three

THE STOCK

IN AUGUST 1613, JOHN JOURDAIN SAILED TO THE ISLAND OF Java in high spirits. The chief merchant of the East India Company had led his crew on a successful six-month journey to the Spice Islands to secure a precious cargo of cloves. He was looking forward to reuniting with his colleagues, who had stayed in Bantam to repair their ships and trade with the locals, but when his ship entered the bay, he and his crew were met with an eerie sight.[1]

The company's flagship, *Trade's Increase*, the greatest English merchant vessel of its era—so large it had failed to launch from its dock four years before—was moored near the shore without a single soul on board. Jourdain called out to the ship and had one of his men fire his gun in the air, but there was still no response. He scanned the beachline and noticed there was no one on the beach either. He began to worry about an ambush from the locals and prepared his men for combat. Just then a rowboat appeared in the distance heading toward them. Jourdain recognized the four men on board as fellow East India Company traders, but they were not their normal hale and hearty selves. They looked as if they had seen a ghost.[2]

They climbed aboard and told Jourdain that a disease had come to Bantam, killing many of the English and leaving the rest weakened. They were the only four healthy enough to greet the merchant and warned him not to come on land. Jourdain remained skeptical: How bad must it be for not a single person to signal him from the shore? He pressed them further, and eventually one of the visitors pulled Jourdain aside and whispered the truth. "The men do not greatly care for your coming aland," he said, "and are determined not to receive you as principal merchant."[3]

During his six months at sea, a war had indeed broken out, but not with the Javanese. A civil war had erupted over a novel financial concept called a "stock." In the early 1600s, when traders like Jourdain were searching for exotic products like cloves and pepper and nutmeg, the East India Company was still decades away from emerging as "the grandest society of merchants in the Universe" and many more years away from inspiring the works of Adam Smith and Karl Marx, and having its tea dumped at Griffin's Wharf during the Boston Tea Party in 1773. Instead, the East India Company was simply a small society of London merchants desperately seeking to carve out a niche for themselves in the expanding world of global trade. It had been founded on New Year's Eve of 1600, chartered by Queen Elizabeth I, and its first voyages had been profitable, but not overwhelmingly so. 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.

During Jourdain's absence, the East India Company merchants had split into rival gangs, with members of the Sixth Voyage setting up a trading post in the upper part of town, and those of the Eighth Voyage doing the same in the lower. Both gangs asserted that they had a right to the contents of the company's warehouses and the profits they would bring when shipped home to London. When Jourdain came ashore, he negotiated peace between the two factions, though not without a brief skirmish, with swords, guns, and halberds drawn, between the two sides. Fortunately no one was hurt, and in the course of the next two weeks, everyone came to an agreement. But Jourdain and his colleagues had recognized one thing: their form of investment holding needed to be improved.[4]

In 1614, the East India Company abandoned the separate-voyages system and adopted a joint stock that gave shareholders ownership of the company itself, not just a portion of it. The change facilitated a dramatic rise in the fortunes of the East India Company, which would soon become the richest and most powerful corporation the globe had ever seen, reigning supreme over global trade for the next two centuries. It also paved the way for a remarkable flourishing of London's financial markets—in the coming decades, a bustling stock exchange opened up along Exchange Alley, coffeehouses started listing share prices for the public to see, and an entire industry of stockjobbers, brokers, and bankers emerged to serve England's investors. And it was all because of stories like John Jourdain's, of intrepid adventurers seeking their fortunes thousands of miles away from their homelands, making mistakes, battling with fear and greed, and learning what worked and what didn't in the dawning age of capitalism.

TODAY, STOCKS ARE so important to our lives that it is hard to even imagine a world in which they didn't exist. Every day, newspapers and cable news channels avidly report on the ups and downs of the Dow Jones, on initial public offerings and exchange-traded funds, on booms and busts. Thousands of investment bankers and hedge fund managers around the world head to their offices to buy and sell stocks for a living. Workers invest their hard-earned salaries in pension funds and stock markets in the faith that stocks will one day fund a comfortable retirement. Our hopes and dreams are deeply invested in the idea of the stock.

At their heart, though, stocks are a simple concept, one developed by and for the corporation. A stock represents a share of ownership. If a corporation has one hundred shares, and you own fifty of them, then you own 50 percent of the company. This means that you have one half of whatever it is that owners are entitled to. While the rights and duties of shareholders are complicated legal issues—entire treatises are devoted to the subject—we can think about stocks as granting holders two basic buckets of rights. In the first bucket are the economic rights, which give holders of shares an interest in the company's profits. In the second bucket are the voting rights, which give holders a say in how the company is run. This all seems very humdrum and ordinary.

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. In fact, in this way, corporate democracy bears a strong resemblance to *actual* democracy. While we like to talk about democracy as government by the people, modern democracy in practice is government by elected representatives chosen periodically by citizens. In the same way, while we like to talk about shareholders as the owners of a corporation, modern shareholding is actually largely passive, entailing reliance on the decisions of professional directors whom most shareholders have never met and may not even know exist. Shareholders may own a company, but for the most part, they have very little to do with it.

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. Tim Cook has a headache this morning and is not responding to his emails? Already incorporated. One of the most important ramifications of the efficient markets theory is that no investor can accurately predict where stock prices will go in the future. By definition, any information that the investor has is information and, thus, like all other information, has already been taken into account in the stock price. The efficient capital markets hypothesis has its critics—some argue that not all information is incorporated into stock prices, others poke holes in how quickly the information is incorporated, and still others argue that stock prices fluctuate based on other factors, such as hopes and fears and biases, that have nothing to do with rational information diffusion—but the very fact that the theory exists, and has widespread acceptance among financial scholars, is a testament to the power of stocks in our imagination. Stock exchanges are the all-seeing, all-knowing watchers of capitalism.

The consequences of the stock have been momentous and yet not necessarily predictable. It is easy to think that our system of stocks and stock exchanges was inevitable, one required by our commitment to capitalism. But experience, not logic, led us here. The best way to understand how we arrived where we are is to look at the fate of one of the original joint stock companies, a company that perhaps had a greater impact on global affairs than any other, a company that governed nations. Let us turn to the East India Company.

THE STORY OF HOW A SMALL BAND OF MERCHANTS FROM PHILPOT Lane in London transformed itself into "the grandest society of merchants in the Universe" is perhaps the most remarkable one in the history of corporations. 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."[5]

The history of the East India Company officially began on New Year's Eve of 1600, when Queen Elizabeth I granted a charter to the "Company of Merchants of London Trading into the East Indies," but the company's roots lie much further back, in the dawn of the Age of Exploration. In 1498, the Portuguese explorer Vasco da Gama navigated around the Cape of Good Hope at the southern tip of Africa and arrived on the shores of India, where he announced that he came "in search of Christians and spices." The journey marked the beginning of a new era in European history, when explorers navigated the globe in search of the riches they presumed to be found across the seas. For the next century, the Portuguese would dominate trade with the East, bringing such exotic commodities as pepper, nutmeg, and clove to European markets.[6]

English merchants knew that the spice trade was lucrative, but just how lucrative remained obscure until a lucky break in 1587 shed new light on the Portuguese monopoly. In that year, Sir Francis Drake, England's government-backed pirate, was out raiding the Spanish coastline in an effort to slow down the construction of the Spanish Armada of King Philip II. In May, Drake raided the Bay of Cádiz and destroyed a large portion of the fleet, a feat that he called "singeing the beard of the King of Spain." Before returning to England, though, Drake decided to follow up on rumors he had heard about a richly laden Portuguese galleon named the *São Filipe* that was returning from India. It had reportedly wintered in Mozambique before recently embarking for Lisbon. Despite his stores being low and his crew exhausted, Drake decided to chance it and began cruising near the Azores in search of the ship. In a stroke of good fortune, Drake spotted the *São Filipe* just as he passed the coast of São Miguel Island, and he easily chased it down and captured it. He then sailed the captured ship back to Plymouth to catalog its contents. We still have the astounding list of the ship's cargo: calicos, quilts, taffetas, silk, indigo, pepper, cinnamon, cloves, mace, china, saltpeter, beeswax, nutmeg, and ebony. Inside a casket were more wonders: gold chains and bracelets, diamonds, rubies, crystal girdles, pearl rings, and bloodstones. Drake personally took the casket, with its precious cargo, to "deliver unto her Majesty with his own hands." In all, the *São Filipe* haul was worth £108,049, an astronomical sum equivalent to around $25 million today.[7]

Drake's discovery sent shock waves through London's merchant class. As scholar and historian Richard Hakluyt wrote, "The taking of this carrack wrought two extraordinary effects in England: first, that it taught others that carracks were no such bugs that they might be taken… ; and secondly, in acquainting the English nation more generally with the particularities of the exceeding riches and wealth of the East Indies; whereby themselves and their neighbours of Holland have been encouraged, being men as skillful in navigation, and of no less courage than the Portugals, to share with them in the East Indies."[8]

Armed with knowledge of the profits to be made in the East Indies, a group of merchants in London banded together and requested a charter for a new company, the Company of Merchants of London Trading into the East Indies, from Queen Elizabeth I. At the time, corporations could only be created by petitioning the crown (or, occasionally, the Parliament) for a charter: it was not a right to form a corporation; it was a privilege. The queen granted their request on the final day of 1600, making the 218 merchants "one Body Corporate and Politick, in Deed and in Name" and, importantly, giving them a monopoly over all trade between England and the East Indies. The breadth of this privilege was remarkable. The charter gave the company the sole right to "traffick and use the trade of merchandise… into and from the said East-Indies, in the countries and parts of Asia and Africa, and into and from all the islands, ports, havens; cities, creeks, towns and places of Asia and Africa, and America, or any of them, beyond the Cape of Bona Esperanza to the Straights of Magellan." In other words, the East India Company had exclusive rights to trade with any peoples located anywhere east of the Cape of Good Hope at the southern tip of Africa and west of the Strait of Magellan at the southern tip of South America. 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."[9]

The founders of the East India Company themselves were a diverse lot. There was Thomas Smythe, a merchant who had made a fortune in the silk and velvet trade before turning to politics as the sheriff of London, who served as the company's first governor (his house on Philpot Lane served as the informal headquarters of the company in its first years). There was John Watts, a wealthy shipowner who had fought against the Spanish Armada and whom the Spanish ambassador to England once described as "the greatest pirate that has ever been in this kingdom." There was Edward Michelborne, a soldier and adventurer who desperately hoped to be appointed commander of the East India Company's first voyage to the East and, when those hopes were disappointed, set up a competing corporation and was expelled from the East India Company, "disfranchised out of the freedom and privileges of this fellowship, and utterly disabled from taking any benefit or profit thereby." Sundry other merchants and traders with similarly speckled pasts populated the list of founders.[10]

It didn't take long for the fledgling capitalists to get started exploring their newly "acquired" territories. On February 13, 1601, just over a month after receiving its charter, the company launched its first voyage to the East Indies, aiming in particular for Indonesia and its purportedly ample sources of pepper. The adventures of this maiden voyage of the East India Company read like something out of a Jonathan Swift novel. The fleet consisted of four ships, the *Hector*, the *Susan*, the *Ascension*, and the *Red Dragon* (rechristened after its initial name, the *Scourge of Malice*, was deemed too bellicose for a trading company). Upon these ships were loaded 480 men and no less than thirty-eight cannons. The leader of the voyage, Thomas Lancaster, had had the foresight to bring bottles of lemon juice on board the *Red Dragon* to fend off scurvy, but the other ships failed to follow his good example. As a result, by the time the fleet reached the Cape of Good Hope, over one hundred sailors had died, and a great many others were sick.

In need of rest and refreshment, the men anchored in the bay of Saldanha, where they encountered a tribe of locals with whom they attempted to trade for provisions. We only have the British story of the encounter, and so the recounting is one-sided and, like many of the accounts of the time, shrouded in ignorance and prejudice. It may well have been a group of Khoekhoen, a pastoralist society that had lived in the region for centuries. "The people of this place are all of a tawnie colour, of a reasonable stature, swift of foot, and much given to pick and steal," one East India Company sailor wrote. "Their speech is wholly uttered through the throat, and they click with their tongues in such sort, that in seven weeks which we remained here in this place, the sharpest wit among us could not learn one word of their language." Eventually, the traders found a solution to the problem: Lancaster "spake to them in the cattle's language, which was never changed at the confusion of Babel, which was 'moath' for oxen and kine, and 'baa' for sheep, which language the people understood very well without any interpreter." After several pleasant weeks at Saldanha, the merchants sailed on, eventually arriving in Aceh, in Indonesia, on June 5, 1602, sixteen months after leaving England.[11]

The ruler of Aceh, Ala-uddin Shah, met them with a parade of elephants, trumpets, and drums, followed by a sumptuous feast and, to top it all off, a tiger fight. While on the island, the company bought pepper, cloves, mace, and nutmeg and set up "factories" (or trading outposts) on Java and the Spice Islands. When they learned that a Portuguese ship loaded with textiles from India was nearby, the company sailed out to capture it. Ala-uddin Shah, hearing of the affair, requested that the company bring him back a "fair Portugal maiden," but Lancaster demurred, telling Ala-uddin Shah diplomatically that "there was none so worthy that merited to be so presented." After a tumultuous trip back to England (the *Red Dragon* lost its rudder and nearly sank in a fierce storm off the Cape of Good Hope), the last ships finally arrived home on September 11, 1603—two years and six months from when they had first departed. They had paid a steep price for the voyage. Of the original 480 men, 182 had died during the round trip. But the profits were great as well. In aggregate, investors in the voyage received a 300 percent return on their investment.[12]

The East India Company was off to an auspicious start. The company would send many more voyages and more ships to the East Indies in the years to come, and the company's fortunes would rise. The *Red Dragon* would feature in many of these trips, at one point serving as the stage for the first-known performance of Shakespeare's *Hamlet*—in 1607 off the shores of Sierra Leone—and going on five trips in total before being sunk in 1619 by the Dutch. 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.[13]

But the company's spice trade was always hamstrung by the presence of an even larger and more vicious competitor: the Dutch East India Company. The Dutch had arrived in the East Indies before the British—an early Dutch voyage arrived in 1596—and they fiercely protected their turf, excluding the British East India Company from the islands and hindering its trade at every turn. The Dutch East India Company's approach to trade was unapologetically militant. In 1614, one of its managers, Jan Pieterszoon Coen, wrote to the company's board in the Netherlands, describing his theory of how the business should be run. "We cannot carry on trade without war, nor war without trade," he summarized. The British East India Company was not prepared for this type of no-holds-barred competition, and it regularly lost out to the Dutch. The final blow to the East India Company's spice trade came in 1623, when a Japanese ronin (or masterless samurai) employed by the Dutch East India Company in Ambon, in modern-day Indonesia, informed the Dutch that British traders were conspiring to seize the Dutch company's fortress there. The Dutch proceeded to arrest, torture, and execute ten British East India Company employees. The Ambon massacre sounded a wake-up call to the East India Company's board, which reluctantly concluded that the company had little recourse against the attack and no hope at all of ever wresting control of the spice trade from the Dutch.[14]

Undaunted, the East India Company pivoted to a new region that appeared potentially even more profitable than the Spice Islands: India. The Mughal Empire had developed a massive textile industry there, producing the world's highest-quality silks, calicos, and cotton. The Mughal emperors were also more than willing to trade with foreign enterprises. The company soon established factories all along the coast, in Surat, Calicut, Bombay, Madras, Masulipatam, and Calcutta. By the 1620s, the company was exporting some 220,000 pieces of cloth a year from Surat to England. By 1684, they were exporting 1.76 million.[15]

The sudden influx of products from India led to wide-ranging changes within England, from language to fashion to politics. Indian words began to enter the lexicon: *bandana*, *calico*, *chintz*, *dungaree*, and *seersucker* all derived from the Indian words for these products. Indian calicos proved so popular that even the queen took to wearing them. Daniel Defoe, author of the novel *Robinson Crusoe* and a keen-eyed observer of English culture, commented on the changes he saw taking place in his country. "These people's obsessions with products from India has now reached the painted calicos, which were formerly used for quilted blankets and the clothing of lower class children," Defoe wrote. "Today they are even used by our finer women. The power of fashion is so great that we see persons of rank wearing Indian clothes even though only the maids were allowed to use them before." John Blanch wrote that the Indian fashions were "impossible to be withstood by a feminine power" and urged Englishmen to "redeem our female sex from the government of the Indians." 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.[16]

IN THE COURSE OF ITS RAPID EXPANSION, THE EAST INDIA COMPANY rediscovered many of the features of corporate life pioneered by the *societates publicanorum* in ancient Rome and the Medici Bank in Renaissance Florence. 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.

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."[17]

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?

In the beginning, this conflict led to some quirky arrangements. Shareholders had the right to elect the directors, but only if they held above a certain amount of stock, generally at least £500. Each qualified shareholder only had one vote, regardless of whether he held £500, £1,000, £10,000, or more of the company's stock. As one might have expected, this rule led to a certain amount of gamesmanship by stockholders, who would sometimes "split" their stock into £500 portions and then have those portions owned by friends, family members, or colleagues and thus multiply their voting power. The Court of Committees, on the other hand, whose members were elected by the shareholders and managed the company's affairs, consisted of twenty-four directors chosen from a select group of the richest shareholders (in order to be a candidate for a directorship, a shareholder had to own at least £2,000 in stock). Once elected, the directors would choose a governor (in effect, the chairman of the board). As the East India Company grew, the directors became tremendously influential, not just in the company but in British society more widely. Their powers of patronage and policy could decide families' fortunes, and they often used them to favor friends, colleagues, and relations. In order to protect against entrenchment, directors could only hold their positions for four consecutive years, after which they would have to step down for at least a year.

This arrangement, unusual though it was, worked reasonably well at quelling the worst apprehensions of shareholders, and the board of the East India Company ran a remarkably orderly ship. It held weekly meetings, typically every Wednesday in the new East India House on Leadenhall Street. Meetings were presided over by the chairman, who in turn assigned important tasks to small groups of directors, whose portfolios might include correspondence, treasury, warehouses, or accounts.

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. 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.

To minimize misbehavior abroad, the East India Company required foreign posts to keep careful written records of every occurrence of note. The president of each factory would typically form a council of six to nine members, generally senior factors (more or less equivalent to upper management), which would meet regularly to discuss business. In Madras, the council met punctually every Wednesday at 6 a.m., before the stifling heat of the tropical city set in. The council's resolutions would be recorded and placed in the company register, called "the Diary and Consultations Books," which the board of directors in London would periodically review. These books were an invaluable source of information for the central headquarters, as well as for anyone interested in learning about life abroad. Correspondents did not hold their punches. A letter from the London board in 1718 rebuked the Madras council for spending too much on alcohol at the "public table" where company officials ate: "This is an extravagancy that every one of you ought to blush at the thought of, to give nine pagodas a dozen for Burton ale. If you must have liquors at such prices, pray gratify your palates at your own, not our, expense." Another letter, from the board of directors to the Bengal council, criticized the council's poor record-keeping skills:

> The General Books for these many years have been swelled to an enormous size by the multiplicity of useless heads. This, together with the liberties you have taken of creating innumerable entries for the private convenience of individuals, have rendered them intricate

> and confused. And as your books have been generally basely copied, entries frequently erased, postings omitted, with other unpardonable irregularities, the person found culpable in any of these instances, together with him who signs as an examiner, shall assuredly feel our resentment.… Your Consultations for these several years past wrote in such a vile manner as not to be legible in many places. Indexes often omitted; the Registers, as already noticed, either not punctually kept up or transmitted us; in short, the business in every branch at your settlement has been conducted in such a loose and negligent manner as to reflect shame on those in trust with our affairs. You, our Governor and Council, must set the example of order, method and application. The junior servants shall be taught obedience and kept strictly to their duty; the negligent admonished, and where admonition fails, suspend them the service until our pleasure is known.[18]

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.

> There come hither some thousand murderers, some men stealers, some popish, some come under notion of single persons and unmarried, who yet have their wives in England, and here have been married to others, with whom they have lived in adultery; and some on the other hand have come over as married persons, of whom there are strange suspicions they were never married.… There are also some of the writers who by their lives are not a little scandalous to

> the Christian religion, so sinful in their drunkenness that some of them play at cards and dice for wine that they may drink, and afterwards throwing the dice which shall pay all, and sometimes who shall drink all, by which some are forced to drink until they be worse than beasts. Others pride themselves in making others drink till they be insensible, and then strip them naked and in that posture cause them to be carried through the streets to their dwelling place.[19]

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.[21]

CLOSER TO HOME, 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.[22]

The rise of the stock exchange brought along another, less welcome phenomenon: stock manipulation. One of the worst offenders was Josiah Child, who guided the East India Company from the 1670s to the 1690s as a director, chairman, and the company's largest shareholder. Child had previously founded the Royal African Company and led the company's slave trade. As a director of the East India Company, he became known as a severe taskmaster. A letter of rebuke to the Madras office gives a sense of his style of leadership: "The great trouble we labour under is that you cannot get out of your old forms, and your cavilling way of writing or perverting, or misconstruing, procrastinating, or neglecting our plain and direct orders to you as if you were not subordinate but a coordinate power with us." 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.[23]

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.

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.[24]

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.”[25]

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. Indeed, this was official company policy. Under the so-called Roe Doctrine, established by Sir Thomas Roe, one of the company's early ambassadors, the company specifically instructed employees to refrain from engaging in military encounters abroad. "Let this be received as a rule, that if you will profit, seek it at sea, and in quiet trade, for without controversy it is an error to affect garrisons and land wars in India," Roe wrote. "War and traffic are incompatible." As late as 1681, the company's directors were writing to employees in India, "All war is so contrary to our constitution, as well 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. Explaining his goals to the president of Fort St. George, he wrote that the East India Company must transform itself from a "parcel of mere trading merchants" into a "formidable martial government in India." His aim was to create "such a politie of civil and military power, and create and secure such a large revenue, as well may be the foundation of a large, well grounded, sure English dominion in India for all time to come."[27]

To this purpose, in 1686, Child sent a force of warships and infantry to Bengal to launch a naval war against the Mughal Empire. Child's War, as it would come to be known, was an abject disaster. His nineteen warships with two hundred cannons and six hundred soldiers were not nearly enough to defeat a Mughal Empire with an estimated four-million-man army. The Mughal emperor promptly captured the company's factories at Hughli, Patna, Kasimbazar, Masulipatnam, and Vizagapatam and besieged the factory at Bombay. Cutting its losses, the company reversed course and sought a pardon from the Mughal emperor, begging him to restore its trading rights. As historian William Wilson Hunter would sum up the affair, "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."[28]

But once placed in the minds of the directors in London, the idea of political control over a continent would never die out. The 1700s witnessed a slow growth of the East India Company's military presence in India, and by 1742 it maintained a force of some twelve hundred soldiers at its base in Madras. The ascendant military power of the company, along with the steady decline in the Mughal Empire, slowly shifted the balance of power in the country. By 1756, when a new ruler started agitating against the company, the company had an army to fight back.[29]

The center of the conflict lay in Bengal, the hub of the East India Company's business in India. The region produced the muslin and calico fabrics that were much valued back in England and, by 1720, accounted for over half of the East India Company's imports. Relations between the company and the government of Bengal, never especially cordial, turned hostile in 1756 when Siraj-ud-Daula was anointed the new nawab (or ruler) of Bengal. Siraj, grandson of the previous nawab, had already earned a reputation for cruelty. Contemporaries accused him of such heinous acts as abducting Hindu women while they were bathing in the Ganges, ramming ferry boats just to frighten the passengers who couldn't swim, and personally executing disfavored ministers. Worryingly for the East India Company, he also had a bone to pick with the European companies that had set up a string of factories along the coast. Siraj believed the foreign companies were abusing their privileges in his country, and he took it as his personal mission to expel them. He certainly had ample resources at his disposal to do so. After coming to power, he undertook a survey of his wealth and found that it came to 680 million rupees, roughly equivalent to $13 billion today. English newspapers called him "Sir Roger Dowler," a corruption of his Indian name and a reference to his immense riches.[30]

Within two months of coming to power, Siraj struck his first blow, attacking and easily overrunning the East India Company's fort at Calcutta in June 1756. The defense of the fort was so poorly organized that one soldier would later say of the company's commander, "Touching the military capacity of our commandant, I am a stranger. I can only say, that we were unhappy in his keeping it to himself, if he had any; as neither I, nor I believe anybody else, was witness to any part of his conduct, that spoke or bore the appearance of his being the commanding military officer in the garrison." The capture of Calcutta was a major loss for the company, as the town stood at the very center of its trading business. The Calcutta factory handled over 60 percent of the company's exports from Asia, and news of its sacking caused the company's share price to plummet, erasing £2.25 million in value, more than half the company's share capital. But the event lived in infamy forever after in company lore because of what came next. After capturing the fort, the Bengali troops forced the 146 East India Company employees they had captured into a tiny dungeon, known as the Black Hole, measuring just fourteen by eighteen feet. Crammed together so tightly that the jailer could barely close the door, with little air from the dungeon's two windows, which were crisscrossed with thick iron bars that cut off the flow of oxygen, the prisoners soon began to succumb to suffocation and heat exhaustion. They cried out desperately for relief but were met with silence. When Siraj came to let them out the next morning at 6 a.m., he found a sepulcher. Only 23 had survived the night; the other 123 lay dead on the floor.[31]

Robert Clive, the company's deputy governor at Fort St. David on the Coromandel Coast, learned of the fall of Calcutta and quickly prepared a counteroffensive. It is perhaps worthwhile to point out that Clive's actions did not emanate from carefully laid plans formulated by the East India Company's board of directors, which, after all, was situated in London, thousands of miles away. 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. Perhaps more surprisingly, the majority of the company's board believed that conquest was not in the company's interest. As company secretary Robert James told the House of Commons in 1767, "The general tenor of the Company's orders were not to act offensively. We don't want conquest and power; it is commercial interest only we look for." Indeed, for most of the conflict, the directors were entirely unaware of what was happening. As James recounted, the war "grew insensibly from one trouble to another—we could form no judgment of their progress."[32]

Instead, Clive made most of the important decisions for himself, sometimes with general directions from the company's local committee at

Fort St. George far to the south. Clive and his army retook Calcutta and then, after a series of failed negotiations with Siraj, defeated the nawab's army amid a mango grove at the Battle of Plassey. The defection of one of Siraj's closest generals in the middle of the battle aided Clive's cause. The victory left the East India Company with absolute control over Bengal, and Clive personally walked the newly installed nawab (the traitorous general, it turned out) to his throne. The victory also greatly enriched the company's economic fortunes. The East India Company raided Bengal's treasury of gold and silver and sent it in a fleet of over one hundred boats down the Ganges to Calcutta—the total value estimated to be around £2.5 million (or around $300 million in today's value). Clive took £234,000 (or $28 million today) for himself. He also gifted £24,000 to each of the company's committee members. He would later write that, as a result of the Battle of Plassey, the East India Company had become "the most opulent company in the world."[33]

Clive's triumph over the nawab of Bengal in 1757 ushered in a new era for the East India Company. Political control over the region granted the company entirely new avenues for profit making. In 1765, the Mughal emperor granted the East India Company a *diwani* (a right to collect taxes) over Bengal, effectively recognizing its authority over the region. Clive estimated that the *diwani* would bring the company tax revenues of 25 million rupees, or around £3.5 million, a year. For comparison's sake, before 1765, all of the company's exports from Asia combined amounted to around £1 million a year. This represented a massive increase in the company's size. 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.[34]

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.

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. Labor conditions became so bad in the silk industry that some workers took to cutting off their own thumbs to prevent being forced to continue. 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.[35]

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. John Dickinson, writing under the pseudonym Rusticus, wrote that the company's conduct in Asia had given "ample proof how little they regard the law of nations, the rights, liberties, or lives of men." "They have levied war, excited rebellions, dethroned lawful princes, and sacrificed millions for the sake of gain. The revenues of mighty kingdoms have centered in their coffers. And these not being sufficient to glut their avarice, they have, by the most unparalleled barbarities, extortions and monopolies, stripped the miserable inhabitants of their property and reduced whole provinces to indigence and ruin." And now they were turning their eyes to America. "The monopoly of tea is, I dare say, but a small part of the plan they have formed to strip us of our property," Dickinson concluded.[36]

The East India Company also attracted the attention of two philosophers developing new theories about nations and economies. 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."[37]

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.[38]

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.

The East India Company unleashed the primal energy of the stock to transform itself from a small corporation of traders into a full-fledged empire. It was an awe-inspiring achievement, but also a troubling one. What had started as a venture to profit from overseas trade turned into a machine that promoted itself, sometimes to the detriment of the country that founded it. These tensions grew over time and ended in violence. As Edmund Burke warned, "This cursed Company would, at last, like a viper, be the destruction of the country which fostered it at its bosom." But the East India Company had also shown the power that corporations could wield in the world. The joint stock company and its progeny would come to dominate capitalism and commerce for the next several centuries. It would foster the colonization of the New World. It would usher in the Industrial Revolution. And it would fuel the spread and growth of the American economy. Its dominance would soon take on an air of inevitability.

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.

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.

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.

The rise of shareholders and stock exchanges provided even more incentives for corporations to run profitable businesses. Dispersed shareholders might not have known or cared much about what a corporation was doing on a typical day, but they were keenly aware of how much money it was making at the end of the year. They felt it in their pocketbooks. And over time, as corporations learned how to adapt to this new world of shareholder capitalism, they found there was one tried-and-true way to turn a profit.