**BA 476 Pre-Read Class 1 and Class 2**

The Economic Development of Western Europe

The American economic system was based on Western Europe. Even in early Rome and Greece people wanted to escape poverty and famine. Population growth is a natural process and may diminish natural resources if there are unchanging techniques.

Society's problem is to change techniques of industry, commerce, and, above all, agriculture-to keep pace with population growth. Its answer lies in "the establishment of institutional arrangements and property rights that create an incentive to channel individual economic effort into activities that bring the private rate of return close to the social rate of return." All men are assumed acquisitive; they must be given incentives of such kinds that individual gains harmonize with gains to society as a whole. ₁

The history of trade can be traced back to materials used for creating jewelry that were traded with Egypt since 3000 BCE. Long-range trade routes first appeared in the third millennium BCE, when Sumerians in Mesopotamia traded with the Harappan civilization of the Indus Valley. The Phoenicians were noted sea traders, traveling across the Mediterranean Sea, and as far north as Britain for sources of tin to manufacture bronze. For this purpose, they established trade colonies the Greeks called emporia. ₂

There was solid trade through the Golden Age of Greece and the Roman Empire. The trade was in foodstuffs, metal goods and slaves. It reached substantial levels. Merchants and traders acting alone or in temporary partnership with others provided the wealthy with luxury goods. The stability of Roman rule vanished. The order and stability of this trade began to collapse.

Western Europe was relatively unpopulated with mostly wilderness from the fifth through ninth century. The disappearance of Roman rule led to governmental chaos and invasions by eastern tribes and Norsemen. The agricultural economy of Charlemagne’s Holy Roman Empire failed to produce enough food for the people and had often disrupted distribution system resulting in a constant threat of famine. A social, political and economic system called feudalism emerged.

The Black Death was a devastating global epidemic of bubonic plague that struck Europe and Asia in the mid-1300s. The plague arrived in Europe in October 1347, when 12 ships from the Black Sea docked at the Sicilian port of Messina. ₃

**Hanseatic League**

Following the ravages of the Black Death cities began to grow and prosper again. The northern German seaports, merchants and traders wanted to protect their business, goods and the transportation of those goods. First, the city of Lubeck made a treaty with the city of Hamburg in 1230. It established free trade between the two cities and guarded the road linking the North Sea to the Baltic Sea.

The absence of a solid central government allowed cities to make such treaties and soon other villages and cities asked to join. The cities in Germany north of Cologne was the emerging Hanseatic League. Non-German cities, which were on the route, joined as well. The traders sought to add commerce in southern Germany, Russia and England as the Hansa cities prospered. The Hansa opened a trade with London in 1266 and opened a market in Novgorod in Russia. They sent German grain to Scandinavia in exchange for dairy products, furs, fish, and ship timber. On other routes, they traded wool, metal goods, and spices.

A loose federation of merchants set up the towns, at the mouths of rivers in the south into northern European cities. The Hansa League’s power peaked from 1356-1377, and then it declined due to external and internal issues. The Hansa single venture partnerships with one ship from one port to a second port then dissolved it. The Hanseatic League’s business methods were two hundred years behind the Italian bankers and merchants. The Hansa bookkeeping techniques were crude and failed to develop processes that are more advanced. It failed to evolve with growing nationalism and the loss of trading rights. Powerful rulers, war and the absence of a strong German government reduced the ability to sustain the Hanseatic League.

The success of capitalistic ventures depend upon political and economic stability and order. A loose federation of merchants were unable to succeed as modern nations emerged. Business people must be aware of their changing environment and develop more innovative techniques to endure the evolution of the world around them. The Hanseatic League failed to do so.

**Medici**

The rise of the Medici, in Italy, coincided with the growth of northern Italy. Italian merchants were leading businesspersons selling goods across continents. The Medici had huge commercial activities, the need to exchange large sums of different currencies, and had demands from the Roman Catholic Church for loans (For the first few centuries of Christian rule in Europe, **usury** was regarded as a **sin** of avarice and was forbidden in all cases.) The Medici’s answered these demands with a modern commercial and investment-banking house with never seen before systems and processes.

Giovanni di Bicci de'Medici created a bank in Florence in 1397. This bank established a rate of exchange for foreign and domestic currencies, created a system where merchants could transfer funds to pay for goods in other cities, and loaned money (especially to Church leaders). This had never been done before.

In the 1400’s Cosmo de Medici expanded rapidly. He found partners who opened branches in different cities. The branches were partnerships and existed independently of the Florence bank thus the bank was not a corporation but inventing holding companies. The holding company’s principle service was ownership of the securities of other firms that carried on commercial activities. ₄

The Medici left a legacy of palaces, churches, libraries, great art and created a modern business system. This is the system capitalism sits on. The Medici used bills of exchange, double entry bookkeeping which the Italians invented, employed the concept of limited partnerships spreading financial risks in large transactions and created the branch banks and correspondents to serve as a model for holding companies. These new accounting procedures and insurance contracts helped to establish modern business practices.

**Calvinism**

The Roman Catholic Church was the authority in Europe but as feudalism transitioned to barons or lords to kingdoms, the church found its position in much of Europe faltering. The refusal, such as Henry VIII of England to the Church, on matters of diplomacy and economics led to disputes. Martin Luther and others who came to be called Protestants, sought to alter the relationship of individuals to the religious institution. Economics and business was the most important aspect of the Protestant Reformation, called Calvinism.

The Protestant reformer John Calvin believed in a harsh and angry God who had predestined that only a few of the world's people would be saved. The belief was to live a life of hard work, piety, and diligence, but few would escape damnation. Calvin urged that individuals dedicate themselves to their endeavors to demonstrate their membership in the selected ones. He taught that you should be committed to work, accumulation, and economic success; worthiness and material possessions became synonymous.

The Calvinists believed that wealth was (not for ostentation, but rather) to be used as capital. Thrift, not poverty, became a major virtue and prosperity a key to God's kingdom. This body of doctrine, known as the Protestant Ethic, came to dominate the secular attitudes of many European Protestants.

The Protestant Reformation led to wars of religion and counter-reformation that produced intense national rivalries. The authority of the Roman Catholic Church had been challenged and destroyed in some areas. A new philosophy had come to dominate northern Europe that urged greater commitment to worldly endeavors.

Materialism, which emphasized physical comforts and the accumulation of goods, became a dominant characteristic of the society. Significant advancements in science and technology enhanced these nationalistic and materialistic ambitions even as long-distance commerce in staple and luxury goods stimulated the European economy.

Communication played a big role. The use of movable type after 1450 enhanced communication, and significant advances were made in navigation and surveying. More capital, larger investments, the development of trading companies, and the application of greater units of savings to commercial ventures brought about economic growth. The exploitation of North America was simply part of a much larger maturation process by which Western Europe developed a capitalistic society.

**Capitalism**

Economist Werner Sombart spent much of his career attempting to define the term of capitalism, its evolution, and the stages of its growth. Sombart emphasized aspects of capitalism that can be carefully analyzed. The spirit of capitalism included rationality, acquisition, and competition, and the system in which capitalism operated was generally free, individualistic, private, and aristocratic.

Capitalism, as Sombart defined, utilized occupational specializations, separated economic functions, and existed in a decentralized political and social environment. In order to be successful, capitalism needed technological advances to generate higher levels of productivity. The economic order in which capitalism operated had to grant businesses an independent existence, and the leaders of the enterprise were required not only to produce profits, but also to motivate workers and create an atmosphere that encouraged thrift, industry, and stability.

Sombart's theory of capitalism emphasized the role of individuals who through initiative and perseverance created enterprises. Neither the enterprises nor the environment in which they operated was static. As the political economy grew and matured, the atmosphere became less free, restrictions by government and the society reduced the range of choices available to the capitalists, and innovation and creativity waned.

Sombart's major work was published over half a century ago, but still provides insights into the evolution of capitalism in the United States. The need to see that the system is not static, and that the roles of individuals and firms change over time, is crucial to understanding free enterprise in America. Internal and external factors have altered capitalism as practiced in this country, and wars, wage-price fluctuations, the degree of competition, social change, and the monetary policy of the central government have brought about drastic changes in the economic order.

The English colonists, then, would bring with them the intellectual and legal baggage that became basic to the rise of enterprise in the United States. Government should protect private property and guarantee due process of law. A structure of government would be erected to protect property, the system was never based on pure free enterprise in the sense that no governmental regulation existed.

The French term laissez-faire, or hands off, did not apply in that English common law, colonial charters, the Articles of Confederation, state constitutions, and the Constitution of the United States all specifically provided for governmental intervention in the economic order to protect the welfare of the people. Common law feared monopoly whether granted by the crown or created by entrepreneurs. There has always been some type of government regulation in the United States to protect the people.

1. The Rise of the Western World: A New Economic History by Douglass C. North and Robert Paul Thomas Review by: Ralph Davis Source: The Journal of Modern History , Mar., 1975, Vol. 47, No. 1 (Mar., 1975), pp. 150- 151 Published by: The University of Chicago Press
2. Ivan Dikov (July 12, 2015). [*"Bulgarian Archaeologists To Start Excavations of Ancient Greek Emporium in Thracians' the Odrysian Kingdom"*](http://archaeologyinbulgaria.com/2015/07/12/bulgarian-archaeologists-to-start-excavations-of-ancient-greek-emporium-in-thracians-odrysian-kingdom/). Archaeology in Bulgaria*. Retrieved 28 October 2010*. An emporium (in Latin; “emporion" in Greek) was a settlement reserved as a trading post, usually for the Ancient Greeks, on the territory of another ancient nation, in this case, the Ancient Thracian Odrysian Kingdom (5th century BC – 1st century AD), the most powerful Thracian state.
3. <https://www.history.com/topics/middle-ages/black-death#:~:text=The%20Black%20Death%20was%20a,the%20Sicilian%20port%20of%20Messina.>
4. [The House of Medici: Its Rise and Fall](http://www.amazon.com/gp/product/0688053394/ref=as_li_tf_tl?ie=UTF8&camp=1789&creative=9325&creativeASIN=0688053394&linkCode=as2&tag=floreinfer-20), by Christopher Hibbert, published by Harper Collins, 1974

**Class 2**

**Watch the Video prior to Class 2 for discussion**

Whaling (https://www.pbs.org/wgbh/americanexperience/features/whaling-history-whaling-america/)

**1605 -** An English sailor, having just served on George Weymouth's exploratory voyage to the territory that would become Maine, publishes an account of a Native American whale hunt.  
 **1620 -** The Pilgrims, arriving in Plymouth Harbor, come across right whales "playing hard" off the bow of the Mayflower.  
1**640 -** Shore whaling is taken up at Southampton, Long Island. The fledgling industry is manned by Native Americans, who are paid a percentage based on the quantity of oil returned -- a precursor to the "lay" system of wages used in later whaling voyages.  
**1659 -** Nantucket is sold to and settled by nine original purchasers: Tristram Coffin, Thomas Macy, Christopher Hussey, Richard Swayne, Thomas Barnard, Peter Coffin, John Swayne, and William Pike. The sale is made for 30 pounds of sterling and two beaver hats  
**1676 -** Whaling on Nantucket takes root as settlers construct small fishing hamlets at Quidnet and Siasconset.   
**1690 -** Ichabod Paddock, a Long Islander, is recruited by Nantucketers to help increase the efficiency of their shore whaling operations.   
**1700 -** Approximately 60 English settlers and 160 Native American Wampanoags are engaged in shore whaling on Nantucket. **1702 -** John Richardson, a Quaker, visits Nantucket and proselytizes Mary Coffin Starbuck; as a prominent civic figure, Starbuck's conversion is crucial to Quaker ascendance there.   
**1712 -** Nantucketer Christopher Hussey kills the island's first sperm whale, and deep-ocean whaling commences. For the next century and a half, Nantucketers will specialize in hunting sperm whales.   
**1750s -** Tryworks -- brick oven furnaces used to render oil from whale blubber -- are first installed on ships, increasing profitability and extending length of whaling voyages.   
**1767 -** Prominent Nantucket whaling merchant Joseph Rotch resettles to New Bedford, anticipating the city's future importance to the whaling industry.