John: Hi, I'm John Green, this is Crash Course World History, and today we're going to talk about our old friend trade and also corporations.

John from the Past: Oh great, another Marxist rant from my union-loving public school teacher about how capitalism is destroying the world.

John: You know, Me from the Past, all the capitalists call me Marxist, all the Marxists call me capitalist, I--I can't win!

Here's the thing, Me from the Past, I am grateful that there is a market for people to, you know, sell books and make YouTube videos, and capitalism does a pretty good job of making goods and services available to large groups of people.

(drinks soda)

Plus how else am I going to turn sweat of the proletariat into delicious Diet Dr. Pepper? (Not a sponsor. I wish they were a sponsor.)

I'll tell you what, Me from the Past, I've enjoyed a cup or two of the sweat of the proletariat over the years and it just doesn't have that carbonated "pop" of Diet Dr. Pepper.

What were we talking about? Oh right, capitalism. I like capitalism, what I don't like are monopolies and violence, and those are both aspects of one of the first capitalist enterprises and the subject of today's episode, the Vereenigde Oostindische Compagnie (and I will remind you that mispronouncing things is my thing).

In English of course that's the Dutch East India Company. I'd like to use the Dutch, though, but I can't pronounce it, so we're just gonna compromise and call it the VOC.

(CrashCourse Intro)

So you probably remember from our first series that trade in the Indian Ocean had gone along swimmingly for hundreds of years until the Portuguese tried and failed to dominate it in the 15th and 16th centuries.

And you may also remember that in between the Portuguese and the massively powerful British Empire there was another European power: the Dutch.

At the time, the Netherlands was a country of 1.5 million people, about as many people as currently live in Greater Indianapolis. Now, admittedly, they'd already accomplished some impressive things, for instance, they'd already dug most of their country out from the ocean, but how they came to thoroughly dominate world trade for fifty years tells us a lot about capitalism, technology, and also violence.

I suppose we could start with the revolt of the United Provinces in the union of Utrecht in 1579, which created the Netherlands, or perhaps the decision by the Catholic Duke of Parma in 1585 to let Protestants leave captured Antwerp and set up shop in Amsterdam, or we could start in 1595 with the creation of the first Amsterdam-based investment syndicate, The Company for Far Lands, which is what I call my Minecraft server.

So the founder of The Company for Far Lands published this report called the *Itinerario* that excited dreams of vast wealth and spices from Southeast Asia. There's a key passage in the report that explains the riches available in the islands east of Malacca:

"In this place of Sunda there is much pepper, and it is better than that of India or Malabar, whereof there is so great quantity that they could lade yearly from thence 500,000 pounds. It hath likewise much frankincense, camphor, and diamonds, to which men might very well traffic without much impeachment, for that the Portugals come not thither, because great numbers of Java come themselves unto Malacca to sell their wares." (citation 1)

You'll note there that the initial idea was to break into this already existing trade system and displace the Portugals. So in the same way that trade in the western Indian Ocean was flourishing before the arrival of the Europeans, the South China Sea region and eastern Indian Ocean was a trade hot-bed, perhaps even more valuable because of the riches of China. And it seems that the Dutch originally planned to try to break into that existing trade network on equal terms, like, according to Jacob Van Neck, the captain of the first successful expedition to Indonesia, the plan was, quote, "not to rob anyone of their property, but to trade uprightly with all foreign nations."

But pretty soon that idea of free trade gave way to the hard reality that competition meant, you know, lower prices, and by 1601 there were enough successful trade companies that the cost of buying spices in Indonesia was going up, and also there was suddenly tons of pepper in Amsterdam, which meant the price that could be charged for that pepper was going down; clearly, something had to be done. Ideally that something would have been lower prices for everyone, and an efficient marketplace, but the something that happened instead was the VOC.

Let's go to the Thought Bubble.

In 1601, the United Provinces, aka the Netherlands, were governed nationally by a representative body that met at the Hague, called the States General, although each of the individual provinces was largely self-governing, and the leader of the States General was able to convince all the provinces to accept a single entity to monopolize the East Indies trade.

This new company, the VOC, was run by a seventeen-member board called the Heeren XVII, and these

directors supposedly had control over a company that was chartered with the power to hire its own people, and also to wage war.

I say supposedly because, you know, it took a year for communications from the Netherlands to reach the East Indies, and another year for company officers to respond, so the VOC basically operated as its own sovereign nation, with the power to use as much violence as it needed to build and maintain its trading power, like according to author Stephen Bown, "The VOC would essentially operate as a state within a state." (citation 2)

And the VOC, together with its sister company the West India Company, did use violence, attacking Portuguese and Spanish settlements in Chile, Brazil, East and West Africa, the Persian Gulf, India, Sri Lanka, Indonesia, China and the Philippines between 1602 and 1663, in what you could think of as an early world war.

The VOC was also different from a lot of corporations because it was initially funded with 6.5 million guilders, about 100 million dollars in today's money, and that capital was expected to fund business ventures for a long time going forward, not just for, like, one initial trade mission. And this long-term business thinking was unique, especially compared to the funding strategies of the VOC's biggest competitor, the British East India Company, and it reflected the advanced financial acumen of the Dutch model generally.

Thanks, Thought Bubble.

So, we've got this company that's basically also a country. But it's not a particularly good country, because it doesn't have, like, any of the responsibilities of government, nor does it have to answer to the people it's governing. All it has to do is make money. And it was really good at making money, like by 1648 the United Provinces were in better financial shape than every other nation in Europe.

You can tell this partly just by looking at interest rates. Now admittedly, interest rates are only one measure of financial health and power, but they're an important indicator, even today. So, Dutch businesses could borrow at a rate of 4 percent annual interest, and that's pretty cheap compared to the 10 percent it cost corporations to borrow money in England or the 24.99 percent it costs me to borrow money on my credit card, and because Dutch debt was so much cheaper, they could invest two and a half times as much in pretty much anything than the English could, including, like, an army and a navy, and this gave the Dutch a huge head start over their rivals.

So one reason the interest rates were low is because the companies were healthy and they tended to pay people back. But another is that normal Dutch people were already used to investing their money in bonds that had been issued for land reclamation projects, the famous dykes and windmills that turned land below sea level into fields where you could grow tulips, or maybe something else, but all they ever grow is tulips.

Like according to business historian William Bernstein, the tradition of investing in bonds, quote "carried over into trade: after 1600 Dutch citizens would consider it just as natural to own a fractional share in a trading vessel to the Baltic or the Spice Islands." (citation 3)

And a fractional share is another really interesting idea embraced by the Dutch, that allowed merchants to bear greater risks by purchasing smaller percentage shares in business ventures. Like, it's much better to own a tenth of ten ships than it is to own all of one ship, because the loss of a single trading ship won't, like ruin you. And Dutch business people also enthusiastically invested in futures markets, guessing what the price of pepper would be six months or a year from now, and they created new financial instruments that could be bought and sold, and merchants purchased maritime insurance, which further lowered their risk. And lower risk means you could invest more of your capital until eventually you have a completely efficient market and everything is perfect-- until the 2008 crash.

Wait, what were we talking about?

The Dutch financial system and its corporations were simply better than their competitors, and that's why they seized the lion's share of the trading business--but that isn't the whole story.

Like, one reason the VOC was so successful was government sponsorship and centralization. The VOC had been chartered by the States General, and it could count on the Dutch government to back it up with money and military support.

There's another benefit to being sponsored by your government, which is that it's very hard for competition to emerge, because it isn't sponsored by your government. For instance, in Indonesia the VOC had a single Governor General managing operations, while the British East India Company was more like a collection of trading posts, each competing with each other for a share of the spices. Competition may bring down prices for consumers, but it also brings down profits for businesses.

In 1605, the VOC realized that if it really wanted to maximize its profits, it would need a monopoly of the

world's spice trade, and to do that, they would need permanent bases in Indonesia. Initially, they got spices by trading for them with the people who grew them, especially with the inhabitants of the Banda Islands, which was the only place where nutmeg was grown. But again, like, trading in a fair and equitable manner is no way to maximize profits.

So at first the Bandinese welcomed the Dutch, because they were much more laid-back in terms of religion than the Portuguese, but very quickly the Dutch tricked them into signing exclusive trade agreements, which the Bandinese were almost certain to violate, and then when they did violate them, ehh, it didn't go well.

In 1609 the Bandinese were like, "No, you don't understand, like, we need trade for food," and the Dutch were like, "But you promised!", and the islanders killed 47 Dutch soldiers and officers in the ensuing fight.

The Dutch killed far more Bandinese, who were eventually subdued and agreed to a nutmeg monopoly with the Dutch, although they continued to secretly trade with the English.

And after all this, by 1612, Jan Pieterszoon Coen became the dominant force in Dutch Indonesia. He was an accountant by training, but also a ruthless military leader, who is largely responsible for the Dutch monopoly of the spice trade, and also for its really terrible relations with the British, and also for, like, you know, certain crimes against humanity.

Coen brought about the shift in VOC policy, away from straightforward trade and toward monopoly of both shipping and production of spices. He also made it clear that this trade needed to be based on military force.

He wrote, "Your Honors should know by experience that trade in Asia must be driven and maintained under the protection and favor of your Honors' own weapons, and that the weapons must be paid for by the profits from the trade, so that we cannot carry on trade without war, nor war without trade." (citation 4)

There is no trade without war, nor war without trade--that's something to think about.

Anyway, Coen did make a lot of war, mostly on the English, despite the fact that the Netherlands and England were engaged in trade negotiations between 1613 and 1619.

And in fact fighting between the VOC and the English continued even after an agreement was signed. By using force, which included capturing and torturing English traders, Coen was able to run off the English and secure the VOC monopoly over the spice trade.

With the English out of the picture, Coen could get down to the business of using violence to dominate not only the trade, but also the production of spices. His initial plan, to quote Stephen Bown, was to depopulate the island to replace their inhabitants with imported slave and indentured labor under VOC control, and he proceeded to carry out what amounted to ethnic cleansing of the Banda Islands.

In about 20 years, the Dutch managed to acquire an almost complete monopoly on cloves, nutmeg, and mace. In 1658, they added cinnamon by taking control of Sri Lanka. And, after 1638, they became the only Europeans allowed to trade in Japan. Now, we tend to think that the heart of the spice trade was between Indonesia and Europe, but it really wasn't. Like, the VOC capital at Batavia became the most important port in all of Southeast Asia, where spices from Indonesia, and gold and copper and silver from Japan, and tea and porcelain and silk from China all passed through to India, where they were traded for cotton, which was used to buy more Asian goods.

And that was the real money-maker for the VOC. By the middle of the 17th century, only the highest-value luxury goods from the region even made it to Europe, because that's where the margins were the highest.

So the middle of the 17th century was the golden age for the Dutch; it was the one the brought us Rembrandt and Vermeer as well as all the wealth and finery that was depicted in their paintings. When you go to Amsterdam, which you should, and you walk along the canals and see the beautiful row houses, you'll note that many of them were built in the 17th century. And much of that was based on the success of the VOC and the commerce in spices, but eventually Europeans' tastes changed, and the desire for nutmeg was supplanted by a hunger for sugar.

Of course, the sugar trade would be known for its righteousness and fair trade-- just kidding, it would be known for slavery. Also the woolens produced by the Dutch were being replaced by the market for cotton. Britain proved better positioned to dominate the trade in production in these new and more profitable commodities, and they eventually copied the centralized corporate governance and finance capitalism that had helped make the VOC so successful.

According to Stephen Bown, "Ultimately, maintaining the monopoly cost more than the spices were worth" (citation 5), and the company went bankrupt in 1799.

So the VOC were pioneers of finance and their

relentless pursuit of profits made them the richest company in the 17th century, but we need to be careful about celebrating them as, like, a harbinger of modern capitalism. For one thing, it wouldn't have succeeded without government support, especially if it had engaged just in free trade. The VOC had an army and a navy that it used to attack and intimidate, which is, you know, *not free trade*.

I think there's a lot to take away from the story of the VOC. One thing that I like to remember is that this was all about nutmeg. We need to think carefully about what we value and why we value it and what we lose by valuing it, in the same way that I kind of wish people in Europe had about nutmeg in the 17th century. And the second thing is that while the VOC did eventually disappear and its control over Indonesia changed into Dutch colonization, the VOC provides a chilling example of what has happened in the past when corporations become more powerful than states.

Good governments fulfill their responsibilities to the people they govern, and even bad governments, you know, are afraid of the people they govern, and neither of those things happened in Indonesia when it was under the control of the Dutch East India Company.

Thanks for watching. I'll see you next week.

(Credits)

Hi, Crash Course is filmed here in the Chad and Stacey Emigholz studio in Indianapolis, it's made with the help of these nice people, and we have a special announcement today that's very important, at least to the future survival of Crash Course. Thousands of you have helped us to keep Crash Course free, for everyone, forever, through your support at Subbable, but now Subbable has merged with Patreon. Patreon's an awesome company run by creators that allows you to be much more flexible in your support of Crash Course.

So if you like Crash Course, and you want to join the incredibly generous people who make is possible, please click here, or else check out the link in the doobly-doo; you can get lots of great perks! And we, in turn, promise to use that money to make educational content online and not, we promise, to control the spice trade in Indonesia.

Thanks again for watching! And as we say in my hometown, Don't Forget to Be Awesome.