

For Profit: A History of Corporations

Magnuson, William

two THE BANK

Highlight (yellow) - Page 51 · Location 809

Needless to say , the complexity of all these transactions — bills of exchange , dry exchanges , discrezione deposits , currency fluctuations , branch withdrawals , and many others — required careful documentation . The Medici Bank had to keep track of its assets and liabilities over long periods and across borders if it wanted to grow its business and perpetuate its elaborate anti - usury subterfuges . To do so , the Medici Bank used a system known as double - entry bookkeeping , a brilliant form of accounting that remains in widespread use today . Under the double - entry system , each transaction of the bank led to two entries in the bank's accounts : one credit and one debit . The system helped the bank to prevent sloppy record keeping , as mistakes were easily detectable if one side of the account did not balance with the other . Though the Medici didn't invent double - entry bookkeeping — other Florentine banks of the time also used the method , and there is evidence of its use in Genoa as early as 1340 — they perfected the art . The bank's accounting records were so comprehensive that we are still able to reconstruct with pinpoint accuracy the profits and losses made by individual branches in individual years for most of the bank's existence . It is a remarkable testament to the Medici Bank's fine - tuned system of financial engineering .

three THE STOCK

Highlight (yellow) - Page 70 · Location 1106

Yet the East India Company did have one great advantage over many other businesses : it was a “ joint stock company . ” Joint stock companies , a new concept in English law , proved particularly well suited to the grand voyages of the Age of Discovery . In short , they allowed businesses to sell stock in their companies to investors , who would pay in cash up front in return for a slice of future profits down the line . This was convenient for trading companies , which had high up - front costs (equipping and manning merchant vessels was expensive) and would only turn profits , if ever , several months or years later , after their ships had had time to sail halfway around the world and back again . The joint stock company seemed poised to usher in a new era of global commerce . There was just one problem : it wasn't clear how the stocks would work . Would stockholders have a right to all future profits of the company or just some of them ? Would they have a say in how the company was run , or would they simply receive dividends ? These sorts of questions were unsettled at the time , and different companies adopted different approaches . In the case of the East India Company , the managers had settled on a system of “ separate voyages , ” in which stockholders would subscribe for a single voyage consisting of several ships that would sail out together . The

arrangement helped stockholders limit their risk ; the profits from one or all of the ships in their voyage would be paid in a year or so , depending on how swiftly the ships sailed . But the structure created an unexpected problem : traders from different voyages started fighting with each other . Because traders within the same company were compensated based on the success of their own voyage , not on the success of other ones , they had no incentive to cooperate . In fact , they often undercut each other , negotiating side deals with foreign merchants that favored their own voyage or feeding bad information to lead new voyagers astray . As John Jourdain saw firsthand , these tensions sometimes exploded into violence .

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But stocks have one great merit and one great flaw . The merit is that they grant their holders limited liability . This is a marvelous power . You own a company , but you are not responsible for what it does . If Apple makes a phone that catches fire , its shareholders don't have to reimburse the victims . If Apple is found to have violated privacy laws , the shareholders don't have to pay the fines . If Apple doesn't pay back its lenders , the shareholders don't have to make them whole . From the perspective of a capitalist looking to put his money to work , it is hard to beat stocks . You get none of the risk and all of the upside . Or at least , most of the upside . The great flaw of the joint stock system is that it severs the link between ownership and management . Shareholders have nominal ownership of the company , but a group of sometimes conflicted directors have day - to - day control over it . I said above that shareholders have a say in how their corporations are run . That isn't entirely correct . They have a say in some matters but far from all of them . In fact , the only matter they have a regular say in is the election of directors , which happens just once a year . Once the election has occurred and the directors have been appointed , the shareholders then sit back and twiddle their thumbs until the next election , with little control over the actual direction of their company .

Highlight (yellow) - Page 74 · Location 1159

That does not mean , however , that shareholders are uninterested in stocks . To the contrary , people pay so much attention to stocks that a theory has emerged to describe the effects of this collective obsession : the efficient markets theory . The efficient markets theory asserts that all information available about a company is built into its stock price . This is an astounding idea . Not just some information , not just most information , but all information , of all kinds , is somehow instantaneously gathered and beamed into the stock price of a company as soon as it emerges . Apple earned higher profits this year than last ? Already incorporated . It's planning to release a bigger , more powerful iPhone in September ? Already incorporated .

Highlight (yellow) - Page 75 · Location 1176

From 1600 to 1874 , when it was finally dissolved , the East India Company became deeply integrated in the lives of people around the globe . It was the company's tea that made England a country of tea drinkers and that the Sons of Liberty dumped into Boston Harbor during the Boston Tea Party . It was the company's opium that led to the Opium Wars in China . It was the company's stock that dominated the booms and busts of the emerging London stock exchange and the company's coffee that was served at the coffeehouses sprouting up nearby in Exchange Alley . It was the company's soldiers who conquered Bengal and led to company rule over India for over one hundred years . The company's affairs — and scandals — inspired the writings of such diverse

thinkers as Adam Smith , Karl Marx , and Napoléon Bonaparte . It would be hard to improve on Edmund Burke's assessment of the company's vertiginous rise : “ The Constitution of the Company began in commerce and ended in empire . ”

Highlight (yellow) - Page 77 · Location 1217

At the stroke of a pen , just over two hundred men in London had acquired control of a trading territory that covered a majority of the earth . In return for this massive privilege , the charter was clear about what the company was expected to do : it was to contribute to the greatness of England . The charter stated that the queen was granting the merchants their rights “ for the honour of this our realm of England , as for the increase of our navigation , and advancement of trade of merchandize . ” The ties between the East India Company and the English nation even extended to the company's branding . The East India Company chose for its corporate seal an image of two golden lions holding a shield decorated with three ships flying the English flag , along with the words *Deo ducente nil nocet* — “ Where God leads , nothing can harm us . ” This explicit connection between corporation and crown led William Blackstone to write in his *Commentaries* that corporations were created “ for the advantage of the public . ”

Highlight (yellow) - Page 80 · Location 1263

Overall , the trade with the East Indies was quite profitable . Spices could be bought for a pittance abroad and resold at many times the original price in London . Ten pounds of nutmeg in the Banda Islands cost less than half a penny and ten pounds of mace less than five pence . In England , they could be sold for £ 1.60 and £ 16 , respectively , a return of 32,000 percent . Early investors consistently earned high returns . Between 1601 and 1612 , returns on capital were 155 percent . Cloves from the third voyage made profits of over 200 percent . Between 1613 and 1616 , company returns were 87 percent .

Highlight (yellow) - Page 82 · Location 1291

As these comments suggest , not everyone appreciated the East India Company's efforts . Some of the harshest critiques came from the English wool industry , whose workers worried that the company's imports of high - quality Indian textiles threatened their livelihoods . Weavers , spinners , dyers , and shepherds united in accusing the company of undercutting them and destroying domestic jobs . Political pressure grew throughout the latter half of the century until , in 1696 , the House of Commons proposed a bill prohibiting companies from importing any more silk or calico from India . When the bill failed in the House of Lords , thousands of angry London weavers marched to Westminster to protest . Along the way , they broke down the door of the East India House and sacked the residence of the company's deputy governor . British soldiers had to be called in to protect the houses of other East India Company executives . In the end , the weavers had their way : in 1700 , Parliament enacted a new Calico Act , banning calico imports into the country .

Highlight (yellow) - Page 82 · Location 1301

Its far - flung commercial empire , spanning the greater part of the globe , was run by a small group of men operating out of a single building in London and thus required a system of checks and balances that ensured that employees around the world vigorously pursued the company's interests . It had a board of directors that met regularly in the company's London headquarters , the East India

House . It had local managers and civil servants located in major foreign outposts to oversee the company's sprawling operations . It developed an extensive record - keeping system in which managers were required to maintain detailed ledgers of the contents of warehouses and the terms of contracts . This was a remarkable level of efficiency for a business operating in the seventeenth century .

Highlight (yellow) - Page 83 · Location 1307

But one of the most important innovations of the East India Company was the idea of a stock . The East India Company was not the first joint stock company in England (others date back to as early as the 1550s) , but it was certainly the most successful . The joint stock company had three key advantages over the more common partnership : investors had limited liability and thus could not be sued for any losses that the company incurred ; stocks could be freely traded among the public and thus could attract capital from a wider array of people ; and the company had a stable source of capital and thus could take a longer - term view of its business prospects . All of these attributes were essential for the East India Company , which required massive amounts of up - front capital to supply and equip ships to sail to the East Indies and might not receive returns for two years or more . As the merchants explained in their initial petition to the queen , “ A trade so far remote cannot be managed but by a joint and united stock . ”

Highlight (yellow) - Page 83 · Location 1314

While the idea of a “ joint stock ” was attractive to the East India Company , figuring out exactly how it should work in practice took some time . The learning process was a rough - and - tumble affair . The story of John Jourdain and his rebellious colleagues was one example . Another revolved around how to manage the relationship between shareholders and managers . Shareholders formally owned the company (a fact made evident by the name they were originally given in the company : the “ Court of Proprietors ”) , but , as a general matter , they were not involved in the running of it . Instead , management was delegated to a group of directors or “ committees ” (known not as the board of directors but rather as the “ Court of Committees ”) . This brought with it an inherent tension . The managers made day - to - day decisions , but the lion's share of the profits from these decisions went to the shareholders . How could the shareholders ensure that managers did their jobs diligently and managed their money dutifully , and how could managers ensure that they were properly compensated for their work ?

Highlight (yellow) - Page 85 · Location 1336

Once the directors had settled on a particular business strategy , they would then send letters to their overseas subsidiaries with orders , specifying things like what to buy and at what price . Each trading post , or “ factory , ” had its own president whose responsibility it was to execute these orders . How governors went about meeting the demands of the directors was left largely to their own discretion , though , and governors could amass large personal fortunes as a result .

Highlight (yellow) - Page 85 · Location 1339

Elihu Yale served as president of the Madras factory from 1687 to 1692 and , during his time there , engaged in a number of questionable transactions that redounded more to his own benefit than the company's . He may have participated in the slave trade ; he certainly used the company's funds for

private speculation . The company eventually removed him from his post , but by then his fortune had already been made . He returned to London a very rich man . In 1718 , he ended up donating a set of books to a recently established university in New Haven , which would soon be renamed Yale in his honor .

Highlight (yellow) - Page 86 · Location 1362

But monitoring the behavior of employees thousands of miles away was not an easy task , and all sorts of vice and debauchery sprang up — to the detriment of local populations and company managers alike . The chaplain at Fort St . George wrote a letter to the board of directors in 1676 , complaining of the riotous behavior of East India Company employees and pleading for help . “ Your heads would be fountains of water , and eyes rivers of tears , did you really know how much God is dishonoured , his name blasphemed , religion reproached amongst the gentiles , by the vicious lives of many of your servants , ” the chaplain wrote . He vigorously entreated them to take more care with the quality of employee they sent abroad , as the ones he saw engaged in the most abominable practices .

Highlight (yellow) - Page 87 · Location 1375

In order to improve behavior in the ranks , the company instituted a strict hierarchy in its foreign offices , with gradually increasing salaries and responsibilities and promotions dependent on good comportment . New hires were made “ writers ” (effectively , clerks) , a position they would remain in for five years , after which they could be promoted to factor . After three years , factors would be promoted to merchants . If they were very lucky , merchants might be named to the president’s council or even made president . In 1764 , the company even created a sort of code of ethics , banning the receipt of gifts above a certain value . 20 Over time , the East India Company’s emphasis on hierarchy and organization proved a potent stimulus to growth . The business of the company steadily expanded until eventually it encompassed seemingly every trade that existed in the world . Originally focused on spices like pepper , cinnamon , and nutmeg , the East India Company then started trading in Indian textiles , from seersucker to silk to calico , changing the styles and fashions of England forever . Soon after , it moved into tea and , by the 1750s , was importing three million pounds of tea leaves a year . (Thomas Twining , the famed tea merchant , worked for the company at one point .) Then it moved into saltpeter (an important component of gunpowder) and coffee . It also engaged in slave trading , sending an estimated three thousand enslaved people to destinations from Goa to St . Helena . This array of activities led the company to set up a network of offices across the globe . The first factories were in Java and the Spice Islands . By the early 1700s , the company had bases all along the coast of India . It sent representatives to Japan , China , Singapore , Basra (in modern - day Iraq) , Gombroon (in modern - day Iran) , and Mocha . It was a global powerhouse .

Highlight (yellow) - Page 88 · Location 1389

THE EAST INDIA COMPANY DROVE THE DEVELOPMENT of one of London’s defining institutions : the stock exchange . Joint stock companies were defined by their capacity to access the capital markets — that is , the money of other people . In order to do that , they needed a way to reliably find buyers of their stock . The stock exchange turned out to be the solution . In the early years of the East India Company , the purchase of shares took place at the Royal Exchange , an imposing stone building on Cornhill Street devoted to commerce and trade . But it soon became

clear that stockbrokers — the class of intermediaries that had sprung up to connect willing sellers of stock with willing buyers — disrupted the Royal Exchange with their boisterous behavior , and so the business moved outside to the streets of Exchange Alley . Exchange Alley also happened to be amply supplied with coffeehouses , a favorite of stockbrokers who enjoyed the jolt provided by caffeine and the buzz provided by alcohol (coffeehouses did not serve only coffee at the time) . Coffeehouses soon turned into bustling gathering places , where Londoners could stop to enjoy a cup of coffee and linger to read the newspaper and discuss the day's business affairs . One coffeehouse in particular , Jonathan's Coffee House , earned a reputation as the center of London's burgeoning capital markets , and by 1698 stock prices were regularly posted there . London's days at the center of international finance had begun .

Highlight (yellow) - Page 89 · Location 1407

At the same time that he was heaping abuse on his inferiors , he was also perfecting the art of manipulating his own shareholders . Daniel Defoe explained his strategy of false rumors and secretive buying sprees : If we may believe the report of those who remember the machines and contrivances of that original of stock - jobbing , Sir Josiah Child , there are those who tell us letters have been ordered , by private management , to be written from the East Indies , with an account of the loss of ships which have been arrived there , and the arrival of ships lost ; of war with the Great Mogul , when they have been in perfect tranquillity ; and of peace with the Great Mogul , when he was come down against the factory of Bengal with one hundred thousand men ; — just as it was thought proper to calculate those rumors for the raising and falling of the stock , and when it was for his purpose to buy cheap , or sell dear .

Highlight (yellow) - Page 89 · Location 1414

By the end of the century , government bureaucrats became so concerned with rampant insider trading and manipulation on stock exchanges that they issued a damning report on the “ present state of our trade , ” which , they concluded , was very poor indeed , and all because of the invention of the stock . The Commissioners of Trade wrote in the 1696 report , The pernicious art of stock - jobbing hath , of late , so wholly perverted the end and design of companies and corporations , created for the introducing , or carrying on , of manufactures to the private profit of the first projectors , that the privileges granted to them have , commonly , been made no other use of , by the first procurers and subscribers , but to sell again with advantage , to ignorant men , drawn in by the reputation , falsely raised , and artfully spread , concerning the thriving state of their stock . Thus the first undertakers , getting quit of the company , by selling their shares for much more than they are really worth , to men allured by the noise of great profit , the management of that trade and stock comes to fall into unskillful hands ; whereby the manufactures , intended to be promoted by such grants , and put into the management of companies for their better improvement , come , from very promising beginnings , to dwindle away to nothing .

Highlight (yellow) - Page 90 · Location 1424

The birth of the stock exchange had changed the nature of corporations . Rather than devoting themselves to the honor and prosperity of the nation , corporations had transformed into backroom gambling houses , venues for the skilled and the conniving to enrich themselves off the ignorant and the naive . And there were no casino managers to ensure the game was played fairly .

Highlight (yellow) - Page 90 · Location 1427

A CORPORATION WITH GLOBAL REACH , BOTTOMLESS CAPITAL , AND minimal oversight was bound to overreach . The only question was where its grasping arm would extend . Politics turned out to be its arena of choice . As the East India Company grew , it began to treat the British government more like a trading partner , to be bought off , ignored , or actively undercut , than like a sovereign . Josiah Child , again , stands out as an exemplar . In the late 1600s , Child engaged in rampant bribery to win political favor in England . Members of Parliament were eager participants in the joint stock companies of the day , and so Child knew he had a hook . Horace Walpole would later say , “ From the Alley to the House is like a path of ants . ” So when Child was elected governor of the East India Company in 1681 , he knew what to do : he promptly made a gift to Charles II of ten thousand guineas . He repeated the gift for the next seven years . When the company’s charter was up for renewal , he bribed politicians to ensure they would vote in his favor , leading one investigator to observe , “ Companies have bodies , but it is said they have no souls ; if no souls , no consciences . ” Child was so disdainful of government regulation that , at times , he explicitly instructed employees to violate it . After Parliament passed a resolution giving all companies equal rights to trade in the East Indies , thereby eliminating the East India Company’s monopoly , he wrote to company officials in India to ignore it : they should follow his orders , “ not the laws of England , which were a heap of nonsense , compiled by a few ignorant country gentlemen who hardly knew how to make laws for the good government of their own private families , much less for the regulating of companies and foreign commerce . ”

Highlight (yellow) - Page 91 · Location 1440

But Child’s greatest legacy was his transformation of the East India Company from a group of merchants , focused on trade and money , into a company - state , focused on war and power . While violence had always been inextricably linked with the company’s business — its ships bristled with guns , and its maiden voyage captured a Portuguese trading ship — the East India Company’s directors had long sought to avoid actual war .

Highlight (yellow) - Page 92 · Location 1448

as our interest , that we cannot too often inculcate to you our aversion thereunto . ” 26 Under Child , all this changed . His primary business strategy , if you can call it that , was for the East India Company to establish military control over Bengal at all costs . Once it had done so , he believed , the company could finally get out from under the foot of local rulers and foreign companies .

Highlight (yellow) - Page 92 · Location 1460

“ Of this vast programme , conceived in ludicrous ignorance of the geographical distances and with astounding disregard of the opposing forces , not a single item was carried out . ”

Highlight (yellow) - Page 94 · Location 1491

Given the difficulty of communicating between Bengal and London (it could take as much as a year for a letter to arrive in London and then another year for the response to arrive back in Bengal) , such detailed instructions would have been impossible .

Highlight (yellow) - Page 94 · Location 1496

Indeed , for most of the conflict , the directors were entirely unaware of what was happening .

Highlight (yellow) - Page 95 · Location 1512

Recognizing that news of the diwani would cause the company's stock price to skyrocket once it reached London , Clive hastily sent a letter to his agent telling him to buy up company stock . Writing in code in order to ensure secrecy , he instructed his agent , “ Whatever money I may have in the public funds or anywhere else , and as much as can be borrowed in my name , I desire may be , without loss of a minute , invested in East India stock . You will speak to my attorneys on this point . Let them know I am anxious to have my money so disposed of , and press them to hasten the affair as much as possible . ” The stock price doubled over the course of the next eight months , delivering Clive a handsome profit .

Highlight (yellow) - Page 96 · Location 1518

But the military victory also brought with it deep changes in the way the East India Company saw itself . What had been an economic institution slowly turned into a governmental one . It levied taxes . It raised armies . It declared war . Edmund Burke , describing the situation of the company , concluded , “ The East India Company in Asia is a state in the disguise of a merchant . ” Another commentator , referring to the company's official name , the “ United Company of Merchants of England Trading to the East Indies , ” pointed out that the men of the East India Company were neither merchants nor trading with India . They were , instead , an empire , focused on collecting taxes , administered by civil servants , and supported by a private army .

Highlight (yellow) - Page 96 · Location 1523

Almost immediately , the East India Company's experiment as a company - state started to show cracks . Eager to extract revenue from Bengal , it raised taxes on an already impoverished populace . Finding that Bengali weavers were not producing textiles quickly enough , its managers punished them severely , with fines , imprisonment , and floggings distressingly common .

Highlight (yellow) - Page 96 · Location 1526

The company's disregard of water supplies and crop production , as well as its hoarding of grain , contributed to a terrible famine in 1770 . “ All through the stifling summer of 1770 , the people went on dying , ” wrote historian William Hunter . “ The husbandmen sold their cattle ... ; they devoured their seed - grain ; they sold their sons and daughters , till at length no buyer of children could be found ; they ate the leaves of trees and the grass of the field ; and in June 1770 [a company official] affirmed that the living were feeding on the dead . Day and night a torrent of famished and disease - stricken wretches poured into the great cities . ” The famine caused the deaths of between two and ten million Bengalis .

Highlight (yellow) - Page 97 · Location 1532

Outside India , the East India Company threw its weight around to get special treatment for its products , often with disastrous results . In 1773 , the company , finding itself with a backlog of tea

in its London warehouses , convinced the British Parliament to pass the Tea Act , granting it the right to ship tea directly to North America without paying export duties . Local Boston merchants , fearful of being undercut by the cheap East India Company tea , helped organize a revolt , the culmination of which witnessed Bostonians dressing up as Mohawk warriors , boarding English ships , and tossing the despised East India Company's tea into the water . The Boston Tea Party marked a key turning point in relations between America and Britain , and the East India Company's corporate rapaciousness became a rallying cry in the American Revolution .

Highlight (yellow) - Page 97 · Location 1544

The East India Company also attracted the attention of two philosophers developing new theories about nations and economies .

Highlight (yellow) - Page 97 · Location 1545

Adam Smith , the father of modern capitalism , famously wrote in *The Wealth of Nations* that an “ invisible hand ” leads individuals pursuing their self - interest in a free market to simultaneously and unintentionally promote the interest of society more broadly . But in a somewhat less well known section of his treatise , Smith cast doubt on the ability of corporations to do the same . The capitalists who own stock in corporations , according to Smith , are “ an order of men , whose interest is never exactly the same with that of the public , who have generally an interest to deceive and even to oppress the public , and who accordingly have , upon many occasions , both deceived and oppressed it . ” Smith then launched into a remarkable screed against the East India Company , which he believed to be irremediably flawed . Managers ordered entire fields destroyed just because they “ foresaw that extraordinary profit was likely to be made ” by induced scarcity . Employees were “ more disposed to support with rigorous severity their own interest , against that of the country which they govern . ” The English nation had suffered , paying “ not only for all the extraordinary profits which the company may have made ... but for all the extraordinary waste which the fraud and abuse inseparable from the management of the affairs of so great a company must necessarily have occasioned . ” So had India . “ It is a very singular government , ” Smith observed , “ in which every member of the administration wishes to get out of the country , and consequently to have done with the government , as soon as he can , and to whose interest , the day after he has left it , and carried his whole fortune with him , it is perfectly indifferent though the whole country was swallowed up by an earthquake . ” In conclusion , Smith wrote that the East India Company and all companies like it were “ nuisances in every respect ; always more or less inconvenient to the countries in which they are established , and destructive to those which have the misfortune to fall under their government . ”

Highlight (yellow) - Page 98 · Location 1560

Karl Marx , whose theory of communism would emerge as the primary alternative to Adam Smith's capitalism , was , for perhaps the first time in his life , in complete agreement with Smith . In 1853 , in an essay in the *New York Tribune* , Marx wrote , “ The Company of English merchant adventurers ... conquered India to make money out of it . ” The results had been nothing less than catastrophic . “ It is settled beyond all doubt , ” Marx said , “ that there is in India a permanent financial deficit , a regular over - supply of wars , and no supply at all of public works , an abominable system of taxation , and a no less abominable state of justice and law , that these five items constitute , as it were , the five points of the East Indian Charter . ” To Marx , these evils were

not the result of bad apples in the company or mismanagement by its executives . They were the inevitable result of the structure of stocks themselves . “ On looking deeper into the framework of this anomalous government , we find at its bottom a third power , more supreme than either the Board [of Control] or the Court [of Directors] , more irresponsible , and more concealed from and guarded against the superintendence of public opinion . ” “ Who is the master at Leadenhall St . ? ” Marx asked , referring to the East India House . “ Two thousand persons , elderly ladies and valetudinarian gentlemen , possessing Indian stock , having no other interest in India except to be paid their dividends out of Indian revenue . ” For Marx , there was something rotten at the very core of the stock .

Highlight (yellow) - Page 99 · Location 1572

Eventually , the British Parliament came to much the same conclusion . A financial crash in 1769 led the East India Company to the brink of bankruptcy , and the company requested a bailout from the government . The government issued a loan but in return forced the company to limit dividend payouts and to create a new council in Calcutta controlled by Parliament . In 1783 , the company again ran into financial straits , and the board again wrote to Parliament for aid . Parliament once again provided a bailout but this time took full control of the company . The India Act created a government - controlled Board of Control for the company that would have full powers to direct the company’s civil and military affairs abroad . The British government also reserved the right to remove executives in India . While the East India Company would nominally continue its business for another seventy years (until the Indian Mutiny in 1857 led the British government to fully nationalize the company) , its era as a private corporation was for the most part at an end . It had become an arm of the British government .

Highlight (yellow) - Page 100 · Location 1587

THE STOCK AND the exchange are the two ingredients of every capitalist system . The stock allows corporations to raise capital from the public . The exchange allows the public to profit from their stock . As the East India Company discovered to its great delight , this combination is an explosive one . Investors give money to promising companies , and the companies put the money to work on new ventures . When the ventures pay off , the investors make money , which they can then reinvest back into promising companies . Profit . Rinse . Repeat . The only limits are the ambition of executives and the pockets of the public .

Highlight (yellow) - Page 100 · Location 1591

But the stock and the exchange also created new problems for corporations . Stock severed the already tenuous link between the owners of companies and their managers . Shareholders owned corporations , but they had little to no say over what those corporations did . Corporate directors might line their own pockets , or raise their own salaries , or pay themselves giant bonuses , all at the shareholders ’ expense , with little accountability or even likelihood of being caught . There were , of course , ways to reduce these conflicts . Companies could give managers some stock in the company to help align their incentives with those of other shareholders . They could hire accountants to check the books for fraud or mismanagement . They could hire directors with reputations for rectitude and honesty . But these were just stopgaps . They might reduce the symptoms , but they didn’t get at the root cause of the problem .

Highlight (yellow) - Page 101 · Location 1598

The stock exchange also brought a revolutionary change to the spirit of the corporation . With the rise of stock exchanges and the widespread trading of shares , shareholders steadily became more detached from the companies they owned . They often cared more about the price of shares than they did about the companies those shares were attached to — arguably , their demands for higher stock prices led corporations to engage in ever more cutthroat practices to eke out greater profits . It turned out that stock prices were also susceptible to all sorts of strange behaviors . They were fickle things . They boomed . They busted . They bubbled . They burst . Rumor and gossip ran rampant . As a result , the stock exchange became little more than a guessing game . But traders weren't trying to guess what a corporation would do next . They were trying to guess what other traders were guessing . Capitalism became a game within a game . The stock exchange brought the corporation into stormy new waters , where it was lifted up and tossed down , pulled to and fro , in violent and unexpected ways , all by the fickle will of the market .