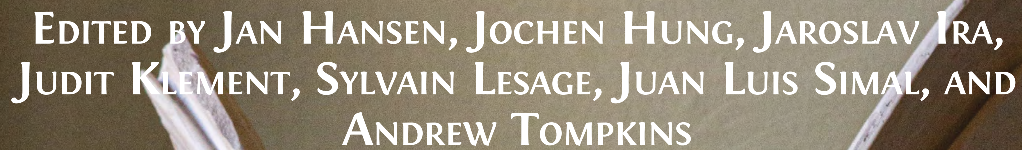
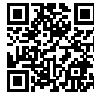


Edited by Jan Hansen, Jochen Hung, Jaroslav Ira, Judit Klement, Sylvain Lesage, Juan Luis Simal, and Andrew Tompkins

THE EUROPEAN EXPERIENCE

A Multi-Perspective History of Modern Europe, 1500-2000



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5.1.2 Entrepreneurs, Markets and Companies in Modern History (ca. 1800–1900)

Judit Klement, Martin Lutz, and Ander Permanyer

Introduction

In the nineteenth century, the operation of the economy changed fundamentally throughout Europe. With the process of industrialisation, a new age of capitalism began: merchant capitalism was replaced by industrial capitalism, characterised by the widespread use of the factory system of manufacturing, the expansion of mass production, the massive use of wage labour, the worldwide interconnection of markets, and the spread of (new or renewed) capitalist institutional frameworks (e.g., company registers, joint-stock companies). Although there were significant differences in the characteristics of nineteenth-century capitalism within Europe, free competition prevailed as a general principle, which required the free movement of capital and labour, the freedom of enterprise, the freedom to acquire property, and freedom in employment. All this meant the disappearance of the economic framework of the traditional economic system, including—for example—the abolition of guilds and serfdom. The nineteenth century was the age of the birth of nation-states, but at the same time, the economic intervention of the state was mostly limited in all Europe. European states operated according to the economic policy principles of economic liberalism. (The state played a greater role only in certain areas of the economy, like building the modern infrastructure, and in Eastern Europe.) The volume of trade increased dynamically throughout the nineteenth century, and in the middle of the century, free trade prevailed without any customs tariff. Although the increasing isolation of 'national' customs territories, protectionism, became more and more characteristic from the 1870s onwards, the nineteenth century was the era of the first wave of economic globalisation. Among the complex features of industrial capitalism,

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this chapter focuses primarily on market conditions and business actors (entrepreneurs, companies), and for the illustration of the complexity of the century, it represents three case studies, showing the trade in tea and grain, and the development of the electric industry.

Economic Environment

Liberalisation and industrialisation characterise the most prominent aspects of economic transformation in nineteenth-century Europe. At the same time, these were uniform processes and their historical trajectory exemplifies the continent's huge divergence. While already in 1800, the textile mills of Northwestern England used the steam engine and the spinning-jenny in large-scale factories, even one hundred years later a remote village in the Bavarian Alps was scarcely touched by this new economic world. Nineteenth-century European economic history is thus marked by the coexistence of industrialisation and rural stagnation, market enterprise and state intervention, prosperity for some and poverty for many.

Why Europe industrialised first remains one of the most contested questions in historical scholarship. Answers brought forward address the role of technology, culture, religion, institutions, ideas, (frequently violent) global expansion, entrepreneurship, the free market, and the power of the emerging modern nation-state. The Enlightenment provided some of the most influential economic ideas for nineteenth-century transformation. Some of the most notable contributions to liberal thought include the moral philosopher Adam Smith with his book on the *Wealth of Nations* (1776), David Ricardo's work on market-exchange (*On the Principles of Political Economy and Taxation*, 1817), and John Stuart Mill's thoughts on freedom and utilitarianism *(Principles of Political Economy*, 1848). Contrary to liberalism, Karl Marx, as well as socialist and anarchist thinkers, focused on the striking inequalities brought forward by industrialisation and liberalisation. The widespread poverty and starvation of the 1840s in many European regions in particular inspired a countermovement to capitalist industrialisation. By the late nineteenth century, the traditional Christian institutions also developed a framework for a social and economic ethic, including for example Pope Leo XIII's 1891 encyclical *Rerum Novarum*, or the German Lutheran church's social reformist movement.

As part of liberalisation, land holding was deregulated, serfdom abolished and the power of guilds severely limited, allowing for increasingly freer movement of capital and labour. This fed into a rapidly expanding market economy. Farmers increasingly retreated from subsistence economy to rely on market income. Land and labour became commodities traded on markets, with a new labour class emerging in the industrialising hubs of Europe, such

as the mining areas of Belgian Wallonia, the textile manufacturing of Łódź or the Ruhr Valley. International treaties, such as the formation of the German *Zollverein* (German Customs Union) that in 1833 established a large economic bloc in Central Europe, helped accelerate this process. In international trade, the British set the pace in the repeal of the corn laws (import duties on grain) of 1848, ushering a wave of free trade agreements, for example the 1860 Cobden-Chevalier Treaty with France. This trade liberalisation contributed to a huge increase in international trade and specialisation of national economies. The era of international trade liberalisation did not last long, however: by the end of the century protectionism was on the rise again. In general, the implementation of liberal ideas and industrialisation diverged across the continent. Britain, France, and Belgium forged ahead, followed by Prussia. Southern Europe, and the vast empires of Austria-Hungary, Russia, and the Ottomans lagged behind.

The rise of the market economy was made possible in part by an institutional revolution of patent rights, insurance, corporate law, and the standardisation of measurements. These institutions formed an increasingly dense and internationally viable net that provided legal protection, allowed for the management of risk and in general provided the grease necessary to facilitate market transactions where buyers and sellers increasingly were brought together from every corner of the continent.

Geography played a crucial role in the industrialisation process, with the endowment of natural resources, such as the coal fields of Upper Silesia or the rich, fertile black soil in the southern steppe of the Tsarist Empire, shaping economic possibilities. Sea and river harbours could exploit their advantageous position as increasingly European and even global trade hubs, with entirely new economic centres appearing on the map such as Trieste in the Austrian Empire or Odessa on the Black Sea. Liverpool, Le Havre, and Antwerp connected imperial centres with vast global colonies and the emerging world market. The modern state was often crucial in exploiting natural resources, by providing the necessary institutional and physical infrastructure. The state also played an active role in promoting economic development through its customs policies, as well as its investments in the railroad and telegraph infrastructure.

The state also played a crucial role in furthering scientific research and technical education. The British Royal Society was the foremost scientific organisation of its kind which provided a space for researchers and inventors to exchange ideas and form scholarly networks. Next to these scholarly societies, technical and commercial colleges and universities became crucial incubators of innovation and skilled engineers who would bring their scientific training to production and management. Ideas flowed relatively easily across the European continent, allowing new ideas to turn into new products that in

turn formed the nucleus of entirely new industries. While the first phase of industrialisation was largely dominated by coal and steel, later innovations enabled the emergence of the electrical industry, the chemical industry, the automotive industry and much else.

What exactly caused industrialisation in nineteenth-century Europe (and only in parts of Europe) remains an open question in the scholarly debate. What is evident is that these processes allowed for European imperial powers to forge ahead and turn economic progress into political clout and military strength, with consequences that would become fully apparent in the disastrous conflicts from the end of the long nineteenth century and the first wars of the industrial era.

Types of Economic Actor

The economic transformations of the nineteenth century were led by the family business, while the modern corporation did not develop institutionally until well into the century. Excepting banks and railways, most economic initiatives were organised under individual and familial partnerships. These early associations resulted from groups of individuals that pooled capital, and thus the degree of responsibility of each over the sums of money being utilised needed to be clearly defined. Such legally binding obligations are called 'liabilities'; early individual and familial partnerships relied upon collective partnerships with unlimited liability. This meant that the individuals engaging in business activity were personally liable for loans. The high levels of risk which resulted from this unlimited liability, as well as poor legal and institutional development, explain the prevalence of familial and ethnic ties behind partnerships. Such connections provided the basis for relationships of trust, and were still the main source of human and money capital in order to find new employees or finance. The family business, whose partners were linked by kinship and whose priority was to accumulate and control property, thus took charge of all spheres of economic activity such as trade, transportation, insurance and credit, relying upon underdeveloped management systems.

The unlimited liability of collective partnerships gradually gave way to other methods which limited the liability of each partner to his/her invested capital, thus allowing the mobilisation of greater amounts of capital. Large quantities of capital had already been mobilised by the chartered companies of the early modern period, by which the monarchies expanded trade and colonial interests in the extra-European world. However, chartered companies required political sanction, usually in the form of royal charters. The new publicly-held corporation was developed free of such government sanction, and could thus be established by general incorporation and public registration.

Public corporations mobilised the savings of the middle classes through shares and bonds. From 1850 onwards, various European countries sanctioned limited liability public companies established by general incorporation. Economic transformations boosted the establishment of public companies and stock markets with bank arbitrage, thus leading to the birth of the modern joint-stock company. Initially arriving in two new sectors—railways and telegraph—the joint-stock company would by the late nineteenth century become the dominant economic unit. Its structure, finance, management, and accounting would become complex and specialised, managed by salaried executives, and administered through analytical accounting. Management and ownership were thus separated; the former became more complex, and the latter, dispersed.

Growing modern corporations needed private capital. Traders and businesspeople created new institutions—banking corporations—which combined commercial and business banking. This was the birth of the modern banking system. Commercial banks invested in short-term operations, while their liabilities were dominated by demand deposits—thus limiting long-term loans required by big companies. Diversified banking corporations' liabilities had more varied sources. Issuing shares, selling private bonds and placing government debt all became more important to diversified banks—even as they maintained short-term deposit operations. Diversified banks could thus provide stability in times of liquidity crises, and national capital markets took shape. During the second half of the nineteenth century, a process of banking concentration took place, leading by the early twentieth century to a structure dominated by big banks with branch offices scattered at the national level.

The spread and consolidation of the modern corporation by the late nineteenth century changed the nature of the economic system: the integration of international markets, generalised growth and specialisation, and a decrease in transportation and insurance costs, led to international convergence of prices. The multinational company appeared with the expansion of the size and scope of firms and the consolidation of their multidivisional structure. New production plants were created in both domestic and international spheres. This allowed companies to evade tariff barriers, to obtain new sources of raw materials, to increase their market share, and to reduce production and distribution costs in new countries. In addition, there was a process of vertical integration through the management of previous or subsequent phases in the production process. Such integration involved the acquisition of raw materials, and/or the creation of department stores and chain stores so as to control distribution and gain control over prices.

Competition increased in the last quarter of the nineteenth century, as prices declined, profit margins fell, and—except the internal space of the British

Empire—tariff barriers increased. Increasing international competition, and the capital-intensive character of most economic sectors, blocked the creation of new firms, and brought about an oligopolistic industrial and business structure. Big companies established various forms of horizontal combination strategies. The cartel was thus a defensive cooperation plan among companies from the same sector, aimed at limiting competition, dividing up the market, and fixing prices. This could result in the limitation of production in their respective plants, and/or the establishment of barriers to the entrance of new competitors, both at a domestic and international level.

How Business Worked in the Nineteenth Century: Three Examples

Tea

With early industrialisation, tea became affordable to all social classes. While still retaining its refined appeal to the elites, it also became a product for mass consumption as a stimulant suited to the new factory discipline, as a substitute for alcoholic beverages, and thanks to the availability of sugar from the West Indies. Contrary to other mildly addictive commodities—such as coffee, tobacco, and cocoa—tea cultivation was not based in the New World but was instead maintained in Asia. Since the early modern period it spread as an item of conspicuous consumption among the upper classes of various European countries, including Great Britain, the Netherlands, France, Germany, and Russia. While tea consumed in Russia was brought by land through Siberia, the other countries imported it by sea. The Dutch initially dominated imports from Asia, but the British broke through in 1784, the year in which import fees were severely reduced so as to revive the English East India Company (EIC).

China was the main exporter of tea until the mid-nineteenth century. However, the European balance of trade with China was negative. Until 1833, the EIC monopolised imports from China into Britain and exported opium from India into China, resulting in serious consequences for Chinese society and government. After 1833, private merchants such as Jardine, Matheson & Co. entered the trade.

In the late eighteenth century, the British introduced tea cultivation in northern India. In 1839 the Assam Tea Company was formed, and by the 1860s cultivation had spread to other regions in the Himalayan foothills, particularly Darjeeling, but also Ceylon after 1879. Exports of tea from India to Europe began to displace Chinese production in the 1870s; between 1870 and 1900, Assam Tea exports out of India increased twentyfold. Industrialised tea cultivation was introduced, with ambitious deforestation plans and changes

in transportation. This transformation had serious consequences for local seminomadic populations. Railways facilitated transport from India's interior to Bengal ports, while fast clippers, as well as steamships, conveyed tea to Europe. Small firms in Europe retailed tea in their respective national markets, including Fortnum & Mason, Twinings, and Hornimans in Great Britain, and Mariage Frères in France.

Grain and Wheat

The trade in grain and wheat can illustrate some important elements of nineteenth-century industrial capitalism. On the one hand, an increase in agricultural production and productivity was a precondition for industrialisation, without which the growing non-agricultural population would not have been possible. On the other hand, the demand for agricultural commodities and products of the food industry steadily increased as the population, especially the urban population and the number of people employed in industry, increased. The result of these mutually reinforcing processes was the development of agriculture and the dynamic growth of international trade in wheat and other cereals during the long nineteenth century. Agricultural commodities (like wheat) and the products of the food industry (like flour) were dominant in international trade, and about half of the trade was accounted for by these items during the century.

Grain trade, especially wheat, had been booming since the 1840s, due to the steady and dynamic growth in demand in Western Europe. In response to expanding demand, supply also expanded, supported by the continuous improvement of transport facilities (railway, steamship) and trade liberalisation. Along with this intensive trade in cereals, markets became more integrated, which was also reflected in the combined change in prices. It was the age of the first wave of globalisation and the grain trade was one of the key factors of this wave. The integrated nature of the grain trade was also demonstrated by the early emergence of trade networks. In the middle of the century, Greek merchants were particularly successful in this market. Then, by the end of the century, they were replaced by large grain-trading-houses, modern trading companies, some of which still exist today.

Trade continued to expand, driven mainly by British and then German imports, and by exports from the Russian, and to a lesser extent the Austro-Hungarian Empires, later rivalled by exports from Romania. The international grain trade was mainly an intra-European trade until 1914, despite the emergence of the United States' market as a new exporting country after the American Civil War. From the 1870s on, the large volumes of American production as well as growing production from Russia meant a significant oversupply of crops in this already integrated grain market, resulting in a

steady fall in the price of grain, especially wheat and flour. This crisis—which was clear evidence of the integrated market—resulted in growing customs tariffs and protectionism in many countries but did not ultimately hamper globalisation. The integrated grain market ended during and especially after the First World War, together with the collapse of the first wave of globalisation.

Fig. 1: Siemens Brothers Ltd., Woolwich Works near London (ca. 1890), Siemens Historical Institute, D V., used with permission.

Electric Industry

Siemens was a first mover in the nascent electric industry in the mid-nineteenth century. Its founders, Werner Siemens and Johann Georg Halske, utilised earlier scientific and technological advancements in Britain to develop a telegraph system. Relying on these technological spillovers, they founded the Telegraphen-Bauanstalt in 1847 that quickly became the dominant telecommunications firm in Central and Eastern Europe. By the 1860s, Siemens & Halske was one of a small number of firms that implemented large projects globally, with the Indo-European Telegraph connecting London and Calcutta (today: Kolkata) being one of the most prestigious projects. Further scientific advancements allowed for new product lines in power generation, electric trams and trains, electric motors, and electric lighting. By the late nineteenth century, the electric industry was one of the driving forces behind the second wave of industrialisation.

Moreover, Siemens exemplifies the pan-European dimension of increasingly connected businesses. Founded in Berlin in Prussia, the firm quickly ventured

abroad. It built a vast telegraph network in the Tsarist Empire in the 1850s. Its London subsidiary, Siemens Brothers Ltd. became a large player in the global submarine cable business from the 1860s onwards. Further subsidiaries in Vienna, Budapest, Paris, and Warsaw complemented the character of Siemens as a multinational corporation.

For most of the nineteenth century, Siemens & Halske was a family firm owned and operated by three brothers, Werner, William, and Carl. Only in 1895 did the firm go public. Even then the family remained in control of the majority of shares and the supervisory board. Siemens & Halske thus represents a much wider phenomenon in most of continental Europe, where business tended to be a family affair. In contrast to the corporation and managerial capitalism in the United States, the European economies were much more intricately embedded in the social fabric of entrepreneurial families.

Conclusion

The nineteenth century was the age of industrial capitalism in all Europe when traditional business elements (e.g., guilds) disappeared from economic life and were replaced by modern capitalist institutions (e.g., modern corporations). In this period, the first wave of globalisation unfolded, markets became increasingly integrated, and the first multinational companies emerged. However, in a globalising economy and together with the developing big business—when big modern corporations became more dominant—family businesses and entrepreneurial families continued to play a significant role in the European economy.

Discussion questions

1. What did industrial capitalism mean in the long nineteenth century?
2. What were the signals of globalisation in the long nineteenth century?
3. What kind of special character did Europe have in terms of business actors in the long nineteenth century?

Suggested reading

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