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GROWTH OF JOINT STOCK COMPANIES IN THE SEVENTEENTH CENTURY

A Thesis

Presented to

The Faculty of the Department of Economics

San Jose State University

In Partial Fulfillment

of the Requirements for the Degree

Master of Arts

by

Tu Kha Tran

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ABSTRACT

GROWTH OF JOINT STOCK COMPANIES
IN THE SEVENTEENTH CENTURY

by Tu K. Tran

This thesis addresses the topic of the spontaneous nature of market emergence. It examines the situation surrounding the creation of joint stock companies in the Tudor period in England, the reason for their formation, how they operated and the success and failure of their operations.

Two prominent hypotheses on the development of joint stock companies are explored. The first theory expresses the governement's pivotal role in enabling markets. The second theory posits that companies formed from private directives independent of state involvement.

This thesis studies the extent to which the state was involved in enabling markets by reviewing historical records and publications on three prominent joint stock companies from an economic point of view. Research on the Muscovy Company, the East India Company, and the Virginia Company supports that the second hypothesis is not only plausible, but likely the case.

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TABLE OF CONTENTS

1. INTRODUCTION 1

1.1. THE GOVERNMENT DIRECTIVE HYPOTHESIS 1
1.2. THE PRIVATE ENTERPRISE DIRECTIVE HYPOTHESIS 4
1.3. EVIDENCE SUPPORTING EACH HYPOTHESIS AND AN EXPLANATION FOR THE VARYING PERSPECTIVES 7
1.4. OUTLINE 8

2. THE GROWTH OF JOINT STOCK COMPANIES IN ENGLAND IN THE 1600S 12

2.1. PRECURSOR TO TRADE IN ENGLAND: TRADE IN THE MIDDLE AGES 12
2.2. TRADE IN ENGLAND 13
2.3. JOINT STOCK COMPANIES 16
2.3.a. Capital Requirement 16
2.3.b. Corporate Structure and the Benefits that It Confers 19
2.4. ROYAL CHARTERS 25
2.4.a. Purpose of a Royal Charter 26
2.4.b. The Crown's Motivations 29
2.5. LIMITED LIABILITY 32

3. CASE STUDIES FROM ENGLISH CORPORATIONS IN THE 1600S AND 1700S 36

3.1. THE MUSCOVY COMPANY 36
3.2. EAST INDIA COMPANY 42
3.3. VIRGINIA COMPANY 48

4. CONCLUSION 52

BIBLIOGRAPHY 54

1. INTRODUCTION

The state's role in enabling markets has been a topic of great debate. Discussions on markets have revolved around the development of joint stock companies. Two hypotheses emerged from this debate. The first hypothesis is that state involvement is essential to enabling markets. This school theorized that the government created state charters that directed the formation of a corporation. For the purposes of this thesis, the hypothesis will be referred to as the government directive school. The second hypothesis is that markets emerged spontaneously without the state. Supporters of the second theory posit that corporations can thrive without a state charter. The second hypothesis will be referred to throughout this thesis as the private enterprise directive school.

Both hypotheses are plausible on initial observation. However, a closer examination of historical records and analyzing them from an economic point of view may reveal that one hypothesis is more likely. This paper's aim is to examine the extent to which joint stock corporations emerged without government involvement. Support for this thesis is achieved by reviewing historical records and other published works.

1.1. The Government Directive Hypothesis

The modern corporation is heavily regulated by the state. Since regulation has been a prominent tradition in the modern corporation, this can be extrapolated to mean that regulation is key to enabling markets. Many people believe that markets could not function without regulation from the state.

However, government directive alone does not make a corporation the creation of the state. The corporations' existence, "authorized by law," makes it a creature of the state (Bliss and Binder 313). For this reason, Landau and Krueger hypothesized that early mercantile associations were strictly "a creature of the state and exist only by a virtue of a charter granted by the state" (Landau and Krueger 6). By association the modern corporation could not exist without government involvement.

Their similarities advocate that today's corporations evolved from the early trading companies. The modern corporation's successful operations under state regulation imply that government involvement has always been a necessary requirement. Thomas and Rosita Rourke purported that some national-level regulation is needed because of "the tendency for corporations to avoid accountability" (Rourke and Rourke 135). This theme is common across publications in support of state regulation of the modern corporation. Evidence in support of state regulation extends beyond the recent occurrences because "it was the general opinion a hundred years ago that corporations or joint-stock companies could not succeed [without state recognition]" (Bliss and Binder 313).

Other proponents of this school suggest that the Crown was a key figure in the emergence of joint stock corporations. The financial enterprise created by individual businessmen provided monetary support for distant trade voyages, but the privileges granted unto them by the Royal Charters were responsible for their continued success (Klein, Ragg and Rabb 47-99). These charters granted the monopoly on trade to merchants in regions under the state's jurisdiction. This prohibited other companies from

impinging on their trading grounds, thus securing the trade transactions for the companies possessing a royal charter.

The Crown's role in commerce began with Henry VII. In 1485, at a time when "England as a country were weak and poor[,] Henry the VII fostering trade was able to add to the revenue and build up the industries of the country" (Herrick 207). The Crown's self-interested role was no more evident than the fact that "the queen herself was stockholder and part owner in many of these trading voyages" (Homans and Dana 504). This marked the beginning of England's growth in trade activities. Thereafter, the Crown no longer relied on foreign vessels to carry out trades.

One of the most prominent and influential supporters of this point of view is Niall Fergusson of Harvard University. Ferguson explored the extent to which government directive enabled markets in his 2001 publication, The Cash Nexus. The inherent message demonstrated by Ferguson in The Cash Nexus was that institutions are vital to every activity, economic, political or otherwise. In that sense, markets cannot operate without the right institutional framework.

According to Ferguson, joint stock corporations were created by the Crown, which was the pivotal institutional framework during this time. Therefore, they were responsible for the emergence of joint stock corporations. Similarities between the modern market and the Tudor joint stock corporations suggest that there is a genealogy connection between the two. By association, the Crown was responsible for the development of the present complex markets.

Fergusson's institution-dependent market operations were further explored in his political book, Empire. Fergusson's hypothesis goes even further to suggest that the British Empire was responsible for the global market economy. This publication puts the discussion of state institutions on a global scale by attributing market success to the Crown. Another of Ferguson's publications, The House of Rothschild, also attributes the creation of markets to already existing institutions. The main hypothesis in his book was that institutional power negotiated to the formation and reformation markets. Thus, according to Fergusson, the Crown was responsible for formalizing market operations that fostered thriving corporations. Though the Crown sought to share in the revenues from market activities, it was their policies and regulations that made market success possible.[1] Rightfully, the Crown should take part in the revenues that it created.

1.2. The Private Enterprise Directive Hypothesis

Despite the convincing arguments in favor of government creation theory, Niall Fergusson's disregarded the possibility that these corporations can evolve spontaneously and independent of state intervention. The prospect that markets can emerge spontaneously is an important facet to examine.

Supporters of this school of thought asserted that self regulation was the precursor to government directive in markets. This hypothesis suggests that markets emerged

[1] In 1485, the Crown recognized the importance of the sea as routes for future trade; shipbuilding was extensively carried on in the days of Elizabeth. The Crown's interest in enhancing trade activities on the waterways developed international trade. Thereafter, foreign merchants no longer dominated trade in the British ports. The Crown's concentration on trade on the waterway led to increasing profits for merchant companies and the Crown. (Herrick, 1920)

spontaneously without formal state regulation. It was only after markets developed and proved to be successful that the state took notice in market activities. The state's self-interested goals led to creations of policies aimed at extracting a share of the market profits. Kingsbury, Herrick, Cheyney, Lingelback and scholars have addressed this prospect by presenting evidence in support of the spontaneous emergence of joint stock corporations. Kingsbury asserted that the advancement of joint stock corporations were "due chiefly to private enterprise" (Kingsbury 11). Kingsbury further attributed the ancestry to one specific company. In her 1905 publication, she asserted that "the Muscovy Company stands as a connecting link between the ideas of the explorer and those of the trader" (Kingsbury 14).

There is a strong resemblance between the modern joint stock corporation and those of the sixteenth century. This similarity convincingly established that the joint stock companies of the sixteenth century evolved into the present business enterprises. Not only was the Crown's involvement irrelevant to the creation of joint stock companies, but the Crown's political strategies became more of a burden to the joint stock company's growth. The monopoly strategies favored by the Crown on many occasions were undiplomatic. Their disregard for diplomacy in rejecting the Muscovy Company's "proposed alliance with Russia" offended Russian dignitaries (Kotilaine 95). The Crown made similar restrictive policies against other nations, which motivated retaliatory restrictive policies against them.

One possible support for the spontaneous emergence hypothesis comes from the Crown imposing restrictions for granting charters to domestic companies. The Crown

asserted, on many occasions, that companies cannot acquire a charter unless they have proven themselves a success. Companies wishing to acquire a royal charter can prove their success by way of acquiring significant capital structure. The Crown believed that the more a company embarked on distant voyages, the higher the possibility for profit. Rules of business depict that only companies with great potential for success can attract capital for multiple voyages. Combined, these two rules suggest that companies with a high level of capital structure can fund multiple voyages, which may increase their likelihood for success. The Crown took interest only in companies with strong capital structures. Their interest led to the review and approval of a royal trade charter. The charter requirement for companies to first demonstrate success strongly established that joint stock companies evolved spontaneously.

The initial emergence of joint stock companies was parlayed through brotherhood for the advancement of mutually beneficial transactions. The Merchant Adventures of England was one of the first organizations that were "officially acknowledged, though indirectly recognized by act of parliament" (Lingelback xxii). Established in the late sixteenth century, The Merchant Adventures of England was more commonly known as the Muscovy Company. There formal organization before parliament reorganization shows that "a fellowship or fraternity existed among the Adventures long before we find them so spoken of in an official instrument of the political powers" (Lingelbach xxiii). It was these associations that fostered profitable trade enterprises. After demonstrating the potential for success, these companies were then able to apply for a royal charter. Since these companies must first develop into a thriving enterprise, the Crown's involvement

was not essential to the creation and growth of trade companies. This goes against Fergusson's argument that the State was the force behind the creation of markets.

Conclusions for the spontaneous emergence of joint stock companies can be drawn from examples found in the Tudor period in England. However, a similar association existed in the Middle Ages. This connection suggests that "the partnership that lies behind the modern business firm that stands before the management corporation that gave rise to the multinational corporation [can] be traced back to the Middle Ages" (Weber xv).

1.3. Evidence Supporting Each Hypothesis and an Explanation for the Varying Perspectives

Publications on Joint Stock Corporations found support from the accounts of each company through their minute books and journals, as well as historical documents pertaining to the Crown's economic affairs. These minute books and records have been used by many economic historians to track the process and development to establish a foundation for their hypotheses. Theories formed from piecing together entries in the record books contain valuable information on the emergence and growth of commerce in Europe. These historians faced many challenges as records have not always been valued, which led to their poor preservation methods.

In the specific instances of the Muscovy Company, the East India Company and the Virginia Company, many important operation records were discarded as it was "the general opinion of the period that such material was valueless" (Kingsbury 15). Later, as

these companies' the activities developed and the number of members increased, official records grew in importance. The increasing complexity in operations required official records to identify each shareholder and their respective contributions. The contribution record vitally impacted the amount that needed to be paid out to each member. Neglect may not be intentional in many situations. There were instances where documents were initially view as unnecessary, which resulted in them being discarded. These initially unessential documents can be later viewed as important. Since these records were not preserved, as time passed, their known value is lost. Even when records were valued and diligently preserved, natural disasters worked against these preservation efforts. Disasters such as the great fire destroyed "original charters, seal and many other [documents]" (Cheyney 315).

Continued neglect and other unexpected disasters throughout history also contributed to loss of these company's records. One form of neglect was demonstrated by the lack of "regard for method or order" of preservation (Danvers and Foster 2). As a result, "[its] history must therefore be pieced together from such scattered records of other kinds as still exist" (Cheyney 315). The availability of accurate historical data left many questions still unanswered. These attributed to the varying perspectives in reflecting the true circumstances of the creation of joint stock companies.

1.4. Outline

This thesis is organized as follows. Section 2.1 begins the discussion with an examination of an earlier ancestor to the Tudor joint stock corporations. This information

helps to establish precedence for the joint stock corporation structure. The details of this will offer insights to later trade development and growth of the Tudor period in England.

Section 2.2 details the trade environment in the Tudor period in England. This is germane to the development of joint stock corporations into the modern business enterprise. This information tendered imminent insight on the growing need for increasing funding requirements. The growth in the capital structure led to advancements of joint stock associations. Prolific business advancements soon decreased profits in the domestic market. This growth inundated the domestic profit potential. In order to maintain profitable operations, companies must explore distant markets. In the early sixteenth century, geographical exploration was not well developed. This left many distant territories unknown and unchartered. Since distant territories were unknown, a trade route had not yet been established. Traveling to areas that were unchartered came with significant risk.

Section 2.3 explores the potential risk exposure. The recognition of high levels of risk led to an important business venture. This section goes further to detail the risk sharing and increased funding requirement as the precursor for the creation of joint stock companies. The risk stems from many variables, which include, but not limited, to travel time, weather conditions, and political environment. Exploring unknown territories required extensive resources made possible only by large capital funding. Since the risks were high, very few merchants alone could fund these distant voyages. Distant voyages funded by multiple investors reduced this risk. Since each contributes a small portion, the risk borne to them is less than it would be if it were funded by one person. The

consolidation of assets in this manner makes each contributing member an owner, or shareholder, of a joint stock venture. The emergence of joint stock trading companies was created out of the need for increased funding requirements. Continued transactions in this joint stock form led to increasing growth in trade in England and in other territories.

Section 2.4 discusses how this growth led to the Crown's involvement. This paper's position is that growing trade was accompanied by increasing political competition for power and profit. This led England to increase spending on domestic security. This trend led to increasing expenditures that were growing faster than Crown's revenue sources at the time. Growth in trade became a strong interest for the Crown as a new mechanism for rent extraction to remedy the Crown's increasing expenditures. The Crown strategically created royal charters with a strict application process to achieve greater revenues for their own purposes. The Crown was not interested in transacting with all joint stock companies but only with highly profitable companies in which higher levels of revenues can be extracted. The Crown aimed to only to grant charters for companies that have proven to be a success. Highly successful companies, to the Crown, were those that had significant capital structures. To attract companies to apply for a royal charter, the Crown established certain trade restrictions then created a royal charter to waive these restrictions. The creation of these two policies forced successful joint stock companies to apply for a royal charter to continue earning a profit. The charter allowed companies to continue with their operations if profits were shared with the crown.

Although trade growth provided many benefits, one problem rose from the increasing activities. The risks were spread across all the shareholders. However, there was no limit on the extent of the risk of each contributor. Investors recognize that with increasing activities, increasing liability also exists. Section II. 5 develop on the rise of liability and detail the emergence of limited liability. Limited liability was a useful tool that allowed joint stock associations to continue to thrive.

Section 3 combines the different elements that portray the spontaneous emergence of joint stock companies by exploring three case studies. This section examines the circumstances that led to the creation of three large joint stock companies of the sixteenth and seventeenth centuries. The formation of The Muscovy Company, the East India Company and the Virginia Company lends support for the spontaneous creation of joint stock corporations. These companies' independent operations demonstrate the Crown's peripheral role in the initial organization of joint stock companies.

2. THE GROWTH OF JOINT STOCK COMPANIES IN ENGLAND IN THE 1600s

2.1. Precursor to Trade in England: Trade in the Middle Ages

The main focus of this thesis is on the joint stock corporations in the Tudor Period in England. Although other forms of joint stock corporations will not be discussed at length, there is one that deserves notable mention. Discussions regarding joint stock corporations are not complete without mention of the role of the Commenda Contract.

The Commenda Contract "embodied borrowings from several sources in different portions," a trait that is more commonly known as a joint stock association (Pryor 5). The Commenda Contract came about to achieve adequate capital requirements for trade. John Maitland and Otto Von Gierke are strong literary figures in connection with the history of joint stock corporations in the Commenda Contract form.

Maitland and Gierke theorized that "individual men are the 'real' and 'natural' persons [where] State and Man [are on] one level" (Gierke and Maitland xi). Simply put, Maitland and Gierke expressed that men are capable of governing their own affairs. The extent to which individual men and their business associations can self regulate are entirely independent of state intervention. The notion of self regulation borrowed from Maitland and Gierke in later publications attesting to the self-governing nature of private merchant companies.

Although the modern corporation is most related to the joint stock companies of the Tudor period in England, the earliest remnants of a joint stock company emerged well before this time. The earliest documented forms of joint stock associations came about

during the Middle Ages. The joint stock associations of the Tudor period were modeled after those of the Middle Ages. Because of this important connection to the earliest known form of joint stock associations, its history cannot go unmentioned. The Commenda Contracts were a precursor to the joint stock business association. These contracts were "an arrangement whereby an investor or group of investors entrusts capital or merchandise to an agent-manager, who is to trade with it, and then return to the investor(s) the principal and previously agreed upon share of profits" (Udovitch 198).

2.2. Trade in England

In order to analyze the creation of joint stock companies it is necessary to explore the trade environment in England at a time when trade began to flourish. Growth in trade in England was the precursor for many important business developments. These include the development of joint stock corporations, royal charters, and the notion of limited liability.

Prior to the fifteenth century, trade in England was "almost entirely in the hands of foreigners" (Cheyney 161). Merchant vessels carried goods from foreign lands to England and exported goods native to England to foreign countries. At this time, inflation was a major economic problem that affected all of Europe. Although the inflation rate was relatively low, at "2 or 3 percent a year, it was noticeable in a Europe accustomed to stable prices" (Spielvogel 401). This economic problem was known as the Price Revolution. The Price Revolution caused hardships for the average laborer in

Europe, particularly those in the agricultural industries, since the price of these primary resources were volatile.

However, the Price Revolution did not affect everyone equally. Aristocrats who owned land were able to take advantage of this unstable price structure to increase rent. The profits realized from the rent hike made investments in other more profitable ventures possible. Profits secured by aristocrats were a valuable "stimulus to investment and the growth of capitalism" (Spielvogel 401). A popular investment venture was in overseas trade. This provided abundant resources for merchants embarking on overseas trade expeditions.

As trade flourished in England, private trade merchant companies became more commonplace. This expansion was made possible by the "extensive trade [that took place] among native merchants" (Lingelbach xxiii). Their reputation grew through "the number and size of their ships and the extent of their trade" (Cheyney 162).

Trade among English merchants continued to flourish from the mid fifteenth century to the early sixteenth centuries. The fifteenth century marked the beginning of the expansion of commerce. An account of all major companies totaled 169 at that time (Cheyney 162). An increasing trend in domestic and foreign trade continued over the next fifty years. The tally of all major companies came to 3000 during this period of growth (Cheyney 162).

In this context, companies were defined as organizations that engaged in trade transactions for financial gain. Many of the trade companies that existed were created by a single influential merchant. In other instances, companies were formed from a legal

partnership of multiple merchants' who consolidated their assets. A major company can be defined by the characteristics of influential leadership and substantial investment capital. Moreover, these tend to be companies that are large enough to be "entrusted with responsibilities" that came with the royal charter (Mockler-Ferryman 258). This designation was somewhat arbitrary since there was no strict metric that defines what was influential and substantial.

At the turn of the fifteenth century, increasing trade activities among English merchants led to the exploration of foreign goods made possible by overseas trading ventures. The growth of these activities further sealed joint stock companies and England's role in international trade. Within a century, there were a total of 3500 major merchant companies trading to the Netherlands alone (Cheyney 162). During this expansion, there was still considerable trade under the management of foreigners.

Funding requirements became a primary concern for many merchants when trade began to flourish. In England, trade dominance shifted to domestic merchants, which only boosted English merchants' role on the domestic level. The international trade market was very much under the control of nations who have developed trade long before England. Demand did not grow as rapidly as the supply available for trade locally, which quickly led to unprofitable domestic trade in England. This was partly due to the Price Revolution. Since domestic trade was no longer profitable, merchants entertained the idea of trade abroad to remain profitable. The potential for trade abroad brought many possibilities. Traveling abroad entailed developing the export and import markets for England.

The prospect of wealth was plentiful, but funding for these voyages was not. In the sixteenth and seventeenth centuries, merchants were restricted to lending activities within inner circles of social business acquaintances and family (Klein, Ragg and Rabb 47). Restricted lending activities occurred because only close acquaintances were more familiar with the willingness to lend and the ability to repay. As trade transactions became prolific and expanded to the international realm, this form of lending in the inner circles was inadequate to meet with the demand for credit. The rise of specialists gilds such as "goldsmiths" and "scriveners" remedied the inadequacies. These gilds were a lending institution that provided funding to merchants seeking to raise capital requirements.

2.3. Joint Stock Companies

The association of merchants paved the way for a valuable business development, joint stock companies. Early joint stock companies were organized through the association of few merchants. This was primarily due to their small-scaled operations. In this early stage, trade was not extensive. In the mid 1400s, trade activities were limited to nearby regions, as many trade routes had remained unexplored. With limited activities, smaller financial investments were necessary to fund these ventures, therefore, less financial support required led to fewer investors needed.

2.3.a. Capital Requirement

In the late 1400s and early 1500s, gains from trade were almost completely realized in trade with local regions. Motivations for increased profits lead to the desire for exploration in distant countries. Voyages to distant lands required substantially greater financial support, which was achieved through the capital investments from many contributors. Companies such as the Muscovy Company, the Virginia Company, the East India Company and the Hudson Bay Company formed to explore trade routes to distant provinces. The primary reason for chartering trade routes to distant regions was to search for resources for trade. Trade was chiefly a local venture prior to this period, which left many distant nations unexplored. Since several regions were un-chartered, merchant companies wishing to map out a trade route must plan for long voyages. Expeditions can take one to three or more years depending on the route and weather conditions. Long expeditions required extensive supplies, and hence, substantial funds.

Funding was made possible through passive investments from multiple contributors. Joint stock companies were formed from the pooling of these passive investments. Significant risks with overseas trade posed a problem for the emerging companies. However, by having multiple investors, the risks were shared among all shareholders, which reduced the risk to the individual contributor. Each member's contribution purchased some share of the company's stock. Holding stock in a company entitled the investor to profits that were proportionate to their contribution. In this type of a business agreement, not only was the risk spread across multiple bearers, but the gain to the lender was proportionately greater.

The structure of a joint stock company established that each member was an independent trader bounded by the rules of the company's charter. Each member invested money in the form of partnerships that would allow other members to "trade with it on condition of receiving a certain portion of the profits of the venture or sharing in its loss" (Meredith 88). Each member who contributed funds towards the joint venture was known as an investor or shareholder. Investors "provided capital for these corporations" (Frankfurter, Wood and Wansley 12). There were two types of investments, passive and active (Klein, Ragg and Rabb 48). Active investments entailed not only a monetary contribution from each investor, but also an investment in their time and expertise on commerce. Alternately, passive investments depicted only a financial contribution from each investor. The investor did not actively participate in the operations of the company. Historically, joint stock corporations were formed from multiple passive contributions.

To conduct business, an agreement was drafted by the members of the joint stock companies. This agreement came was to be known as the company charter. This company charter differed from the royal charter that was granted by the Crown. The royal charter issued by the state is one which formally recognizes and extends protection to the private company in their trade ventures. This distinction is significant since the term "charter" varied in different contexts. Although the charter offers protection and formally recognizes a company's incorporation, most companies did not have a royal charter.

2.3.b. Corporate Structure and the Benefits that It Confers

Individual joint stock companies conducted business using the funds contributed by its many financiers (Gawson). Each shareholder had a passive involvement in the company's principal operations. Since its inception, joint stock companies have always been "managed by a court of directors" (Smith 330). The board of directors comprised of a "select body drawn from the members" (Macmillan 8). "Court of directors" and "board of directors" can be used interchangeably.

These companies "traded as separate legal persons with assets or stock contributed by their members" (Brazier 7). Trades were conducted on behalf of their many stock holders. Profits were realized from "each member's [contributions] to the merchandise to be sold at the end of the particular trading venture" (Brazier 7). As the merchandise was sold off, "each would share proportionately in any profits resulting at that time" (Brazier 7). When an investor passed away, "their shares could be sold to a new member," and the profits were transferred accordingly (Macmillan 8). Alternately, if the merchandise was not sold, or was sold for a loss, each member also suffered a loss proportionate to his contribution. Investing in multiple ventures is a hedge against the potential for loss. Should a shareholder suffer a loss, wealth prospects in future ventures can offset this.

Aside from the reduced risk, having multiple investors offered another benefit. When funding was established in this manner, "they were capable of existing in perpetuity and did not automatically wind-up on the death of a member" (Brazier 7). In the event of a death or loss of a member, the overall fund can still be maintained by the

remaining members. Furthermore, since each member contributed a small sum, the lost contribution can be recovered with less effort. When the numbers of shareholders are in the hundreds and thousands, existing members can increase their contribution by a minimal amount to meet the required funding. Alternately, lost funds can be recovered by finding a single contributor to invest the amount equal to the loss or finding multiple investors whose contributions sum to the total amount lost. Since the probability of losing all of their members was very low, there was a good possibility that the company could maintain its existence.

During the late seventeenth century, the Spaniards had significant influence in trade over England. Spanish expeditions led to the conquest of many territories in Western Europe. Their conquest provided Spain with strong political and trade influence. This period of exploration and commercial expansion for Spain became known as the Spanish Armada period. Martin and Parker went as far as claiming that the entire "world never saw such a force as theirs was" in referencing the powers possessed by the Spain (Martin and Parker 1). However, when the Armada entered the English Channel, the English were prepared. The Armada was defeated, thus ending Spanish trade and political prowess. This victory empowered English merchants with confidence in their own abilities and influences.

After the Armada fight, "new companies [emerged to take] the place of the old gilds, and though these were formed on the models of the earlier gild organizations, there was this difference, that the gilds had been authorized by the Crown in which they operated, whereas the companies were created by and were under the regulation of the

Crown" (Herrick 214). Echoing the sentiment of his colleagues, Herrick posited that the chief reason for the Crown's involvement in the charter's creation was "to get revenue" (Herrick 214). The crown's involvement created two types of companies at this time, Join stock and regulated.

As the name suggests, joint stock was a company that comprised of many individuals contributing to a common stock in the business venture. Joint stock companies were established in two ways, "either by royal charter or by acts of parliament" (Smith 329). Often there were hundreds, if not thousands, of investors. High numbers of shareholders typically accompanied larger-scaled ventures since grandeur expeditions required extensive funding.

Furthermore, the many investors not only allowed for funds to be easily raised for single voyages, but also provided for continued capital over a period of time. When the notion was first introduced, joint stock ventures commonly raise funds for a single voyage. As business continued and increased profits were achieved, investors saw greater opportunities for profit to be involved in long term business endeavor to fund multiple voyages. This concept soon became popular.

The English East India Company was an example of a joint stock company that transpired into an enduring business venture. The English East India Company and the Dutch East India Company, among several others at the time started out by raising capital for a single voyage. The Dutch East India, established in Holland in 1602 was "the first permanently organized Joint Stock Company" (Frankfurter, Wood and Wansley 12). This notion soon became commonplace, and in 1614, separate fund raising ventures for

each voyage was replaced by "joint stock ventures of several year's duration" (Lack and Kley 75).

Alternately, "regulated companies were those under the direct control of the government, with their trades defined, and open to any merchant who conformed to the regulations" (Herrick 215). Adam Smith described a regulated company as a company that does not "trade upon a joint stock, but are obliged to admit any person, properly qualified, upon paying a certain fine, and agreeing to submit to the regulations of the company, and each member trading upon his own stock, and at his own risk" (Smith 322).

Many joint stock trading companies possessed state issued charters, suggesting that it was a requirement for their organization. However, join stock companies "differed from corporations in that it lacked a royal charter" (Rosenberg and Birdzell 195). Joint stock companies that acquired a charter became a joint stock corporation. The operations of a joint stock company were the same, whether it was a corporation or a partnership. The only difference was that they were "authorized by law to act under a corporate name and to issue stock to its members" in return for their financial contribution (Conyngton 21). "Partnership" is a loose term used to define the merging of two or more merchants companies for the purpose of advancing profits. The context of this is important to note since partnerships in the legal sense represents a "common law commercial association" (Rosenberg and Birdzell 195). Taken out of context, the partnerships which formed at this time could be misconstrued to mean a formal and legal association of merchants

recognized by law. In the late sixteenth century, English common law divided commercial associations into partnerships and corporations.

The difference between partnerships and corporations was that partnerships do not require the support of a royal charter. Joint stock companies who formed without a royal charter had three qualities. First, this partnership entailed offering each investor's full assets in support of the joint business endeavor. As a result, "their members were liable without limit for the debt of the company" (Rosenberg and Birdzell 195). A member in this framework was synonymous with investors or shareholders. This liability was only problematic when the venture suffered a loss.

Second, a joint stock company that formed without a royal charter did not have the support from governing bodies to "enforce rights in property and contracts" (Rosenberg and Birdzell 196). This left each company to their own method of regulating and enforcing contract terms. Repeated interaction and other means of regulation were crucial to the success of companies formed without a royal charter. Firms can only profit from interacting with other firms for various trade endeavors. This created an incentive base for firms to continue to comply with contract terms, since non-compliance would tarnish their reputation. Once a company acquired a bad reputation, it would be difficult for them to find transactional partners in the future. Since trade involves transactions with other merchants, the inability to find a trading partner would result in a loss in profits.

The last trait of a company organized without a royal charter was that they were believed to be agents acting against the state. This conspiracy was instilled by the state

as a method of motivating companies to apply for a charter. The Crown and parliament were interested "in the revenues to be derived by the granting corporate charters" (Rosenberg and Birdzell 196). This idea was adopted from the Romans, who believed that all private associations were potential conspiracies against the state. The Crown declared that no private association "was recognized as lawful unless it was duly licensed by imperial authorities" (Rosenberg and Birdzell 196). To shield their true incentives, the Crown announced that this rule was established to prevent high treason against the state.

This policy created obstacles for merchants wishing to organize together for mutual benefit through the advancement of trade. However, the incentives and self regulation methods were still effective, despite the lack of legal protection. Three such companies include the "Fishmonger adventurers", the "master, wardens, and commodity of Merchant Venturers, of Bristol" and the "society of Merchant Adventurers of Newcastle upon Tyne". These merchants were one of the first associations to organize themselves into a joint trading company for "mutual protection or other advantages" (Cheyney 164).

Default was at its peak in England in the fifteenth century, which increased the level of risk experienced by each shareholder. The high risk corresponded to a low likelihood of finding investors for a distant trade venture. Joint stock companies combated this by offering reduced risks to each shareholder.

This paramount time of economic development also came at a time of parliamentary re-organization, led by Henry VII in the mid fifteenth century. Henry VII

"put an end to the disorders of the nobility [by making] parliament relatively insignificant [and] increasing [regulation of] the income of the Crown" (Cheyney 138). The reformation under the guidance of Henry VII did not come at a low cost. This re-organization in addition to financing war and military efforts resulted in exorbitant expenditures. Increasing military expenditures were prompted by Spain's increasing political and economic dominance. England saw a correlation between Spain's developed trade routes and political supremacy.

The Crown saw this parliamentary re-organization as an opportunity to exploit the growing trade market. In an effort to enhance its political dominance, the Crown devised a strategy to share in the profits from trade. The Crown's strategizing led to the creation of a royal charter. The charter was a tax-like arrangement since it required companies to share a portion of its profits with the Crown. The application of a royal charter tends "to over-[tax], and therefore checks rather than encourage trade" (Mockler-Ferryman 260). The creation of royal charters was an "unpopular and illegal means of extortion from the people" undertaken by Henry VII to raise funds for the Crown (Cheyney 138).

2.4. Royal charters

Joint stock corporations provided abundant benefits, which allowed each company to foster profitable growth. This growth gained increasing interest from other merchants and more importantly, it captured the Crown's attention. As trade flourished, so did the struggles for political dominance. The Crown's political agenda led to increasing expenditures that grew at a pace more rapid than the national income.

2.4.a. Purpose of a Royal Charter

By the sixteenth century, the government introduced the notion of a royal charter. A new method of rent extraction developed in the form of a royal trade charter. The Crown created this charter to impose restrictions where none existed. In doing so, the State created a barrier for merchants to earn a profit. The royal charter, synonymous with a state charter, then afforded companies possessing this accord to circumvent newly imposed restrictions. The creation of a royal charter did not come without a cost. It is not uncommon for "political extortion via 'rent extraction' [to result in] the detriment of society generally" (McChesney x). The Crown was chiefly interested in profit-sharing. The imposition of trade restriction to companies not in possession of a royal charter forced already successful companies to apply for one.

By accepting the privileges of the royal charter, English merchants agree to allow the Crown to share in the profits realized from each expedition. The Crown shared a percentage of the total revenues generated by each venture. The net revenues were subject to several taxes in the form of payments to other merchants companies and royalties to foreign nations for certain trade rights. Royal charters evolved from the "royal grants for discovery in the sixteenth century" (Kingsbury 11). The initial issuance of royal charters was for reasons of land discovery, a right and privilege that were "meant to extend to all Englishmen beyond the seas" (Lingelbach xxii). It was not until 1505 that the "privileges for the first time [were] limited to a special group of merchants"

(Lingelbach xxii). The privileges mentioned in this context are typical of a "political extortion [system], or 'rent extraction'" (McChesney 2).

Royal charters were a license that granted each company the authority to transact within the country of the charter's origin. In many cases, the charter granted monopoly privileges for domestic trade as well as trade outside of England. "The charter granted [them] an elaborate body of rights, privileges, rules and regulations as was already possessed by each of these old organizations, and was to become typical of a whole group of sixteenth and seventeenth century commercial companies" (Cheyney 314).

Royal charters, served to enhance the rights and privileges of merchant adventures in regions under the Crown's jurisdiction, rather than act as the enabling factor for their progression in general. The monopoly was not quite as simple as the concept may suggest. Smith, remarked that "the monopoly is more or less strict according as the terms of admission are more or less difficult; and according as the directors of the company have more or less authority, or have it more or less in their power to manage in such a manner as to confine the greater part of the trade to themselves and their particular friends" (Smith 322). Since monopolies were granted to few trade companies, transactions were also limited. The restricted transactions placed a limit the growth potential. Monopoly privileges did not necessarily entail success. Companies with monopoly privileges can be ineffective traders if there were no commonly desired goods. Having a monopoly granted by the Crown in this regards was rather ineffective since the profits were restricted to the magnitude of transactions as well as those merchants who were given this privilege.

A trade monopoly is almost synonymously associated with a royal charter. However, and ironically, a trade "monopoly is actually forbidden by the charter" (Mockler-Ferryman 260). Monopoly privileges came about not directly from the statutes outlined by the charters, but from human nature's inherent need to "use the administrative power so as to benefit the Company in the matter of trade, to the detriment of all others" ((Mockler-Ferryman 260).

The royal charters formally allowed trade companies to be legally recognized by the Crown. This entitled them to legal protection against firms reneging on contract terms. Many companies use this authority to their advantage to create a monopoly, though forbidden by the charters. Monopolies were not difficult to manifest since the royal charters provided governing rights to members of the board of governors. These rights afforded them with the authority to act on behalf of parliament to monitor and enforce laws and resolve any conflicts that may arise.

Each merchant company was able to levy fines to those who trespassed or infringed upon their trade monopolies. High fines can be prohibitive to a smaller merchant company's growth. The support of the Crown provided additional authority in regions explored and governed by England. However, in other nation's territories, the privileges afforded by the royal charter were less effective. In regions where the Crown's charters have less authority, dividends from trade provided for sufficient payments to obtain certain trade privileges.

Before a company could be incorporated and apply for a charter, it had to establish an economic foundation. The creators and promoters had to convince that the

company had the potential to operate successfully. This was particularly important when additional funds were still needed for the company to begin its operations. The founders must detail the "nature of the company, the capital requirement as well as the return that each investor may expect for their contribution" (Clark 69).

This formal structure advocated that joint stock companies can operate functionally and profitably independent of the rights promised by the royal charter. Moreover, the foundation created significant benefits from the companies' operations as a private joint stock entity. A profitable operation or one that elicits potential for success entails flourishing trade transactions on a domestic or international level. Since the development of a successful trade venture was a prerequisite for acquiring a royal charter, the protection made possible by the charters served to enhance trade performance rather than act as an enabling force that allowed trade to occur.

2.4.b. The Crown's Motivations

The Crown's primary incentive to intervene in merchant activities was to obtain revenues, which made their relationship more of a partnership. The partnership detailed their "legal arrangement whereby two or more persons agree to carry on a business for profit" (Truitt 253).

The fact that the Crown was involved in trade can be further established by examining England's financial state. In the early sixteenth century, Spain had political and trade dominance, which depressed England's growth. Between the period of 1560 and 1580, "the real income of the Crown fell by almost 15 percent" (Goldstone 98). The

decreased revenues were driven by large expenditures for "military engagements in Ireland and war with Spain" (Goldstone 98). England's usual method for extracting revenues through "taxing incomes of the landed gentry" proved inadequate, which led to the exploration of other revenue extraction methods. The establishment of the royal charters, or trade charters, was more than a coincidence in light of the Crown's increasing conflict expenditures. The financial crisis caused by decreasing real income was remedied by the profit-sharing agreement inherent in the granting of the royal charters.

The privileges bestowed on the few merchant adventurers limited the growth in the international realm. Royal charters restricted trade in England to selected English merchants. Therefore, foreign merchants were restricted from trading in English ports. Danvers and Fosters suggested that "it [was] possible that trade would have centered in England rather than in Holland but for the restrictive nature of English laws with regard to shipping and trade by foreigners" (Danvers and Foster xx). Although England gained a dominant position in domestic trade by driving out foreign companies, trade in the international realm was still predominately the arena of foreign merchants.

The primary concern associated with policies that restricted foreign merchants' trade transactions in England was that it offended many foreign dignitaries. While this monopoly eliminated some foreign competition, it came at the cost of amiable foreign relationships. When Henry VII prohibited the import and export of goods from foreign merchants, this "gave offense to foreign princes, who, thinking that the law was made to the prejudice of their respective countries and natives, made similar laws with regard to the shipping of their own dominions" (Danvers and Fosters xxi). The advances on the

domestic level eventually became detrimental in the long range because of the limitations that were created by foreign countries in retaliation. The Crown's policies made possible by the establishment of royal charters, remained lacking in forethought.

Aside from the reduced trade benefits from similar monopoly policies enforced by foreign nations to benefit native merchants, the significant time delay for charter grants also hurt merchant companies in their formative stage. In the case of Royal African Company, a year passed before a Royal charter was issued, and only then could the corporation observe its rights and privileges (Klein, Ragg and Rabb 98).

Another company that endured a similar length wait time as the Royal African Company was the Royal Niger Company. The Royal Niger Company, formed in 1885, "made great strides in developing trade" without the assistance of a royal charter (Mockler-Ferryman 258). They accomplished this by acquiring extensive rights from the native chiefs. Ironically, the Royal Niger Company was denied a royal charter in its initial application "on the grounds that the Company was too small to be entrusted with such responsibilities" (Mockler-Ferryman 258). However, the denied application did not prevent the company from developing trade in Africa. It was not until the Royal Niger Company has raised £1,000,000 that the Crown finally acknowledged there was adequate capital to take on the responsibilities that accompanied the royal charter (Mockler-Ferryman 259). Without initial support from the royal chart, the Royal Niger Company's booming trade development demonstrated that the Crown did not vehemently monitor trade outside of England. Other companies wishing to develop trade in Africa could do

so by acquiring trade rights from native chiefs. Finding ways to circumvent the royal charter proved to be more direct and impactful.

2.5. Limited Liability

The legal doctrines of the corporation prior to the limited liability rule almost exclusively relied on the members' self purported claims of being a "moral or legal person [or] (collective entity)" (Gordon and Fergus 166). Reliance on personal testimonies of "moral" exposes business partners to some level of risk. The risk is heightened by the organizational structure of the company.

The organizational structure of joint stock companies in the seventeenth century consists of a core group of decision makers acting on behalf of all of its members. Since the managers of these companies were "managers rather of other people's money than of their own, it cannot be expected that they should watch over it with the same anxious vigilance" (Smith 330). The board of director's independent role may result in a tremendous potential for loss. This was particularly problematic when the board of directors was comprised of highly influential merchants or statesmen. These prominent and highly wealthy individuals may have contributed a small share proportionate to their total asset. If it were the case that a temporary loss could lead to significant gains, the board members may choose to take a loss for a greater promise of future gains. Though the loss suffered by the board was insignificant compared to their total wealth, the loss was disabling, to other shareholders.

Should the board of governors make a poor business decision, the lack of an established liability rule exposed every member to significant risk. When there were no limits on liability, all contributing members of a corporation were considered part of the corporation, thus, debt holders could go after not only the corporation, but all of its investors' private assets. This dilemma further increased the risks borne to each investor. The dilemma from this liability issue lends itself to the emergence of limited liability partnerships and company.

Limited liability is a fairly new principle that was first introduced in 1856 (W and R Chambers 734). The limited liability rule was "not [a common] feature of eighteenth-century company law" (Gordon and Fergus 166). Joint stock companies operated for many years before the creation of limited liability laws. Operations thrived through individual aspirations for mutually beneficial gains. Mutually beneficial gain was the primary incentive for individuals to remain truthful in their contractual obligations. As commercial activities became more elaborate, potential for profit and loss also increased. Since there is more at stake with elaborate commercial activities, self-reported claims of virtue became less reliable. Companies needed a concrete business structure to reduce the increased risk exposure.

The limited liability partnership is "a form of partnership that allows a group of professionals to work together enjoying the tax advantages of a partnership while limiting their liability" (Truitt 250). A limited liability company differs slightly from a partnership in that it is "a hybrid form of business organization offering limited liability protection of a corporation and the tax advantage of a partnership" (Truitt 250). The

primary difference between the two is based on their legal organization. An LLP is one in which the members, or investor, represents themselves in a venture while an LLC is one in which the members form a separate entity and each represents that entity in their business transactions. Under both forms, the shareholders' are protected from being fully liable for the losses.

The limited liability rule evolved into the Companies Act of 1862, whereby additional requirements were instituted (W and R Chambers 734). This act instructed that "any seven or more persons associated for any lawful purpose may subscribe a memorandum of association" to register as a company. For associations consisting of twenty or more persons, it becomes mandatory for them to first register as a company under the Companies Act of 1862.

Restricting the shareholder's exposure to risk was an important quality that brought about the limited liability corporation. The term "corporation" will be used synonymously with "company" and the "association of merchants". The purpose of providing limited liability for a corporation was to protect against exposing any one contributor to significant risk (Harvard Law Review 537). In a limited liability corporation, "if a company contracted debts, no matter how large, every member was liable, if his co-members proved unable to pay their proportions, to pay the whole of these debts, even in the last schilling of his fortune – a result which proved ruinous to the richer members" (W and R Chambers 734).

The extent of the liability to each investor varied greatly. With limited liability, the incorporated company acted as its own legal entity (Brazier 7). This form of a

corporation allowed the "risk of each investment to the amount invested, and no more" (Lajoux xiii). Therefore, the risk extended only as far as the assets that were invested. In this way, assets not connected to a joint stock company were protected. For contributors with significant assets the limited liability partnership proved to be beneficial.

3. CASE STUDIES FROM ENGLISH CORPORATIONS IN THE 1600s AND 1700s

3.1. The Muscovy Company

The first known joint stock company "organized in Great Britain was the Eastland Trading Company" (Frankfurter, Wood and Wansley 12). The original charter was issued in the fifteenth century which provided the Eastland Company with monopoly rights to trade in the Baltic regions. This type of business endeavor was followed in the sixteenth century by the Muscovy Company and the Levant Company, who chartered a trade with Russia and Turkey.

In 1553, a group of merchants in London organized their resources to form one of the first joint stock trading companies. The Muscovy Company has been associated by several names, some of which included the Russian Company, Russia Trading Company, and Russian Merchant Adventures. Their aspiration was not only to travel to the "rich trading grounds of China and the East Indies, but also [to find] new and unknown kingdoms on the way thither" (Cheyney 312). In the beginning of their association, individuals of this group called themselves the "Mysterie and Companie of the Merchants Adventurers for the Discoverie of Regions, Dominion, Islands and places unknowen" (Hakloyet 3). The formation of the Muscovy Company was primarily motivated by their account of the "wealth of the Spaniards and Portingales, by the discoverie and search of newe trades and countreys marueilously increased, supposing the same to be a course and meane for them to also obteine the like" (Read 23). The Spanish's and Portuguese's

increasing wealth from overseas trade ventures demonstrated the abundance and availability of the prosperity that awaited their discovery.

The initial "capital of the [Muscovy] Company £6,000 [was] provided by 240 share-holders" (Kotilaine 94). The average individual contrition was £25. Though seemingly insignificant, a comparison of the cost of living in England in the sixteenth century against the average day-laborer's wage and the price of other goods, show that £25 is not a small sum.

Aside from trade, agricultural production was a vital and prominent economic base during this period. Table 1 contains information on the typical agricultural wages during this period compared to the price of foodstuffs and industrial products to illustrate the relative value of the typical contribution from each investor. It was unusual for the average laborer to earn a wage that was greater than 100 pence a day (Meredith 86). One hundred pence (penny) is the equivalent to one pound sterling. A comparison of this against the price of food-stuff showed the declining purchasing power of the average citizen. Wage earners, particularly day laborers, "saw their standard of living drop" (Spielvogel 401). Wages did rise slightly "during these inflationary periods, but they lagged behind prices" (Overton 68). Given the relative price of foodstuffs, the daily wage of a day laborer was mainly spent on sustenance. The contribution of £25 relative to the cost of living was a significant amount of money. Due to the low wages for the

average day laborer, investors of joint stock companies were typically comprised of English gentlemen, such as Sir Dudley Digges[2] and Henry Hudson. [3]

Table 1. Average Price and Wage in the Sixteenth Century

Prices and Wages 1491-1590[4]

	Price of foodstuffs (1451-75=100)	Price of industrial products	Agricultural Wages (1450-99=100)
1491-1500	100	97	101
1501-1510	106	98	101
1511-1520	116	102	101
1521-1530	159	110	106
1531-1540	161	110	110
1541-1550	217	127	118
1551-1560	315	186	160
1561-1570	298	218	177
1571-1580	341	223	207
1581-1590	389	230	203

Source: Extracted from the Phelps Brown & Hopkin price index, quoted in D. M. Palliser, *The Age of Elizabeth: England under the later Tudors, 1547-1603,* 1983

Sir Dudley Digges and Henry Hudson, among other aristocrats and wealthy land-owning merchants were able to prosper at the expense of the average populace by increasing rent. These wealthy individuals charged higher rent to circumvent the inflation with investments in high yield ventures. High yield returns were achieved vis-à-vis investments in a joint stock company's overseas expeditions. The ability of the rich

[2] Read (1866: 14) – Sir Dudley Digges was a prominent member of the state and mathematician who was later knighted and became a prominent statesman. (Virginia Historical Society, 1888)
[3] Read (1866: 32) – Henry Hudson was one of the first founders of The Muscovy Company, was a man of great wealth and extended influence. He was part of twelve different prominent associations in London at the time. Later Henry Hudson became involved in the notable Hudson's Bay Company in the Americas.
[4] Prices are in pence and wages are in terms of pence earned per day (Overton [1996, p. 68]).

to hedge against rising prices established a perpetual cycle where wealth begets more wealth at the expense of the poor.

On May 10th, 1553, the Muscovy Company set forth on its first expedition. At this time, the "association [was not yet] formally recognized by the Crown" (Read 24). These merchants set sail without a royal charter. The first three merchant ships were equipped for an eighteen-month voyage with goods thought to be suitable for sale in China and other lands. Two of the three ships' route took them northward to Norway, against the wind and around the North Cape. It was here that they encountered severe weather conditions. The company and crew of these two vessels were unable to endure the long northern winter, and as a result, they "died of hunger, cold and scurvy" (Cheyney 313). The third ship, under the guidance of Richard Chancellor, successfully traveled further eastward to the White Sea. The success of which "laid the foundation of the Company's prosperity, and of the commercial and political relations which, with but slight interruptions, have continued to exist between Russia and England to the present day" (Read 27).

The company's successful venture to the Russian territories demonstrated to the Czar that the company had significant resources for trade. The company's availability of resources provided by its many investors also served to portray their potential for success. When the Muscovy Company reached Russia, the Czar offered them many generous privileges. The Czar granted the Muscovy Company a charter, which granted "duty-free trade throughout Russia and free export and importation of good" (Kotilaine 94). The Czar's generosity was motivated by the desire for a future alliance with England in their

trade endeavors. The policies offered by the Czar can be described as one of great diplomacy.

When the Muscovy Company returned to England in 1555 the association "obtained from Queen Mary, a charter bearing date the 6th of February of 1555" (Read 27). The royal charter granted to the Muscovy Company was an agreement to share, with the crown, profits earned as a result of the charter. This relationship was better described as a partnership than one of creator and subject. In this regard, the Crown was another shareholder in the joint stock company. The custom imposed by the Crown in granting the Muscovy Company a trade charter was in the amount of £29,315 (Dietz 208). Customs continued to rise even more substantially in Queen Elizabeth's reign. Queen Elizabeth raised the customs to £82,797, which was "divided as follows, -- old customs, £25,797; for the state of wares newly appointed £20,000; custom of the Staple, £4,000; new increase upon cloth, £26,000; new increase upon wines, £4,000; the custom of beer, £3,000" (Dietz 208).

The Company of Merchant Adventure's successful venture to foreign lands from multiple investors' joint contributions confirmed that the Royal Charter was not a requirement for a joint stock corporation's successful operations. This indicated that the Crown's role may be peripheral to the emergence of joint stock companies. Furthermore, the Crown's involvement may have been motivated by personal gain. The successful operations provided a tempting incentive for influential individuals, such as those in parliament, to impose their will to secure a share of the profits. This was most evident in Queen Elizabeth's imposition of duties for the revenues earned in the Muscovy

Company. Queen Elizabeth ensured that the revenues were secured by the Crown, but the introduction of duties should be attributed to Queen Mary, Elizabeth's predecessor. The revenue realized by the Crown via customs on sales of merchandise in the Muscovy Company was "the second great contribution of Mary to a rehabilitation of the finances of the Kingdom" (Dietz 209). Given the Crown's dire financial condition during the mid fifteenth hundred, the revenues procured by the Muscovy Company was a significant contribution not only to commerce but to the Crown's financial rehabilitation.

The royal charter granted the Muscovy Company many privileges, assisting in their growth in England while simultaneously hindering their growth on the international arena. In several instances, the Crown became an active member of the board of governors. The crown's interference in the board of governors was guided by self interest. The lack of foresight in developing domestic trade at the expense of international trade may have benefited the member of the board at the cost of diplomatic relations with foreign nations. The events that transpired from the Czar's attempt to form an alliance for future trade with England were evident of the Crown's poor policy strategies. In their return to England, the Muscovy Company reported on the Czar's wishes to form an alliance with England. The message of Crown's non-cooperative attitude reached Russia. The Czar "revoked the Muscovy Company's rights and confiscated their wares" stored in Russian Territory (Kotilaine 95). The law was quickly repealed because of the growing distaste of this provision. Even with the repeal, laws at the time were still "clogged with many restrictions" (Danvers and Fosters xxi).

The Virginia Company, The Hudson Bay Company and East India Company were all created for the same purposes as the Muscovy Company, to obtain revenue from trade. These companies, however, did not all form in the same fashion as the Muscovy Company. Failed attempts in operating as a purely regulated companies lead these merchants to explore and take on the structure of a joint stock company. The joint stock nature of these prominent companies was the basis for their mention in this paper. The Muscovy Company's growth implied that similar trade ventures operating under this organization would see similar success. Furthermore, the benefits conferred upon the joint stock corporations, such as those later experienced by the Muscovy Company acted to enhance their already successful organization. The Crown's role was not as vitally important as was suggested by Fergusson, as well as those in the similar school of thought.

3.2. East India Company

Historical accounts of the East India Company were pieced together similar to those of the other joint stock corporations. Neglect and natural disaster took a toll on record books and journals from the initial voyages. From the disorganized and inconsistent data available, the records appeared "to have been preserved by accident, the series, though valuable and important as far as it extends, is not continuous" (Danvers and Fosters 2).

The East India Company was one of the emerging trade companies at the time of the repeal of England's restrictive trade laws. In the late 1500s, the East India

Company's documented records were written in the same minute books as the Levant Company, which suggested that it was an "outgrowth of the Levant Company" (Stevens viii). Chartered in 1600 by Queen Elizabeth I, East India Company became the third largest business in England by 1717 (Baskin and Miranti 56). The charter granted the East India Company exclusive privileges in trade for fifteen years (Danvers and Foster xxxii). Fundamental to their success in the eighteenth century was the relaxed trade laws and the joint stock nature of their establishment.

Its beginnings as a regulated company, and eventual evolution into a joint stock company was evidence of the unique qualifications of the structure of the joint stock company as an independent force. Failed attempts at being a purely regulated company with expeditions funded by one source led to the East India Company's transformation into a joint stock company. The company's leadership also crucially assisted in its transition towards being a permanent joint stock company.

Many members of the East India Company's board were also prominent members of the Levant Company. The Levant Company, chartered around the time as the Muscovy Company, was one of the first joint stock companies. The Levant Company's success and the success of the Muscovy Company, afforded by the joint stock's structure, helped to encourage the East India Company's transition into a permanent joint stock venture.

The East India Company emerged as a mechanism for England to reap its "fair share in the East Indian trade" (Danvers and Foster xxi). This occurrence was marked by

Queen Elizabeth sending "William Harburn[5], an English Merchant to Turkey, who obtained from Sultan Amurah III. Permission for English Merchants to resort and trade to that country, in all aspects as freely as the French, Venetians, Germans, and Poles then did" (Danvers and Foster xxi).

In October 1589, three vessels embarked on this journey (Danvers and Foster xxii). This trip "although failed to realize the expected return for their investments, the practicality of the scheme had been proved and others were thereby encouraged to embark in a similar enterprise" (Danvers and Foster xxii). The loss incurred was insignificant since it was spread across multiple shareholders. The reduced risks and loss for each contributor encouraged continued investments in future trade ventures. The reduction in risks and loss to each investor served to increase the benefits from overseas expeditions. Benefits from overseas trade that outweighed the costs stimulated continued contributions for other long term trade ventures. The sustained effort to establish a trade route to India eventually led to several successful enterprises, under the command of Sir James Lancaster and George, Earl of Cumberland. Sir James Lancaster and George, Earl of Cumberland were two of the many prominent merchants, and members of the Queen's court, who were involved in the initial trade expeditions to India.

The early expeditions were marked as separate voyages "for each of which a separate capital was generally raised, and the subscribers bore the entire expense and reaped the whole of the profits" (Danvers and Foster xxiii). This form of capital investment proved to be an inconvenience since the risks were significant for each

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[5]Homans & Dana (1841: 499) William Harburn was a prominent merchant and ambassador to the Queen at the Court of Constantinople. -

investor. When the first several of vessels failed to return a single investor lost his entire investment in that venture. After a few failed attempts, wealthy merchants became hesitant to invest their assets for future expeditions.

Failure to raise sufficient capital for overseas voyages prevented the East India Company from establishing a trade route. The East India Company's initial failed attempts at establishing a trade route to India created a large loss for the individual contributors of those voyages. This created challenges for securing future funding.

Given the East India Company's unstable beginnings, the risk of failure was significant. Whether the voyage was funded by a single entrepreneur or by multiple merchants, investments in a single voyage for the East India Company's overseas venture came at a high cost. Having multiple contributors reduced the risk by spreading it across multiple shareholders. Nonetheless, investing in a single voyage was risky.

The failures at the time can be attributed to the unknown terrain and merchants defaulting on their contractual obligations. Many regions were unexplored, and the unexplored nations of these trade routes posed a challenge in terms of the potential dangers that may be encountered. To invest in a one time voyage would still be costly for each investor. Engaging in a permanent joint stock partnership would increase the likelihood of profits from the investment. In this regard, the permanent membership organization of the East India Company provided many benefits. One benefit included the perpetual existence afforded by permanent funds contributed towards a permanent business venture. This allowed for adequate capital to be raised towards multiple

expeditions, rather than just a single voyage. The increasing number of trips also increased the opportunity for earning returns on the investment.

The charter given to the East India Company granted monopoly privileges and authority to enforce contracts. However, one crucial impediment to the authority outlined in the charter was that there was no effective way for the company itself to enforce contracts terms. Failure to enforce contracts led the company to be in default of £7,000. The Lords of the Privey Council had the "special powers to deal with those that shewe themselves remisse and unwilling furnyshe there promyssed contributions" (Stevens 8). This inability to enforce transaction terms was another shortcoming of the royal charter.

Incentives for profit served as a better tool for regulating and enforcing contracts. Great financial opportunities for wealth could only be obtained from repeated transactions. This component, more so than external governance, could motivate a merchant to comply with his contractual obligations. Failure to comply creates distrust, since reneging was not regarded in a positive light. Once a merchant earned a bad reputation, it would be challenging to find future business partners. This would cause the non-complier to lose future opportunities for wealth. In this time of extensive growth, the prospect of losing possible future profit opportunities was too high of a cost for many merchants to bear. Since the benefit is great, and the cost even greater, opportunities for wealth act as an effective regulator and enforcer of contractual obligations.

A typical expedition in the East India Company was supplied with "stores and provisions of all kinds, as well as merchandise, and merchants were appointed to the different ships to superintend the trade operations" (Danvers and Foster 23). Aside from

these items, each vessel also stored valuable gifts and letters from the Queen requesting for open trade to be given to kings and prominent statesmen in any countries that these ships may encounter. Several letters were left un-addressed to account for the unknown countries to which these expeditions may venture. Merchandise typical of trade voyages to India included "iron, tin (wrought and unwrought in bars), lead, and different kinds of cloths, including Devonshire Kersies, Hamshires of all colours and Norwich stuff" (Danvers and Foster 24). Exported and imported merchandise changed from time to time. Later voyages included the exportation of wool, cloth, metals and coarser manufacturers. Some examples of commodities that were imported included spices, cotton, perfumes, precious stones, indigo, silk and rare wood (Herrick 216).

In 1609 the trade with India became widely established. With the end of the exclusive trade privileges approaching, the East India Company focused its attention to renewing the charter in addition to its established trade to India. The King, seeing the profitable operations of the East India Company granted them "the whole, entire, and only trade and traffic to the East Indies' [for ever]". If trade became unprofitable, "these exclusive privileges were to cease and determine after three years' warning" (Danvers and Foster 32). The privileges outlined here suggested a business relationship between the Crown and the East India Company. Beyond the business relationship, the East India Company was a vital source of the Crown's revenues.

The privileges granted to the East India Company did not compleetely restrict other merchants from seeking a share of this profitable undertaking. Other companies wishing to partake in this gainful trade venture were allowed to do so only under the company's

seal. This opened additional opportunities for merchants in England to seek a fair share in trade with the East Indies. One possible way in which other merchants could participate was by purchasing stock in the company. Each shareholder seeking to earn a fair share of the profits successfully contributed to the company's growth. In 1717, the East India Company's "nominal values of its shares were £3. 2 million" (Baskin and Miranti 56). At the zenith of its growth, the East India Company was the third largest business in England, "which was exceeded only that of the ill-fated South Sea Company (£10 million) and the Bank of England (£5. 6 million)" (Baskin and Miranti 56).

3.3. Virginia Company

The Virginia Company incorporated the commercial and political qualities of business in England that made it a prominent example among the joint stock corporation of this time. Similar to other joint stock corporations, its records are not complete. However, much of its remaining history has been carefully preserved. Research on the Virginia Company has been drawn from "the manuscript records of the Company, the history of the preservation of which for about two hundred and fifty years is full of interest" (Neill 3).

In 1606, the Virginia Company acquired a royal charter and became incorporated (Bucholz 191). Its orientation can be attributed to the Crown as the charter established the Virginia Company as a regulated company.

In its first three years of incorporation, the Virginia Company was a joint stock corporation that operated under the strict guidance of the king. In this regard, he acted as

the board of governors acting on the behalf of all the investors. Therefore, the investors' role therefore was solely for the purpose "of raising funds, furnishing the supplies, and sending out the expeditions" (Kingsbury 11). However, this form of management proved to be inefficient and later caused the company to disband".

The Virginia Company later emerged and "became distinctly proprietary, retaining the commercial responsibilities, but assuming governmental functions in place of the king" (Kingsbury 11). This organizational structure was found in the joint stock model. Although the charter emphasized the role of the government, "the Virginia Company was purely a commercial enterprise conducted by a private concern, even before the charter of 1609, as is shown by the history of its early years" (Kingsbury 12). The focus on the Crown's involvement was attributed to it being "backed by the patronage of the King" (Kingsbury 12). The King's role in the company was "only for the purpose of advancing the trade of the Kingdom in foreign parts and saving the Crown from expense and responsibility, as had been the policy in regard to other trading companies" (Kingsbury 12).

Although the company was established in a regulated form, the Virginia Company operated from individual contributions, this quality alone does not make the Virginia Company a joint stock venture. The Virginia Company showed a gradual progress towards becoming a joint stock corporation. This was initiated by their reincorporation as a regulated company under a proprietary leadership.

In 1612 "increasing the importance of the directors and investing sums for a limited period it became a joint stock company" (Kingsbury 13). Its leadership was no

longer in the hands of a single authority. Instead, a group of individuals acted as the board of governors. Having multiple individuals represent the group provided efficient communication of the goals of the shareholders. Each member of the board of governors acted as a check and balance for the other in representing multiple perspectives on operating a merchant company. This is vastly different from the leadership under the sole discretion of the king. The king's management of the first Virginia Company demonstrated that simply having the Crown's involvement alone was insufficient to foster a thriving company. The Crown may have great authority, but that does not make a keen businessman.

The experiences contributed by the numerous investors and distilled to the board of governors gave the Virginia Company the necessary leadership to thrive. Many investors of "the Virginia Company were men who had taken part in the expeditions of the late sixteenth century and had been interested in certain private voyages of exploration carried during the five years preceding the receipt of its first charter" (Kingsbury 14). Having been involved in many other profit-seeking expeditions, its members carried valuable experiences that served as a powerful defense against the unknown risks inherent in overseas voyages.

The Virginia Company as well as other notable joint stock trading companies were originally organized to export wool. However, "in order to maintain profitability they often found it necessary to export fish, tin, or when all else failed, gold in return for lucrative commodities like silks, spices, and later, tea" (Bucholz 191). The company distinguished itself in the business of "gold mining but later specialized in Tobacco"

(Bucholz 191). As the company continued its operations and realized increasing profits, the Crown took more interest in the company. The most outward attempt at profit-seeking was illustrated by the king's growing interest "when the tobacco trade promised revenue to the Crown" (Kingsbury 15).

4. CONCLUSION

The joint stock corporation which has become an important form of business structure in modern commercial activities is the result of a long development. This business development was first documented in the Middle Ages. The Commenda Contract in the Middle Ages was the predecessor to the Tudor and modern joint stock corporation.

Joint stock partnerships whether legally incorporated or informally organized, had the unique quality of providing its investors with a profitable return. It was not uncommon for investors in joint stock companies to receive "30 percent on their money" (Spielvogel 401). This alone provided enough incentives for merchants to consolidate resources to take stock in a joint trade venture.

The growth in trade in England in the seventeenth-century coincided with the Crown's political struggle with other nations. This struggle led to increasing levels of government expenditures. Income tax and other revenue extraction schemes created by the state were unable to support the growing expenditures. As private trade developed and flourished in England, the Crown saw this as an opportunity for raising funds. Royal Charters were created with motivations for earning more revenues. The Crown established royal charters to share in profits from trade. Observations on the environment surrounding the formation of the Muscovy Company, the East India Company and the Virginia Company demonstrated the Crown's late involvement in each company's success.

The crown's interest peaked after these companies achieved success. In all three joint stock companies, the Crown's late involvement implied that their involvement was not the enabling factor. This supports the hypothesis that the state did not have a pivotal role in enabling markets. The modern western joint stock corporation evolved from companies that operated with the Commenda Agreement and the joint stock associations of the Tudor period. By association, the state therefore is not responsible for enabling the modern commerce.

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