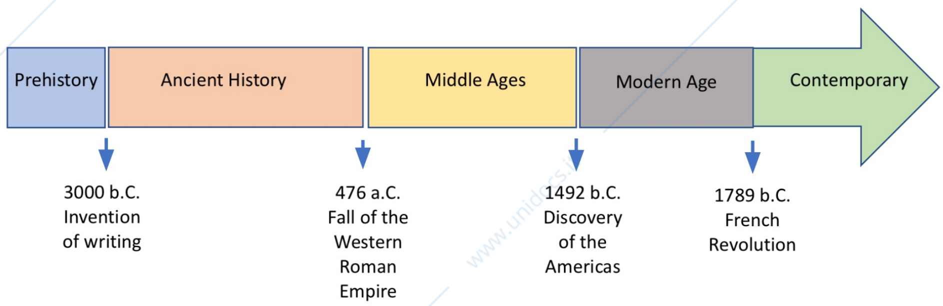
BUSINESS HISTORY 2

History doesn't teach anything, but punish hardly who doesn't grasp its lesson "**The four most dangerous words in economic history are "This time it's different" (Sir John Templeton)**". The ignorance of financial history is one of the cause of recent crisis...no experience and knowledge of how Business worked...

Timeline: political-institutional periodization



In medieval age there was the prey that more gold you have more richer you were, but hey did't considered the inflation rate: MV=PT
1453 —> felt of Constantinople, all the trade with est became difficult so an encrease of the exploration to Africa an America.

1. **Middle Ages and Early Modern Period**
   - Guilds
   - Double-entry bookkeeping system
   - Home manufacturing and putting-out system
   - Mercantilism
   - Family/personal business

   The Little Divergence and The role of Finance in Netherlands and GB

2. **First Industrial Revolution**
   - Industrial Revolution in England
   - Transport and Communication Revolution

   A New Banking System

3. **Second Industrial Revolution**
   - New actors: US and Germany
   - From coal to oil and nuclear energy
   - First wave of globalization
   - From U-Form to M-Form
   - Taylorism and Fordism
   - Big business and managerial revolution

4. **Third Industrial Revolution**
   - Toyotism
   - New actors: Japan, China, India...

Middle Ages and Early Modern Period

1. **Double-entry system :** started with the commercial republics of Italy. The Industrial Revolution provided an important stimulus to accounting and bookkeeping.

2. **Guilds :** organised specialised activities of the same type, regulation of the quantities price and quality, resolution of disputes between members, control the training process of future members.
3. **Home manufacturing and putting-out system:** primary sector 80-90% GDP, 70% working population. Some phases of manufacturing transferred in the countryside.
4. **Mercantilism :** a doctrine favouring measures to safeguard the national money supply. - prohibition against the export - state had to act as a merchant.
5. **Compagnia :** companies with unlimited partners liability, composed by fa,ily members = anticipate the family capitalism. Capital structure more flexible than societas.

MEDICI = compagnia and a merchant baking, with different branches in EU, it served the papacy. —> in the 16-17th century there was an increasing rise in the demand fro money and credit.
To : — expand domestic and international trade — finance wars — service the national debt — rebuild or to enlarge the cities.

The Golden Age of Netherlands (1584 - 1702)

Patrician oligarchies ruled the cities, Dutch had blended elites.
After the Dutch revolt Antwerp declined and **Amsterdam** rise = cosmopolitan community, new construction in baroque style, shift in cultural values : decline of communal, corporate values to individualistic.

NE was a confederation of seven provinces and some common lands, ruled by States-General, each province sent a representatives —> constant struggle between Republicans and Orangists for political power.

Dutch East Indian Company (VOC)

Established in 1602, first joint-stock company had offices in each major port city (Amsterdam - Rotterdam - Hoorn) with a triangular trade = Japan - India/China - Netherlands —> Bullion spices textiles flowers. Voc is an union of 6 different East Indian companies, the Dutch States-General proposed to merge into a single entity, with the monopoly on all trades.
EU craved species to flavour and to preserve food, for centuries these products had come along the **Spice Road,** with the Portugal discovery of the route via **Cape of Good Hope** : new business opportunities opened up.
Innovations of VOC :
- lasted for a fixed period (21 years)
- Investors were allowed to withdraw their money at the end of just 10 years, when the first general balance was drawn up
- Subscription to the Company's capital was open to all residents of the United Provinces
- Merchants, artisans and even servants rushed to acquire shares

The aim of VPC was t overcoming the rivalry between the provinces. The ownership of the company was divided into shares. Shareholders stood to lose only **their investment in the company** and no other assets, but no gaurantee of returns. —> shareholders who wanted their cash back could sell shares to another investors = STOCK MARKET.

When capital expenditures were called for, the VOC raised money not by issuing new shares but by issuing debt in the form of **bonds.**

In 1794 VOC fall down = decline of VOC is also the decline of Dutch empire. The ascent of VOC stock price was gradual, spread over a century, it took more than 60 years to fall back down.

Amsterdam Exchange Bank (Wisselbank) 1609

Created to remedy the confusion of different types of money in th market an to provide merchants effective money.
It's function :

- accepting deposits
- Reimburse such deposits
- Exchange

Bankers started to accept VOC shares as collateral for **loans**: link between the stock market and the supply of credit.
All of the Company's net profits were distributed to the shareholders.

Modern Capitalism

MD made possible by the invention of one of the most fundamental institutions : the company. It enables individuals to pool their resources for risky —> long term project that require the investments of vast sums of capital before profits can be realized.
The creation of an effective administrative structure for coordinating and controlling far-flung business ventures yielded other competitive advantages : the reduction of agency, information, transportation and other transaction costs.
Five developments shaped the financial policies of the EIC in the first century:

1. the duration of enterprise financing shifted from short term to the long term as the scale and scope of trading operations grew.
2. corporate financial arrangements became more responsive to investors' need for information on the company financial condition.
3. the ending of ecclesiastical ban on usury allowed trading companies to collect more capital through leverage.
4. the liquidity of shareholders investments rose in parallel with the growth of a secondary markets.
5. corporate and public finance were placed on a firmer footing by development (late 17th c) of mutually supportive methods for funding its activities.

Financial Revolution in England

England became the first constitutional Monarchy, parliament held the fiscal power.

1. 1694 **Bank of England :** to manage the expanding public debt from the war between GB and FR. power of the Whig against Lous XIV.
2. **Tonnage Act:** tax in order to pay the interest rate.
3. **Monopoly of the issue of banknotes :** form of promissory notes.
4. **Long-term public debt :** annuities.

5. **Nationalisation of fiscal system :** end of tax-farming.
6. **Promissory Notes Act :** full negotiability of government bonds and corporate share.
7. **National accounting and Budget :** monetary rationalization by overtaking the money of account system.
8. **London Stoc Exchange :** after the decline of Amsterdam London emerge. New public debt instruments as the primary investment vehicle. Impersonal and anonymous financial market.
9. **Standardization of public debt contracts :** vast expansion of the outstanding amounts provided a strong basis for steady market growt.
10. **Conversion of PUBLIC DEBT :** into SHARES EQUITY

John Law's scheme

His central idea was that the bank should issue interest bearing notes that would supplant coins as currency. Combine the properties of a monopoly trading company (VOC) with a public bank that issued notes in the manner of the Bank of England. CONFIDENCE = alone was tha basis for public debt, banknotes would serve just as well as coins.

Mississippi Bubble

France had huge fiscal problems, enormous public debt created by he wars of Louis XIV, on the brink of its third bankruptcy.

Law proposed the creation of a new bank = **Banque Generale** issued notes payable in specie. (gold, silver). Also to take over the trade with the LOUISIANA, in 1717 **Compagnie d'Occident —>** guaranteed the monopoly of the commerce in LOUS for 25 years, Frenchmen were encouraged to buy **share** with **billets d'etat** (issue of BG), these were to be retired and converted in 4% rentes.

Law tried to convert **public debt —> equity = SWAP** of the trading company. Law was interested in allowing further monetary expansion, which his own bank could generate.

In 1720 Mississippi bubble had burst. —>

- France = all kinds of joint stock companies were forbidden. Installed a profound distrust of all speculative activities.
- England = **Bubble Act :** allowed only jsc that obtained the permission by the parliament. Investors had greater opportunities to reduce risk by allocating their capital among investments securities of many institutions.

The First Industrial Revolution

The First Industrial Revolution, spanning roughly from 1760 to 1830, marked a significant shift in the way goods were produced, leading to profound economic, social, and technological changes.

Some factors :

- A standardized currency, such as the British pound, provided a stable medium of exchange. This facilitated smoother transactions,
- A well-established legal system is essential. The British legal system during this period likely provided a framework that fostered trust and encouraged investment and business activities.
- The taxation system, primarily focused on landed wealth rather than capital, may have indirectly influenced economic activities.

- The formation of unincorporated companies allowed individuals to pool resources and share risks. This facilitated capital accumulation for industrial projects, enabling entrepreneurs to undertake ventures that might have been beyond the financial capacity of individual investors.
- The reliance on networks of kinship and friendship, often based on localities, played a crucial role in economic activities.
- The expansion of country banks was a significant development. These banks, often supported by farmers' incomes, provided a decentralized source of capital.

In the 18th century, the establishment of the **factory system** marked a transformative shift in production. **Factories centralized work**, employing large numbers of workers in purpose-built facilities. Mechanization, division of labor, and standardization increased efficiency and output. This system facilitated economies of scale, reducing costs, and allowing for increased throughput. The factory system played a crucial role in the Industrial Revolution, reshaping work, accelerating production, and laying the foundation for modern industrial practices.

Family Business

Factories were of limited size, were **small family businesses:** single-owner proprietorships with high turnover and unlimited liability = contributing to instilled trust and the creation of networks for capital-labour-information in the market. Little separation between ownership and management = business like a personal affairs.
Industrial districts emerged —> small companies complemented the work of each other and sharing the stages in making and selling products. Firms competed but also cooperated = encourage innovation.

The age of Canals and Railroads (1775 - 1900)

Last quarter of 18th century -> great economic expansion -> change of corporate finance. **Science** was used to develop improved products and manufacturing processing. New forms of business organization and mangement to enhance productivity by more efficient coordination and control.
The era was characterized by efforts to eliminate barriers and impediments to free trade. Governments and business leaders worked towards reducing tariffs and other trade restrictions, facilitating the movement of goods and capital across borders.
The construction of **canals and railroads** played a pivotal role in improving transportation and connectivity. These infrastructure projects not only facilitated the movement of goods and people but also contributed to the economic expansion by **opening new markets and opportunities**. CANALMANIA 1794 = SPECULATION WAS NOT SO PEVALING.

1830 = first railways

Marked a significant turning point. A regular rail service made possible the established of high-volume manufacturing units. First large corporate enterprise (Liverpool-Manchester) : U-form = hierarchical structure, division of managers and ownership. Started the era of **LAISSEZ-FAIRE and FREE TRADE,** departure from government intervention in economic affairs, market is efficacy by itself.
1819 = return to Gold standard : currency was convertible into gol.
1826 = liberization of laws controlling the formation of JSC (abrogation of Bubble Act).

1833 = parliament **abrogated the trade monopoly** to East Indian Company.
1844 = Bank Charter Act, prevented the Bank from increasing its note issue above a specific limit.
1846 = repeal of Corn Laws, reflected a move away from protectionist policies to a more open market.

Railroads became the most capital-intensive industry in the world, the government played a pivotal role in facilitating the establishment of railways and canal, in **Britain =** Parliament imposed stringent conditions for charter acquisition, instilling greater public confidence and oversight **United States =** the government helped through the purchase and guarantee of securities, as well as land concessions.
Railway bonds had much resemblance to gov bonds —> created economic stability, but limited investment opportunities. Early **investments banks** gradually began to market corporate securities, public trust in their activities was often eroded by suspicions of self-serving use of privileged information and relationships to build personal fortunes.

The Railway Mania

Marked a transition from skepticism to fervant **speculation** in the railway indstry. It started with the first **steam engine** in 1820, despite some hostility two waves of enthusiasm occurred :
- 1825 = first railway fever -> opening of the first steam railway.
- 1831 = second rf -> railway Liverpool-Manchester. Railway with 10% of dividends and a market value of +2.

The role of PRESS was crucial in publicising the railway. To establish a railway was not complicated :
Required : • few local dignitaries organised into a committee to register the company. • raise money by subscription for shares • an engineer to survey the root • a railway bill.
The Exchange Bank facilitated Northern speculation by providing loans against collateral of railway shares, making the market more liquid.

1845 : bubble burst

The gov passed an act enabling the dissolution of railway companies with the assent of 3/4 of the shareholders, by early October 1847 low levels of bullion led the Bank of England to announce it would no longer make advances on public securities.

Banking Revolution (1835-1865)

Between 35-65 emerged a "new bank" characterised by : - legal reforms - technological advantages - economic growth, with a stronger role for central banks.
Banques Nouvelles : joint-stock companies, reflecting a shift in the organizational structure of financial institutions during this period.
Taxonomy of New Banks:
- Deposit Banks: Engaged in short-term operations; Liabilities : Included sight deposits; Assets : Involved acceptances and discount operations, representing an innovative approach in banking.
- Investment Banks: Involved in long-term operations; Liabilities :Included joint stock, bonds, and other long-term instruments; Assets : Included corporate shares.
- Universal Banks: Engaged in both short and long-term operations; Liabilities : Involved joint stock and deposits; Assets: Included a wide range of operations such as acceptances, discounts, and corporate shares; Represented a mixed banking

model combining both deposit and investment functions.

Second Industrial Revolution

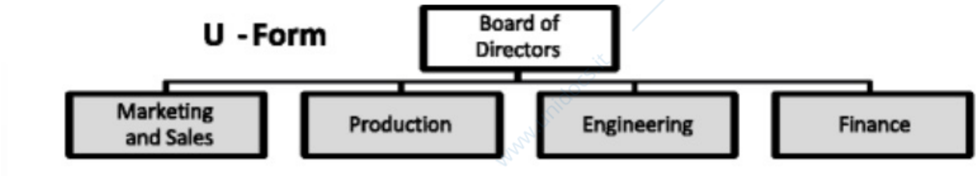
Compared to the first one = involves much more higher production volume and a much faster pace of change.

- TECHNOLOGY : determines a dualism between the sectors dominated by the large enterprise and the others.
- SCIENTIFIC ORGANIZATION OF LABOR : like a consequence of the increased investments and the spread of bug business = **Fordism**
- NATIONL CASES : US - GE, large corporations became prominent players.

Change of structure

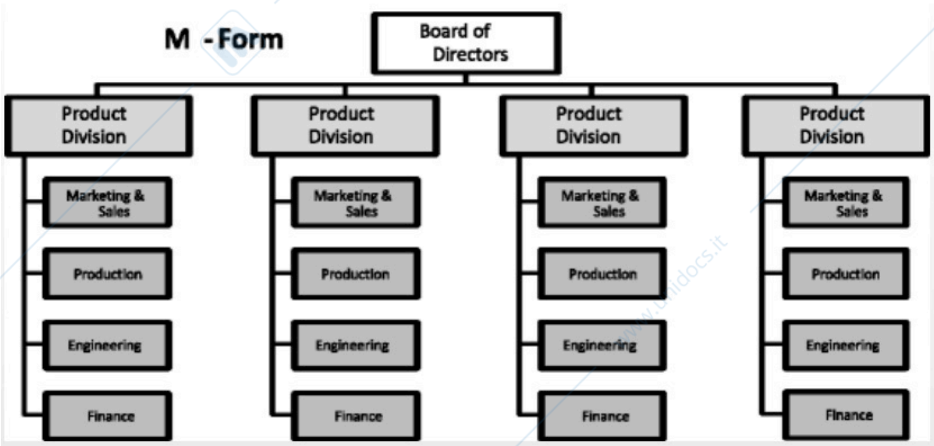
U-FORM

Highly centralized management. Disadvantages = non so flexible since all the decision are taken by a single directional center.



M-FORM

Decentralization of the company's management, divisions or company internal groups each of which is responsible for one sector: depending on the market segment or type of product.



The Rise of big Business in USA

The process during 19th-20th century marked a transformation point in American economic history.

- Internalization of Opertaions : Large industrial firms sought to internalize various stages of production and distribution within their operations. This operation aimed to streamline and consolidate the manufacturing and selling processes.

- Growth in Company Valuations. In 1860, no single American company was valued at more than $10 million. However, by 1904, over 300 companies had surpassed this valuation, indicating a significant increase in the size and scale of industrial enterprises.

- Formation of United States Steel Corporation. In 1901, the United States Steel Corporation was formed, becoming the first billion-dollar company in the world. This marked a major milestone in the consolidation of large-scale industrial enterprises. **By 1904,** corporations accounted for 3/4 of the United States' industrial output. This reflects the increasing dominance of large businesses in shaping the industrial landscape of the country.

The process of **Integration,** both vertical and orizontal, became very common in this period, more through mergers of formerly indipendent companies than internal merged. Over 3000 companies merged with a combined capitalisation of 6B dollars —> significant economic power. In 1890 : **Anti-Trust Act** to prevent anti-competitive practices. Emrged also an increasing separation between ownership and management —> rise of MANAGERIALISM.

The Roaring Twenties

USA emerged as the world's largest creditor nation = consequence of the rise of the GOLD reserve. American investments started flowing into EU, especially in GE like **foreign investments in German industry,** USA supported the recovery of central EU, it also became the economic pillar on which the global economy depended.

Technological advances —> the adoption of assembly line system, and the emergence of large corporations in various sectors led to a significant increase in production. The efficiency of these systems and the expansion of large corporations resulted in **overproduction challenges.** Large corporations operated in technologically advanced sectors and integrated both production and distribution activities, influencing a wide range of industries.

Start of the crisis

Firms promise high dividends —> all Americans wanted to partecipate : bought stocks. Stocks with LOW credit margin, an investor could buy a dollar's worth of stock. Also from the **middle classes —>** demand of stock increased = stock price rise and then rocketed —> MARKET INTO A BUBBLE.

USA in 1928 stopped investing in foreign bonds to invest in their funds, individuals with modest incomes purchase stock on credit. BUT ...

The market was unable to absorb the demand = OVERPRODUCTION. The industrial production index fell from : 127 of June to 99 of December.

- BLACK TUESDAY —> **WALL STREAT CRASH :** stock price plummet, the index at 381 in September fell 10 198 in November and keep falling. —> stop investments in EU to sold the existing assets to repatriate the funds.

This collapse had devastating consequences, leading to the **Great Depression of the 1930s,** a period characterized by a severe economic downturn, high unemployment, and widespread financial difficulties.

In response to the crisis = Federal Reserve (central bank of USA), adopted a **restrictive monetary policy, but** : this made extremely challenging for companies to obtain loans to fund their operations, contributing to the decline of the industrial sector and the rise in **unemployment**, there were also international consequences.

The combinations of different factors transformed the crisis into a prolonged and deep depression, the economic theory of **Classical Capitalism** also came under criticism.

Causes of the Depression :

- **Money Sector :** decline in quantity of money in the major industrial economies, contributing to the contraction of business and industries.

- **Real Sector :** autonomous fall in consumption and investments expenditure, decrease in demand for goods and services.
- **Agricultural Depression :** falling price and overproductio, he agricultural crisis cobtributed to broader economic challenges.

Response to GD = NEW DEAL

Economic recovery and social reform in the areas of : - baking - industrial agricultural - monetary - infrastructure.

1. BANKING : the government suspended all banking transactions for a week to stem bank failures and restore conifidence in the financial system. **Glass-Steagall =** separated commercial banking from investement banking.
2. NRA (national industrial recovery act) = private economic planning with government supervision to protect the public interest and guarantee the right of labour to organize.
3. AAA (Agricultural Adjustament Act) = it reduced production, by paying subsidies to farmers and obliged them not to plant part of their land. —> to reduce crop surplus and raised tha value of crops.

EUROPE BEFORE THE WAR

ITALY

Introduction of Fasciscim, Mussolini took power in 1922.

- celebrate use of force and elevate war
- Industries organised as trade associations
- Labour unions were suppressed
- Prices - wages - social insurance controlled by the state
- Government sought to counter the depression by creating large state-supported enterprises in key sectors of economy.

GERMANY

Introduction of Nazism.

- 1933 6 milion of unemployed = 1/4 of the labour force
- 1939 more jobs than workers. —> large-scale public works program
- Expansion of industries
- Suppression of voluntary trade unions.
- Industrialist were persuaded to cooperate with te new industrial regime = **make German sel-sufficient in the event of war : Autarkie** (new synthetic commodities)

SPAIN

General Franco came to power in 1936.

- began of a bloody civil war that ended in 1939 —> institution of an autarkic regime.

WORLD WAR II 1939-1945

The most massive and destructive of all wars .

War of movement and Aerial warfare : war by sea - air - lan. Aerial warfare was a critical element —> science-based technology playing a significant role in the development of new weapons. **American Economy** provided military and economic support to the allies. 1 trillion dollars of costs and 15 M of human losses.

Third Industrial Revolution

Post WWII

Europe faced significant challenges in rebuilding its economies. The urgent need for emergency relief and reconstruction led to substantial efforts, with much of the assistance originating from the United States. Two major channels of relief were instrumental in post-war recovery:

- **Allied armies distribution** (1944-45) = As Allied forces advanced across western Europe, they distributed emergency rations and medical supplies to the population. This immediate assistance helped address the immediate needs of the affected regions.
- The **United Nations Relief and Rehabilitation Administration** (UNRRA) = The organization delivered $1 billion along with 20 million tons of food, clothing, blankets, and medical supplies. The United States bore two- thirds of the costs for this relief effort, underlining its significant contribution to post-war reconstruction.

USA —> emerged stronger than ever, their industries and agriculture benefited from high demand in wartime, allowed technological modernization and expansion.

In 1948 USA experienced inflation and a severe depression = most important tasks were to restore normal law and order, there was a widespread public demand for political-social-economic reforms. —> to response **Nationalization of key sectors.**

The commitment to rebuilding the world trading system was underscored by the signing of the **Atlantic Charter in 1941** by President Roosevelt and Prime Minister Churchill. This charter pledged their countries, along with other United Nations members, to undertake the restoration of the global trading system, emphasizing the importance of international cooperation in post-war reconstruction.

Bretton Woods Conference

1944 delegates from 44 allied nations, the aim of the conference was to reshape the post-war international economy. Established the rules for commercial and financial relations among the countries, also to prevent competitive devaluation of the currencies. Two different plans: • Keynes • White.

Gold exchange standard = only the dollar was convertible in Gold, other currencies were convertible into dollar with a fixed exchange rates among currencies. But EU had immense unsatisfied demands for goods produced in the USA.

Bretton Woods contributed to create the **Embedded Libaralism** = free market tempered by state welfare.

The Marshall Plan 1947

The Marshall Plan represents a crucial chapter in post-war history, aiming to assist European nations that, except for Germany, had regained their prewar levels of industrial production but were far from satisfactory. General George C. Marshall established an assistance program for European nations. —> USA and Canada lent $5billion to Great Britain, that it used for its own country and other countries too.

Representatives of 16 nations formed the **European Economic Cooperation (OEEC)**, this body was responsible for allocating American aid and included all democratic nations of Western Europe, Franco's Spain was not invited, and

Germany, still under military occupation, had no government to represent.
1948 = **European Recovery Program :** 13 billion $ in assistance from USA to EU, OEEC facilitated the import of scarce commodities from dollar zone, enabling industries to rebuild an export.

Meanwhile broke out the division between Russia and USA —> **division of Germany.**
Allies allowed the dismantling of German armaments and other heavy industries, limitations on productive capacity, trial for nazi leaders as war criminal. West EU realized that the German economy would have to be kept intact to assist in the economy recovery of WE. American military government financed 2/3 of the essential imports in German, meanly food.
Reform of the German currency replacing the debased nazi Reichsmarks with Deutschmark at a 1:10 ratio.