on preexisting pools of assets that were jointly owned by members of the lineage. At this level

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we see mutual activity on the borderline between charity and business. The third was a reliance on a common pool of assets owned by the lineage itself as quasi-corporate property. Business-related property was owned by the lineage. The lineage allowed, it is argued, not only the owning of common property, but also the formation of a concentrated locus of management, the appointment of agents, and the division of profits. For our needs, the third level of connection between the lineage and economic activity is the most relevant. The literature does not always clearly distinguish between this and the second level. More needs to be understood about the relationship, and further studies are likely to clarify it.

The institution of the family lineage was used in economic contexts to promote cooperation, pool assets, spread risks, concentrate the management function into the hands of a few, split profits, and marginalize nonproductive family members. Zhenman indicates that these objectives were achieved by a combination of lineage-shaping strategies, including marriage alliances, adoption, family naming, the invention of common ancestors, the disjointing of a branch from a lineage, and the conferring of property to the lineage’s ancestral estate. He argues that, by the Ming era, some of the richer and more active lineages were transformed into what he terms "contractual lineages" that were based on common interests rather than on agnatic links. They actively used all these strategies, thus allowing more flexibility in deviating from traditional lineage traditions, and they were based on providing investment in return for a share in the profits and control. Such shares experienced commoditization, and eventually they could be bought and sold. By Qing times, the organization of share-based lineages, and their trust property, had become sufficiently sophisticated to allow their use in large-scale business enterprises.

To conclude, the lineage-based business enterprise was a uniquely Chinese institution. It developed within the specific Chinese context of ancestral worship and Confucian social order. It was embedded in Chinese culture, society and state, and as such could not be imported by other civilizations. It can be viewed as a Type III institution—one that developed on a parallel path to that of the European corporation. It had a partial functional overlap with the corporation, covering functions spanning from family and religion to business. The corporation covered functions spanning from religion and political organization to business.

In some of their functions, lineages resembled European guilds and regulated corporations, but they were still considerably different from the European joint-stock business corporations that started to play a role in Eurasian trade around 1600. They did not raise equity investment from outsiders on impersonal stock markets. They could not be created overnight by a charter, but rather evolved gradually. Lineage-based enterprises were not totally separated from their members, in terms of liabilities, as were business corporations in Europe. In terms of function, they did not take part in maritime trade over long distances and for long durations, as did the EIC and the VOC. When it came to the organization of early modern long-distance trade, the corporation had an advantage in both timing and dynamics. It appeared first, evolved faster, and took over long-distance trade shortly after 1600, before the lineage was even fully up to the task.

Conclusion

Why did China not develop the corporation per se? And why did it not import it in the seventeenth century, when the advantages of the EIC and VOC in large-scale long-distance trade had become apparent? Note that the corporate form was introduced in China for the first time only in 1904, in the Companies Act, as part of the late Qing reforms.\(^{136}\) So the second question in a more precise drafting is: why did China not import the European corporation for three hundred years? A response to this question is not yet available in the literature, and I can only offer preliminary and tentative hypotheses. When Chinese maritime trade expanded in Song times (960–1279), the lineage institution was not well adapted to commercial uses. Song dynasty maritime ventures relied on more basic types of cooperation, such as loans, joint ownership of ships or goods, partnerships, and commendas. There was no demand in China for lineage-based maritime enterprises during the Yuan Dynasty (1279–1368), as this Mongol dynasty preferred to rely on foreign merchants. There was no demand either during the early Ming years (1368–1433) for lineage-based maritime enterprises, because the state led the way with Zheng He's state-funded and -controlled maritime expeditions. In the following decades, the emperor objected to any further involvement in maritime adventures. Thus, in the centuries before the development of business corporations in Europe, there was no strong or lasting pressure to transform the lineage organization into an institution for maritime trade. By the time the lineage had evolved into a sufficiently flexible and contractual form, supportive of the conduct of business within its organizational framework, and could potentially serve as a substitute for the European business corporation, the European merchant corporations in the Indian Ocean and South China Sea had become substantial and detrimental to Chinese maritime trade.

In China, the family lineage organization gradually evolved into an institution that could function for new business purposes. China was not locked onto a dead-end path. It evolved along its own evolutionary path which was different from the European, Islamic, and Indian trajectories. Its family lineage was intrinsically flexible and adaptable. I cannot tell whether, at a later stage, this path enabled the quantum leap to impersonal cooperation between insiders and outside investors. This was achieved, as we have seen, by the European corporation. Exogenous shocks and the taking-over of much of Eurasia's long-distance trade by Europeans prevented the transformation of the family lineage into an impersonal cooperation institution. Thus, we cannot tell whether it had the potential for such a leap.\(^{137}\) Was China likely to develop corporation-like institutions? In other words, was China likely to develop trade institutions along the corporation path, rather than along the family lineage path? The Chinese environment was not supportive of the institutional model of the corporation. As we have seen, the precondition for there being a need for the corporation in the realm of religion was that the religion was detached from the state (all states), and that its apparatus was centralized and hierarchical. Such a religion required its own constitutional structure and this could be provided by the corporation as an independent and hierarchical form of organization. But, in the case of China, Confucianism was intertwined with the state and its administration and public order. In China, the ruler could not credibly commit not to expropriate corporations even if they were to be formed somehow. There was no

\(^{136}\) Goetzmann, William and Elisabeth Koll. 2007. "The History of Corporate Ownership in China.". Interestingly, by then it was based on Japanese law, which was, in turn, recently influenced by German law, and only marginally by English law. See Harris, Ron. 2014. "Spread of Legal Innovations."

\(^{137}\) To wit, I do not argue here that impersonal cooperation was required for China to be able to expand its overseas trade.
conception of rule of law similar to the common law and ancient constitution conception formed in England. There was no significant counterbalance to the ruler in the form of a well-organized mercantile elite that relied on city- and province-based political entities, as in the Dutch Republic. Nor was there any nascent stock market, as the ruler did not rely on borrowing on a voluntary basis from the public, in the form of bonds, as a partial substitute for taxation. What is more, the emperor could not rely on bond finance because he could not credibly commit not to expropriate the bonds. There was no space between the state and the family. As much as there any was such space to begin with, it was filled by the family lineage system, leaving no room for corporations.
### Tables and Figures (for chapter 9-12)

Figure 9.1 The Attributes of the Business Corporation p. 334

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Detailed Description</th>
<th>Historical Origins</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Separate Legal Personality. Longevity.</td>
<td>Legal entity separated from the legal personality and capacities of its members, capable of owning property, contracting, suing in courts, receiving privileges.</td>
</tr>
<tr>
<td>2</td>
<td>Governance, Collective Decision Making</td>
<td>Centralized management. Some powers are delegated from members to directors or managers. Other powers are exercised by members by voting in their meetings. Some information is disseminated from central administration to members for decision making to be effective.</td>
</tr>
<tr>
<td>3</td>
<td>Joint-Stock Equity Finance</td>
<td>Pooling together of investment the returns on which are based on profit or loss</td>
</tr>
<tr>
<td>4</td>
<td>Lock-in of investment</td>
<td>Individuals cannot withdraw for term of years or until dissolution</td>
</tr>
<tr>
<td>5</td>
<td>Transferability of Interest</td>
<td>Transferability of shares can be done without the dissolution of the entity. In stronger form shares can be transferred without consent of other members or directors and in strongest form can be transferred in stock market.</td>
</tr>
<tr>
<td>6</td>
<td>Protection from expropiation by ruler</td>
<td>Agreement between incorporators and ruler in the form of charter. Or general</td>
</tr>
</tbody>
</table>
protection from expropriation in the form of rule of law and constitutional rights.

<table>
<thead>
<tr>
<th></th>
<th>Protection from expropriation in the form of rule of law and constitutional rights.</th>
<th>Stronger form around 1600.</th>
</tr>
</thead>
<tbody>
<tr>
<td>7</td>
<td>Asset Partitioning</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Creditors of members cannot access corporate assets (entity shielding); Creditors of corporation cannot access members’ assets (limited liability). In the weaker form can access as subordinate creditors or only at dissolution.</td>
<td>In weak form, Roman Times. In strongest form 18th – 19th centuries.</td>
</tr>
</tbody>
</table>

9.2: Incorporation by Royal Charter in England to 1700 p. 342

<table>
<thead>
<tr>
<th>Field of Activity/Years</th>
<th>-1500</th>
<th>1501-1550</th>
<th>1551-1600</th>
<th>1601-1650</th>
<th>1651-1700</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Universities and Colleges</td>
<td>12</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>0</td>
<td>30</td>
</tr>
<tr>
<td>Livery and Manufacturing Companies</td>
<td>18</td>
<td>5</td>
<td>7</td>
<td>28</td>
<td>14</td>
<td>72</td>
</tr>
<tr>
<td>Municipal</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Ecclesiastical</td>
<td>1</td>
<td>2</td>
<td>1</td>
<td>1</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Professional and scientific</td>
<td>0</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>3</td>
<td>7</td>
</tr>
<tr>
<td>Schools</td>
<td>0</td>
<td>6</td>
<td>25</td>
<td>2</td>
<td>1</td>
<td>34</td>
</tr>
<tr>
<td>Hospitals</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>0</td>
<td>7</td>
</tr>
<tr>
<td>Charities</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>6</td>
</tr>
<tr>
<td>Overseas Trade</td>
<td>0</td>
<td>0</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Colonial</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Water Supply</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Banks</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td><strong>32</strong></td>
<td><strong>23</strong></td>
<td><strong>52</strong></td>
<td><strong>46</strong></td>
<td><strong>25</strong></td>
<td><strong>178</strong></td>
</tr>
</tbody>
</table>

Sources: ["https://privycouncil.independent.gov.uk/royal-charters/chartered-bodies/"]
Note in figure 9.1 that the arrows represent the level at which trade transactions with third parties take place: in the regulated corporation, at the level of the members; whereas in the joint-stock corporation, at the level of the corporation and the joint stock.
10.1. The precompany as a syndicate of commendas p. 353

10.2. The precompany as a limited partnership p. 353
10.3. The charter of the VOC p. 354

Source: Reprinted from (Reynders 2009)

10.4. Organizational structure of the VOC p. 358

<table>
<thead>
<tr>
<th>City-Based Chamber</th>
<th>Joint Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Delft 7 Governors</td>
<td>Passive Partners</td>
</tr>
<tr>
<td></td>
<td>Active Partners</td>
</tr>
<tr>
<td>Shipyard</td>
<td>Wharehouse</td>
</tr>
<tr>
<td>Cashier</td>
<td>Audit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City-Based Chamber</th>
<th>Joint Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zeeland 12 Governors</td>
<td>Passive Partners</td>
</tr>
<tr>
<td></td>
<td>Active Partners</td>
</tr>
<tr>
<td>Shipyard</td>
<td>Wharehouse</td>
</tr>
<tr>
<td>Cashier</td>
<td>Audit</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City-Based Chamber</th>
<th>Joint Stock</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam 20 Governors</td>
<td>Passive Partners</td>
</tr>
<tr>
<td></td>
<td>Active Partners</td>
</tr>
<tr>
<td>Shipyard</td>
<td>Wharehouse</td>
</tr>
<tr>
<td>Cashier</td>
<td>Audit</td>
</tr>
</tbody>
</table>

Source: (Gaastra 1991) p. 150, 160
10.5. Yearly transfers of shares of the Amsterdam Chamber of the VOC, calculated as a percentage of the total stock of capital, 1603–12 p. 367

Source: (Gelderblom and Jonker 2004) p. 656
10.6. Hierarchy of the Dutch colonial administration in Asia p. 368

Source: Reproduced from ("http://www.tanap.net/content/voc/appendices/voc_asia.htm"")

10.7. Trade routes, and commodities traded by the Dutch East India Company in the seventeenth century p. 369

11.1. Governance structure of the EIC p. 387

Source: (Shaw 1887 [1774]) p. 1-15 (discussing the EIC 1600 charter)
11.2. Transactions in EIC shares p. 394


11.3. Numbers of English and Dutch ships traveling eastbound along the Cape Route p. 407

Source: (de Vries 2003)
11.4. The shift from ruler-operated ships to corporation-operated ships on the seventeenth-century Cape Route p. 409

Source: (de Vries 2003)
## VOC Share Offering 1602—Capital and Subscribers

<table>
<thead>
<tr>
<th>Chamber</th>
<th>Capital (in guilders)</th>
<th>No. of Subscribers</th>
<th>Average value of individual share (in guilders)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amsterdam</td>
<td>3,679,915</td>
<td>1,143</td>
<td>3,220</td>
</tr>
<tr>
<td>Middelburg</td>
<td>1,300,405</td>
<td>264</td>
<td>4,926</td>
</tr>
<tr>
<td>Enkhuizen</td>
<td>540,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Delft</td>
<td>469,400</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Hoorn</td>
<td>266,868</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Rotterdam</td>
<td>173,000</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>6,424,588</strong></td>
<td><strong>1,815</strong>¹</td>
<td><strong>3,540</strong>²</td>
</tr>
</tbody>
</table>

¹ Estimated, based on the total capital subscribed divided by the average sum of investment of each shareholder in the Chambers of Amsterdam and Middleburg.

² Calculated.
### 11.1. Capital invested in each of the EIC voyages p. 380

<table>
<thead>
<tr>
<th>Year</th>
<th>Voyage</th>
<th>Capital in £</th>
<th>Profit in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1601</td>
<td>1&lt;sup&gt;st&lt;/sup&gt;</td>
<td>68,373</td>
<td>Combined with 2&lt;sup&gt;nd&lt;/sup&gt; voyage</td>
</tr>
<tr>
<td>1603</td>
<td>2&lt;sup&gt;nd&lt;/sup&gt;</td>
<td>60,450</td>
<td>95</td>
</tr>
<tr>
<td>1606</td>
<td>3&lt;sup&gt;rd&lt;/sup&gt;</td>
<td>53,500</td>
<td>Combined with 5&lt;sup&gt;th&lt;/sup&gt; voyage</td>
</tr>
<tr>
<td>1607</td>
<td>4&lt;sup&gt;th&lt;/sup&gt;</td>
<td>33,000</td>
<td>Total loss</td>
</tr>
<tr>
<td>1608</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
<td>13,700</td>
<td>234</td>
</tr>
<tr>
<td>1609</td>
<td>6&lt;sup&gt;th&lt;/sup&gt;</td>
<td>80,163</td>
<td>122</td>
</tr>
<tr>
<td>1610</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
<td>15,634</td>
<td>218</td>
</tr>
<tr>
<td>1611</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>55,947</td>
<td>211</td>
</tr>
<tr>
<td>1611</td>
<td>9&lt;sup&gt;th&lt;/sup&gt;</td>
<td>19,614</td>
<td>160</td>
</tr>
<tr>
<td>1611</td>
<td>10&lt;sup&gt;th&lt;/sup&gt;</td>
<td>46,092</td>
<td>148</td>
</tr>
<tr>
<td>1611</td>
<td>11&lt;sup&gt;th&lt;/sup&gt;</td>
<td>10,669</td>
<td>230</td>
</tr>
<tr>
<td>1612</td>
<td>12&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7,142</td>
<td>134</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td><strong>£464,284</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: (Chaudhuri 1965) p. 209

### 11.2. Number of members/investors in each EIC list p. 380

<table>
<thead>
<tr>
<th>List</th>
<th>Year</th>
<th>Number of Members/Adventurers</th>
</tr>
</thead>
<tbody>
<tr>
<td>First meeting</td>
<td>1599</td>
<td>132</td>
</tr>
<tr>
<td>First charter</td>
<td>1600</td>
<td>218</td>
</tr>
<tr>
<td>First voyage</td>
<td>1601</td>
<td>232</td>
</tr>
<tr>
<td>Third voyage</td>
<td>1607</td>
<td>208</td>
</tr>
<tr>
<td>Fourth voyage</td>
<td>1608</td>
<td>56</td>
</tr>
<tr>
<td>Second charter</td>
<td>1609</td>
<td>275</td>
</tr>
</tbody>
</table>
Sources: (Shaw 1887 [1774]); Harris (2005) database, EIC Charters; Calendar of State Papers, Colonial, East Indies 1515-1634, 5 Vols. London, 1892 (Court Minutes, Correspondence); The Register of Letters of the Governour and Company of Merchants of London Trading into the East Indies 1600 – 1619 London, 1843.

11.3. Repeat investors in the EIC p. 381

<table>
<thead>
<tr>
<th>First appearance</th>
<th>Voyage 1</th>
<th>Voyage 3</th>
<th>Voyage 4</th>
<th>Charter 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total in voyage/charter</td>
<td>232</td>
<td>208</td>
<td>56</td>
<td>275</td>
</tr>
</tbody>
</table>

Repeated appearance in later voyage/charter

| Voyage 3 | 156 | - | - | - |
| Voyage 4 | 40 | 49 | - | - |
| Charter 2 | 172 | 181 | 53 | - |

Source: Author’s database

11.4. Number of EIC members who were also members of other corporations p. 382

<table>
<thead>
<tr>
<th>Corporation in which EIC members participated</th>
<th>Number of EIC members</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation’s goal</td>
<td>First Meeting 1599</td>
</tr>
<tr>
<td>Asian trade</td>
<td>Levant</td>
</tr>
<tr>
<td></td>
<td>Muscovy</td>
</tr>
<tr>
<td></td>
<td>Venice</td>
</tr>
<tr>
<td>European trade regulated</td>
<td>Eastland</td>
</tr>
<tr>
<td></td>
<td>French</td>
</tr>
<tr>
<td></td>
<td>Staple</td>
</tr>
<tr>
<td></td>
<td>New merchant</td>
</tr>
<tr>
<td></td>
<td>Merchant</td>
</tr>
<tr>
<td></td>
<td>Spanish</td>
</tr>
<tr>
<td>Discovery and privateering</td>
<td>North-West</td>
</tr>
<tr>
<td></td>
<td>Baffin</td>
</tr>
<tr>
<td></td>
<td>Frobisher &amp; Fenton</td>
</tr>
<tr>
<td></td>
<td>Hudson</td>
</tr>
</tbody>
</table>

Source: Author’s database
11.5. Percentage of merchants and non-merchant shareholders in various companies p. 384

<table>
<thead>
<tr>
<th>Company</th>
<th>Type</th>
<th>Number of Members</th>
<th>Percentage of Merchants in the Company</th>
<th>Percentage of Merchant Knights in the Company</th>
<th>Percentage of Non-Merchants in the Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchant Adventurers</td>
<td>Regulated</td>
<td>269</td>
<td>91</td>
<td>8.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Eastland</td>
<td>Regulated</td>
<td>197</td>
<td>93.4</td>
<td>6.1</td>
<td>0.5</td>
</tr>
<tr>
<td>Levant</td>
<td>Regulated</td>
<td>572</td>
<td>92.1</td>
<td>6.2</td>
<td>1.7</td>
</tr>
<tr>
<td>Spanish</td>
<td>Regulated</td>
<td>1096</td>
<td>94.2</td>
<td>4.2</td>
<td>2.6</td>
</tr>
<tr>
<td>French</td>
<td>Regulated</td>
<td>548</td>
<td>93.8</td>
<td>3.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Muscovy (Russia)</td>
<td>Joint Stock</td>
<td>211</td>
<td>78.7</td>
<td>14.2</td>
<td>7.1</td>
</tr>
<tr>
<td>East India</td>
<td>Joint Stock</td>
<td>1318</td>
<td>80.6</td>
<td>5.0</td>
<td>14.4</td>
</tr>
</tbody>
</table>

Source: (Rabb 1967) p. 104

11.6. Similarity of basic features between EIC and VOC p. 404

<table>
<thead>
<tr>
<th></th>
<th>EIC</th>
<th>VOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mode of formation</td>
<td>State charter</td>
<td>State charter</td>
</tr>
<tr>
<td>Year of formation</td>
<td>1600</td>
<td>1602</td>
</tr>
<tr>
<td>Business</td>
<td>Eurasian trade: silver for spices and silk</td>
<td>Eurasian trade: silver for spices and silk</td>
</tr>
<tr>
<td>Monopoly</td>
<td>Cape of Good Hope to Straits of Magellan</td>
<td>Cape of Good Hope to Straits of Magellan</td>
</tr>
<tr>
<td>Duration of incorporation</td>
<td>15 years</td>
<td>21 years</td>
</tr>
<tr>
<td>Features</td>
<td>Joint-stock capital, shares, centralized management</td>
<td>Joint-stock capital, shares, centralized management</td>
</tr>
</tbody>
</table>
11.7. Attributes of EIC and VOC shares p. 404

<table>
<thead>
<tr>
<th></th>
<th>EIC</th>
<th>VOC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Classes</td>
<td>1</td>
<td>2 (Active = bewindhebbers, Passive = participanten)</td>
</tr>
<tr>
<td>Voice</td>
<td>Each shareholder one vote</td>
<td>Each active shareholder one vote</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Passive shares – no voting rights</td>
</tr>
<tr>
<td>Dividends</td>
<td>Principal and profit at end of each voyage</td>
<td>Discretionary (in practice minimal)</td>
</tr>
<tr>
<td>Information</td>
<td>Accounts and trade news</td>
<td>No information to passive shareholders</td>
</tr>
<tr>
<td>Exit</td>
<td>Subject to approval</td>
<td>Subject to registration at VOC books</td>
</tr>
<tr>
<td>Liability</td>
<td>Not defined</td>
<td>Not defined</td>
</tr>
</tbody>
</table>

Date Sourced from: (Allen); (van Zanden); (Ehrenberg 1928) p. 17, 87-89 and 94; (Harris Forthcoming) p. 25; (Denzel 2010) p. 64; (McCusker 1978) p. 42-45, 52, 55; (Häberlein 2012); )de Vries and van der Woude 1997( p. 85; (Posthumus 1964) Vol. 1 p. CVII, Vol. 2, p. XLVI-XLVIII.

11.8. Comparing the capital of the Fugger Family Firm, the English East India Company, and the Dutch East India Company p. 407

<table>
<thead>
<tr>
<th></th>
<th>Fugger Family Firm</th>
<th>English East India Company (EIC)</th>
<th>Dutch East India Company (VOC)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital in local currency</td>
<td>2,130,000 florins</td>
<td>464,284 pounds</td>
<td>6,424,588 guilders</td>
</tr>
<tr>
<td>Capital in guilders (based on exchange rate)</td>
<td>2,130,000 guilders</td>
<td>4,899,589 guilders</td>
<td>6,424,588 guilders</td>
</tr>
<tr>
<td>Capital equivalent in kg of silver (based on current silver prices)</td>
<td>40,044</td>
<td>51,703</td>
<td>71,763</td>
</tr>
</tbody>
</table>

Date Sourced from: (Allen); (van Zanden); (Ehrenberg 1928) p. 17, 87-89 and 94; (Harris Forthcoming) p. 25; (Denzel 2010) p. 64; (McCusker 1978) p. 42-45, 52, 55; (Häberlein 2012); )de Vries and van der Woude 1997( p. 85; (Posthumus 1964) Vol. 1 p. CVII, Vol. 2, p. XLVI-XLVIII.