Chapter 11: Trade Empires and Early Capitalism

European society underwent a major change during the early modern period with regards to its outlook on wealth and property. Along with that change came the growth of a new kind of state and society, one not only defined by the growth of bureaucracy seen in absolutism, but in the power of the moneyed classes whose wealth was not predicated on owning land. The rise of that class to prominence in certain societies, especially those of the Netherlands and England, accompanied the birth of the most distinctly modern form of economics: capitalism.

In the Middle Ages, wealth, land, and power were intimately connected. Nobles were defined by their ownership of land and by their participation in armed conflict. That changed by the early modern period, especially as it became increasingly common for monarchs to sell noble titles to generate money for the state. By the seventeenth century the European nobility were split between "nobles of the sword" who inherited their titles from their warlike ancestors and "nobles of the robe" who had either been appointed by kings or purchased titles. Both categories of nobility were far more likely to be owners of land exploiting their peasants than warriors. Among almost all of them, there was considerable contempt for merchants, who were often seen as parasites who undermined good Christian morality and the proper order of society. Even nobles of the robe who had only joined the nobility within the last generation tended to cultivate a practiced loathing for mere merchants, their social inferiors.

In addition, the economic theory of the medieval period posited that there was a finite, limited amount of wealth in the world, and that the only thing that could be done to become wealthier was to get and hold on to more of it. In the medieval and even Renaissance-era mindset, the only forms of wealth were land and bullion (precious metals), and since there is only so much land and so much gold and silver out there, if one society grew richer, by definition every other society grew poorer.

According to this mindset, kingdoms could only increase their wealth by seizing more territory, especially territory that would somehow increase the flow of precious metals into royal coffers. Trade was only important insofar as trade surpluses with other states could be maintained, thereby ensuring that more bullion was flowing into the economy than was flowing out. Colonies abroad provided raw materials and, hopefully, bullion itself. As a whole, this concept was called mercantilism: an economic system consisting of a royal government controlling colonies abroad and overseeing land-holdings at home. The ultimate example of this system was the biggest owner of colonies that produced bullion: Spain.

Mercantilism worked well enough, but commerce fit awkwardly into its paradigm. Trade was not thought to generate new wealth, since it did not directly dig up more silver or gold, nor did it seize wealth from other countries. Trade did not "make" anything according to the mercantilist outlook. Of all classes of society, bankers in particular were despised by traditional elites since they not only did not produce anything themselves, instead (seemingly) profiting off of the wealth of others.

These attitudes started undergoing significant changes in the sixteenth and seventeenth centuries, mostly as a result of the incredible success of overseas corporations, groups that generated enormous wealth outside of the auspices of mercantilist theory. Many of the beneficiaries of the new wealth of the sixteenth and seventeenth centuries were not noblemen, but were instead wealthy merchant townsfolk, especially in places like the Dutch Republic and, later, England, men who amassed huge fortunes but did not fit neatly into the existing power structure of landholding nobles, the church, and the common people. These changes inspired an increasingly spirited battle over the rights of property, the idea that not just land but wealth itself was something that the state should protect and encourage to grow.

Early Capitalism

The growth of commercial wealth was closely tied to the growth of overseas empires. Whereas the initial wave of European colonization (mostly in the Americas) had been driven by a search for gold and a desire to convert foreigners to Christianity, European powers came to pursue colonies and trade routes in the name of commodities and the wealth they generated by the seventeenth century. In this period of empire-building, European states sought additional territory and power overseas primarily for economic reasons. Because of the enormous wealth to be generated not from gold and silver themselves, but from commodities like sugar, tobacco, and coffee (as well as luxury commodities like spices that had always been important), the states of Europe were willing to war constantly among themselves as well as to perpetrate one of the greatest crimes in history: the Atlantic Slave Trade.

In short, we see in the seventeenth and eighteenth centuries the first phase of a system that would later be called capitalism: an economic system in which the exchange of commodities for profit generated wealth to be reinvested in the name of still greater profits. In turn, capitalism is dependent on governments that enforce legal systems that protect property and, historically, by wars that tried to carve out bigger chunks of the global market from rivals. To reiterate, capitalism was (and remains) a combination of two major economic and political phenomena: enterprises run explicitly for profit and a legal framework to protect and encourage the generation of profit. The pursuit of profit was nothing new, historically, but the political power enjoyed by merchants, the political focus on overseas expansion for profit, and the laws enacted to encourage these processes *were* new.

Overseas Expansion in the Seventeenth and Eighteenth Centuries

The development of early capitalism was intimately connected with overseas expansion - Europe was an important node of a truly global economy by the seventeenth century, and it was that economy that fueled the development of capitalistic, commercial societies in places like the Netherlands and England. While the original impulse behind overseas expansion during this period was primarily commercial, focused on the search for commodities and profit, it was also a major political focus of all of the European powers by the eighteenth century. In other words, European elites actively sought not just to trade with, but to conquer and control, overseas territories both for profit and for their own political "glory" and aggrandizement. The result was a dramatic expansion of European influence or direct control in areas of the globe in which Europe had never before been an influence. The result: by 1800, roughly 35% of the globe was directly or indirectly controlled by European powers. How did that happen?

The first part of the answer is simple: military technology and organization. The early-modern military revolution (i.e. the evolution of gunpowder warfare during and after the Renaissance period) resulted in highly-trained soldiers with the most advanced military technology in the world by the late seventeenth centuries. As European powers expanded, they built fortresses in the modern style and defended them with cannons, muskets, and warships that often outmatched the military forces and technology they encountered. In the case of China, Japan, and the Philippines, for instance, local rulers learned that the easiest way to deal with European piracy was not to try to fight European ships, but instead to cut off trade with European merchants until restitution had been paid.

European states also benefited from the relative political fragmentation of parts of the non-European world. There were powerful kingdoms and empires in Africa, the Middle East, and Asia that defied European attempts at hegemony, but much of the world was controlled by smaller states. A prime example is India, which was divided up into dozens of small kingdoms, along with a few larger ones (the Mughal Empire that ruled much of the subcontinent early in the period of British expansion was in decline by the early eighteenth century even before the British controlled much territory). When the British and French began taking control of Indian territory, it was against the resistance of small Indian kingdoms, not some kind of (nonexistent) overall Indian state.

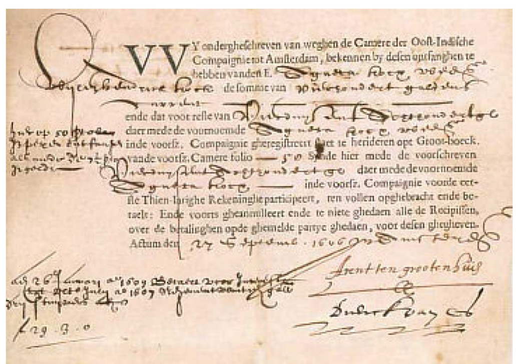
An important note regarding European colonial power: this period saw the consolidation of European holdings in the New World and the beginning of empires in places like India, but it did not include major land-holdings in Africa, the Middle East, or East Asia. In places with powerful states like China, the Ottoman Empire, and Japan, even the relative superiority of European arms was not sufficient to seize territory. Likewise, not only were African states able to successfully fight off Europeans as well, but African diseases made it impossible for large numbers of Europeans to colonize or occupy much African territory. As the Slave Trade burgeoned, Europeans did launch slave raids, but most slaves had been captured by African slavers who enjoyed enormous profits from the exchange.

Likewise, European states and the corporations they supported worked diligently to establish monopolies on trade with various parts of the world. However, "monopolies" in this case only meant monopolies in trade going to and from Europe. There were enormous, established, and powerful networks of trade between Africa, India, South Asia, Southeast Asia, China, Japan, and the Pacific, all of which were dominated by non-European merchants. To cite one example, the Indian Ocean had served as an oceanic crossroads of trade between Africa and Asia for thousands of years. Europeans broke into those markets primarily by securing control of goods that made their way back to Europe rather than seizing control of intra-Asian or African trade routes, although they did try to dominate those routes when they could, and Europeans were able to seize at least some territories directly in the process.

The Netherlands

The Dutch were at the forefront of these changes. During their rebellion against Spain in the late sixteenth century, the Dutch began to look to revenue generated from trade as an economic lifeline. They served both as the middlemen in European commerce, shipping and selling things like timber from Russia, textiles from England, and wine from Germany, and they also increasingly served as Europe’s bankers. The Dutch invented both formalized currency exchange and the stock market, both of which led to huge fortunes for Dutch merchants. A simple way to characterize the growth of Dutch commercial power was that the Netherlands replaced northern Italy as the heart of European trade itself after the Renaissance.

In 1602, Dutch merchants with the support of the state created the world's first corporation: the Dutch East India Company (VOC in its Dutch acronym). It was created to serve as the republic's official trading company, a company with a legal monopoly to trade with a certain region: India and Southeast Asia. The VOC proved phenomenally successful in pushing out other European merchants in the Indies, through a combination of brute force and the careful deployment of legal strategies. A common approach was to offer “protection” from the supposedly more rapacious European powers like Portugal in return for trade monopolies from spice-producing regions. In many cases, the VOC simply used the promise of protection as a smokescreen for seizing complete control of a given area (especially in Indonesia, which eventually became a Dutch colony), while in other areas local rulers remained in political control but lost power over their own spice production and trade. For the better part of the seventeenth century, the Dutch controlled an enormous amount of the hugely profitable trade in luxury goods and spices from the East Indies as a result.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An early stock certificate from the VOC.

The profits for Dutch merchants and investors were concomitantly high. As an example, above and beyond direct profits by individual members of the company, all stockholders in the VOC received dividends of 30% on their investments within the first ten years, in addition to a dramatic boost in value of the stocks themselves. The other states of Europe were both aghast at Dutch success and grudgingly admiring of it. In 1601, there were 100 more Dutch ships in the port of London at any given time than there were English ships, and by 1620 about half of all European merchant vessels were Dutch.

In 1652, the Dutch seized control of the Cape of Good Hope at the southern tip of Africa, allowing them to control shipping going around Africa en route to Asia, and they exerted additional military force in the Indies to force native merchants to trade only with them (among Europeans). Note here that the Dutch takeover of the Cape of Good Hope was the historical origin of the modern nation of South Africa – these were the first permanent European settlers. The Dutch were also the only European power allowed to keep a small trading colony in Japan, which was otherwise completely cut off to westerners after 1641 (thanks to a failed Portuguese-sponsored Christian uprising against the Japanese shogun).

The iconic moment in the history of the Dutch golden age of early capitalism was the tulip craze of the 1620s – 1630s. Tulips grow well in the Netherlands and had long been cultivated for European elites. A tulip fad among Dutch elites in the 1620s drove up the price of tulip bulbs dramatically. Soon, enterprising merchants started buying and selling bulbs with no intention of planting them or even selling them to someone who would - they simply traded the bulbs as a valuable commodity unto themselves.

In 1625, one bulb was sold for 5,000 guilders, about half the cost of a mansion in Amsterdam. It went up from there – the real height of the craze was the winter of 1636 – 1637, when individual bulbs sometimes changed hands ten times in a day for increasing profits. This was the equivalent of "flipping" bulbs; it had nothing to do with the actual tulips any longer. The element to emphasize is not just the seemingly irrational nature of the boom, but of the mindset: the Dutch moneyed classes were already embracing speculative market economies, in which the value of a given commodity has almost nothing to do with what it *does*, but instead from what people are willing to spend on it. In capitalist economies this phenomenon often leads to "bubbles" of rising values that then eventually collapse. In this case, the tulip craze did indeed come crashing down in the winter of 1637 - 1638, but in the meantime it presaged the emergence of commodity speculation for centuries to come.

The development of this early form of capitalism unquestionably originated in the Netherlands, but it spread from there. One by one, the other major states of Europe started to adopt Dutch methods of managing finances: sophisticated accounting, carefully organized tax policy, and an emphasis on hands-on knowledge of finances up to the highest levels of royal government. For example, Louis XIV insisted that his son study political economy and Colbert, Louis' head of finance, wrote detailed instructions on how a king should oversee state finances. This was a significant change, since until the mid-seventeenth century at the earliest, to be a king was to refuse to dirty one's hands with commerce. It was because of the incredible success of the Dutch that kings and nobles throughout Europe began to change their outlooks and values. Ultimately, at least among some kings and nobles in Western Europe, humanistic education and the traditional martial values of the nobility were combined with practical knowledge, or at least appreciation, of mercantile techniques.

Ultimately, the Dutch Golden Age was the seventeenth century. The other states of Europe began to focus their own efforts on trade, and when the Netherlands was dragged into the wars initiated by Louis XIV toward the end of the seventeenth century, it spelled the beginning of the end for their dominance (although not their prosperity - the Netherlands has remained a resolutely prosperous country ever since). During that period, however, the Dutch had created a global trade network, proved that commercial dominance would play a crucial factor in political power in the future, and overseen a cultural blossoming of art and architecture.

One of the many self portraits of the Dutch master Rembrandt, the most prominent painter associated with the golden age of Dutch culture in the seventeenth century.

Britain and the Slave Trade

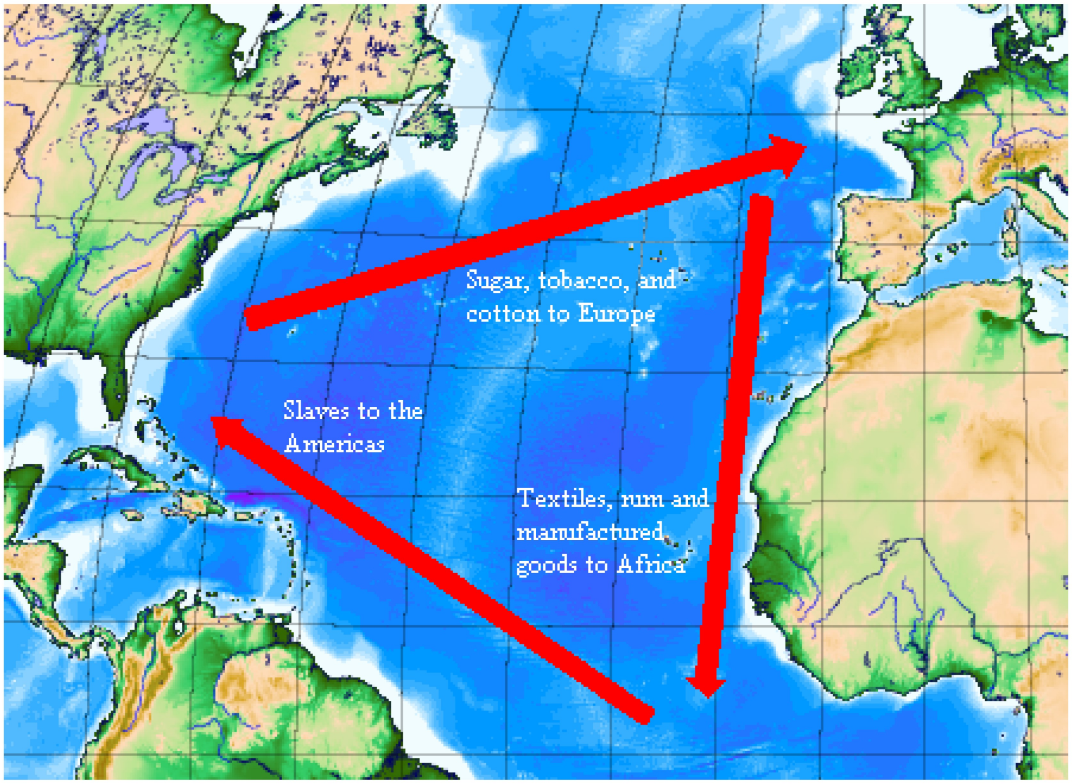
Of the other European states, the British were the most successful at imitating the Dutch. In 1667 the British king Charles II officially designated the royal treasury as the coordinating body of British state finances and made sure that officials trained in the Dutch style of political economy ran it. The British parliament grew increasingly savvy with financial issues as well, with numerous debates emerging about the best and most profitable use of state funds.

In 1651, both to try to seize trade from the Dutch and to fend off Britain's traditional enemies, France and Spain, parliament passed the English Navigation Acts, which reserved commerce with English colonies to English ships. This, in turn, led to extensive piracy and conflict between the powers of Europe in their colonial territories as they tried to seize profitable lands and enforce their respective monopolies. Ultimately, the British fought three wars with the Dutch, defeating them each time and, among other things, seizing the Dutch port of New Amsterdam in North America (which the English promptly renamed New York). Britain also fought Spain in both the seventeenth and eighteenth centuries, ultimately acquiring Jamaica and Florida as colonies.

In terms of trade, the major prize, at least initially, was the Caribbean, due to its suitability for growing sugar. Sugar quickly became *the* colonial product, hugely valuable in Europe and relatively easy to cultivate (compared to exotic products like spices, which were only available from Asian sources). In Europe, sugar consumption doubled every 25 years during this period and it was ultimately the profits of sugar that helped bankroll the British growth in power in the seventeenth and, especially, the eighteenth centuries. The only efficient way to grow sugar was through proto-industrialized plantations with rendering facilities built to extract the raw sugar from sugar cane. That, in turn, required an enormous amount of back-breaking, dangerous labor. Most Native American slaves quickly died off or escaped and hence the Atlantic Slave Trade between Africa and the New World began in earnest by the early seventeenth century.

The Slave Trade between Africa and the New World was, quite simply, one of the worst injustices of human history. Millions of people were ripped from their homeland, transported to a foreign continent in atrocious conditions, and either worked to death or murdered by their owners in the name of "discipline.” The contemporary North American perception of the life of slaves, that of incredibly difficult but not always lethal conditions of work, is largely inaccurate because only a small minority of slaves were ever sent to North America. The immense majority of slaves were instead sent to the Caribbean or Brazil, both areas in which working conditions were far worse than the (still abysmal) working conditions present in North America. The average life of a slave once introduced to sugar cultivation was seven years before he or she died from exhaustion or injury, and sugar was the major crop of the Caribbean and one of the major crops of Brazil. In sum, most slaves were sent to be worked to death on sugar plantations.

The slave trade was part of what historians have described as the “triangle trade” between Africa, the Americas, and Europe. Slaves from Africa were shipped to the New World to work on plantations. Raw goods (e.g. sugar, tobacco, cotton, coffee, etc.). were processed and shipped to Europe. Finished and manufactured goods were then shipped to Africa to exchange for slaves. This cycle of exchange grew decade-by-decade over the course of the seventeenth and eighteenth centuries.



The "triangle trade" led to tremendous profits in Europe, horrendous human suffering, and the eventual depopulation of much of West Africa over the centuries.

The leg of the triangle trade that connected Africa and the Americas was known as the Middle Passage because slave ships went directly across the middle of the Atlantic, most traveling to Brazil or the Caribbean as noted above. Slaves on board ships were packed in so tightly they could not move for most of the voyage, with slave ship captains calculating into their profit margins the fact that a significant percentage of their human cargo would die en route - over a million slaves died during the Middle Passage in the seventeenth and eighteenth centuries as a result.

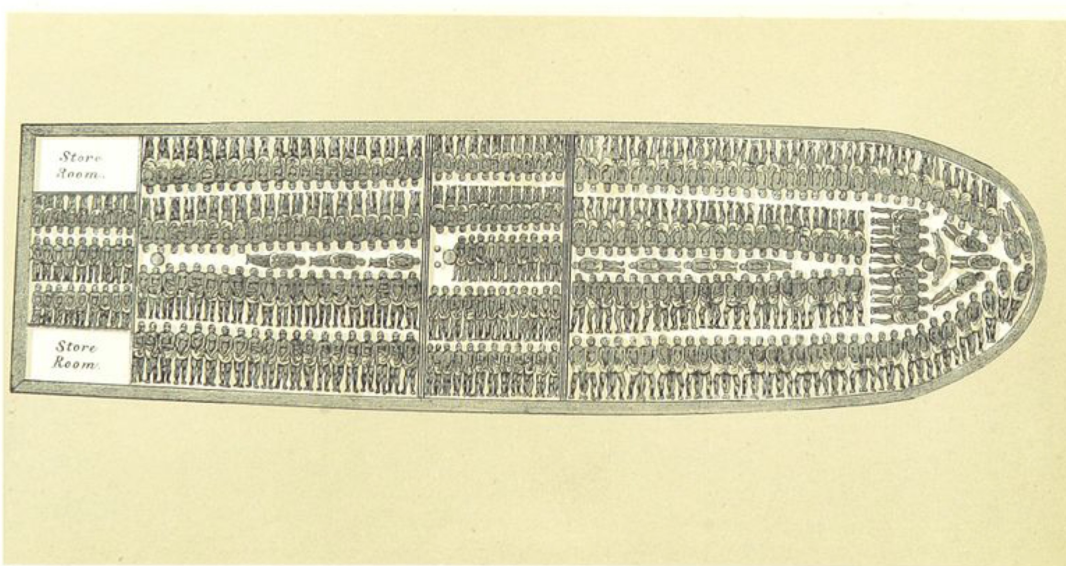


Illustration of a slave ship's human cargo under conditions that often saw more than 10% of the slaves on board perish.

The current data (available on the Trans-Atlantic Slave Trade Database, which was created and is maintained by professional historians of the Slave Trade) suggests that well over twelve million people were enslaved and transported to the new world from the sixteenth century through the early nineteenth. That number is lower than the actual total, since roughly 20% of transported slaves were in undocumented (i.e. smuggled and technically "illegal" from the standpoint of the slave-trading states) voyages. Thus, the real number is probably closer to fifteen million. In turn, over 90% of slaves were sent to the Caribbean or Brazil, because the sugar crop, as well as coffee cultivation and mining in Brazil, demanded constant replacements as slaves perished from exhaustion or injury.

The topic of slavery is vast; it was a huge economic engine and a major part of life in the entire New World. It shaped the demography and the culture of every American society, and its sheer scale dwarfs every other pattern of slavery in world history. That said, of its various aspects, the one that probably casts the longest shadow in terms of its historical significance is the fact that the Atlantic Slave Trade was the first time in history that slavery was specifically racial in character. Because it was Africans who were enslaved to work in the Americas under the control of Europeans, Europeans developed a range of racist theories to excuse the practice from its obvious immorality. In fact, the whole idea of human "race" is largely derived from the Slave Trade - biologically, "race" is nothing more than a handful of unimportant cosmetic differences between people, but thanks to the history of the enslavement of Africans, Europeans in the early modern period led the charge in describing "race" as some kind of fundamental human category, with some races supposedly enjoying "natural" superiority. That conceit would obviously cast a perverse shadow up the present.

Around the Globe

Even as the British were actively participating in the Slave Trade in the Atlantic region, they began the process of seizing control of territory in India as well. There, they set up self-contained merchant colonies (called factories) run by the English East India Company (EIC), which had a legal monopoly of trade just as its Dutch counterpart did in the Netherlands. The original impetus behind the EIC was profitable trade, not political power per se.

Britain, however, eventually came to control India outright. As of the mid-eighteenth century, however, British power in India was limited to its factories, which served as clearinghouses for trade with Indian merchants. In 1756, however, an Indian prince sent an army to Calcutta to drive out the British, whom he hated and resented, resulting in the massacre of hundreds of English noncombatants and thousands of their Indian colleagues and allies. The next year, a small British force of 800 men with 2,000 Indian mercenary troops (called *sepoys*) defeated the prince at the Battle of Plassey, then began the process of taking over the entire province of Bengal.

The takeover of Bengal started the slow creep of British power: tax revenue supplemented mercantile revenue, which allowed the British to hire tens of thousands of sepoys, who they armed with modern European weapons. That, in turn, both allowed the British to drive out the French from Indian territories and to dominate Indian princes, thereby seizing yet more Indian territory. In this patchwork fashion, the EIC expanded its power in India over the next century, directly controlling some territories, indirectly controlling others through Indian puppet princes, and economically dominating others. The result was that the EIC, a private corporation backed by the British state, controlled almost all of the Indian subcontinent by the middle of the nineteenth century.

On the other side of the world, while far less economically important than the Caribbean, North America was still a focus of European colonization. Britain was one of the two major powers – France the other – that colonized areas of the eastern seaboard of North America. While initial attempts at colonization either failed or struggled to survive (e.g. almost all of the original settlers at Jamestown in Virginia were dead by the time more arrived in 1610), the survivors discovered that they could at least grown one cash crop that would both enrich themselves and tempt other Europeans to immigrate: tobacco. Likewise, a relatively small part of the slave trade soon included the importation of slaves to work first the tobacco fields, and then later cotton fields, farther south. Simultaneously, a French explorer named Samuel de Champlain founded the colony of Quebec on the St. Lawrence river. That soon became the center of New France, and its cash "crop" consisted of furs gained through barter with Native American groups or taken by French trappers.

Until the latter half of the seventeenth century, these were small-scale colonies compared to the vast states of Central and South America. Slowly but surely, however, colonists did arrive in North America, and not always for economic reasons. Britain came to boast the largest population of colonists among Europeans in North America in the seventeenth century because English religious dissenters, Puritans, fled persecution from the Anglican state and began to settle in Massachusetts by the thousands in the 1620s (this was during the period under James I and Charles I before the English Civil War). That said, the North American colonies all remained small and economically unimportant compared to the colonies of Latin America and the Caribbean until well into the eighteenth century.

Spain, of course, still held the largest overseas empire. The Spanish not only held almost all of South America, all of Central America, and the American West as far north as Oregon, but they held territory in the Pacific island chain of the Philippines as well. South American silver passed through both Spain and the Philippines en route to China, where it paid for luxury goods that were shipped back to Spain. The Spanish crown, especially under a branch of the Bourbon royal family that became the royal dynasty of Spain in 1700, exercised direct control over colonial trade and taxation (rather than relying on a corporation as did the Dutch and English).

Spanish territories in the Americas in the eighteenth century, at the height of their territorial expanse.

What set the Spanish empire apart from the other overseas empires was the fact that its colonial system suffered from infighting between Spanish-born royal bureaucrats and the creole elites who dominated the Spanish New World itself. Many of these creole elites lived more like traditional nobles in Europe, dominating land-based economies, rather than overseers of a more commercially-based agriculture like the plantations of the Caribbean or Brazil.

To be clear, South and Central America were important regions within the global trade network, but the Spanish state itself did not enjoy the same level of direct control over, or power derived from, its colonial possessions as did its European rivals over theirs. Instead, the vast Spanish empire was relatively fragmented, with regional elites exercising a high degree of local autonomy. Thus, even the vast wealth still generated within the Spanish empire did not translate into an equivalent degree of state or military power for the Spanish monarchy.

Meanwhile, the overseas empire of Portugal steadily shrank as its colonies and factories were seized or handed over to the Dutch and British in the seventeenth century. While Portugal had enjoyed a (relatively brief) period of ascendancy that began with the remarkable voyage of Vasco Da Gama in the fifteenth century, it was not able to complete with the better-funded and equipped forces of the Netherlands and Britain, and thus most Portuguese colonies and trading posts were lost over time to its rivals. The major exception was Brazil, which was hugely profitable, and which imported staggering quantities of slaves; Brazil was also the last European state to outlaw slavery, in 1888.

Finally, while Russia's emergence as an independent state is considered in in a later chapter, it should be noted here that Russian explorers moved eastward across Siberia from the period of the fifteenth through the eighteenth centuries in search of furs. Furs were so critical to the Russian economy at the time that they were often used in lieu of currency outside of the major cities. In turn, Russian fur trappers and traders arrived at the Pacific in the late seventeenth century. From there, they sailed across to Alaska and then down the west coast of North America, establishing small churches and forts but not colonizing territory (i.e. for the most part, they did not stay and establish families). By the early eighteenth century, the various branches of European exploration and expansion converged in the Pacific Northwest of what later became the United States: in the eighteenth century, Russian fur trappers, French fur trappers, Spanish missionaries, and English explorers all arrived in what eventually became the American states of Washington and Oregon.

Conclusion

The greatest changes in world history during the early modern period have to do with the ongoing contact between the different regions of the globe that began with Columbus's (quite literally) misguided voyage in 1492. By the seventeenth century, the peoples of Africa, the Americas, Europe, and Asia were all linked by commerce, trade, politics, slavery, and warfare. Obviously, those contacts would only grow stronger going into the modern period.

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