The world’s first stock exchange: how the Amsterdam market for Dutch East India Company shares became a modern securities market, 1602-1700
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CONCLUSIONS

The history of the secondary market for VOC shares forms an important chapter in financial history. In the period 1630-50, this market became the first modern securities market. The increase in trading activity on the spot and especially on the derivatives market was the key event. The market became liquid and price discovery occurred because of the interaction between traders. As a result, investors could now, for the first time in history, invest their money at low cost and for short periods of time, without the need for endless negotiations about terms and conditions of a contract and without fear that it would be difficult to sell off the investment if need arose. Furthermore, the market enabled traders to manage and control their financial risks and the structure of the derivatives market allowed market participants to monitor their counterparties. The market as a whole thus became better at providing the core functions of financial systems.¹

Part of the Amsterdam securities market can even be seen as what I tentatively called in the title and introduction of this book ‘the world’s first stock exchange’. The illegal character of much of the derivatives trade required the traders to organize themselves in trading clubs. Within the confines of these clubs, traders could monitor each other’s behavior. Furthermore, the clubs created an environment in which the participants cared highly about their reputations. This system could function efficiently only if access to the clubs was restricted to frequent and approved traders, who participated in the clubs for the sole purpose of trading shares. The clubs thus became predecessors of modern stock exchanges where only official stockbrokers are allowed to trade.

The downside of organizing the derivatives market in trading clubs was that this part of the market became a market in which only (semi-)professional traders could participate. It was inaccessible for people who did not belong to their clique and hence it would have been particularly difficult, if not impossible, for people from, say, outside Amsterdam, to participate in the derivatives market. In the second half of the seventeenth century, the market thus consisted of a publicly accessible part, where investors could invest their money in VOC shares and where brokers and market makers were present to help them make a deal, and a separate market where (semi-)-

professional traders could play their private ‘game’. Not everybody could thus benefit from the functions provided by the derivatives market, but if outsiders really wanted to participate in the derivatives market, they could hire an exchange agent to perform transactions on their account. Naturally, the costs of trading via an agent were higher than the costs of performing transactions personally or asking a broker to intermediate, but agents gave access to the trading clubs. This advantage could offset the extra transaction costs.

Although the first modern securities market emerged in the field of private finance, the public authorities of the Dutch Republic did play a considerable role in the first decades of its development. Most importantly, the States General decided on the company charter and its prolongations; the capital stock of the VOC became fixed only because the authorities repeatedly renewed the VOC charter. The legal institutions, moreover, aided the development of the market by making clear – at an early stage in the seventeenth century – how the courts interpreted the rules, thus taking away any uncertainty the market participants could have. The public authorities thus created a framework within which the market could develop.

The company directors made one important contribution to the emergence of the market: they made trading feasible by formulating clear rules for share ownership and transfer of ownership. The traders themselves initiated all remaining developments that took place during the seventeenth century; they were constantly searching for ways to minimize transaction costs. Christoffel and Jan Raphoen, for example, contributed enormously to the development of the market with their efforts to provide liquidity for non-standard share denominations. The standardization that was the result of their market-maker services brought transaction costs down, because it increased the market’s liquidity; traders could more easily find counterparties for their transactions.

The development of the derivatives market provides even more examples of trader-initiated institutional developments that contributed to the transition into a modern securities market. The traders themselves formulated the contracts of the various derivatives transactions that were in use on the market. Moreover, they themselves took care of the enforcement of those derivatives transactions that were unenforceable by law by creating sub-markets within the secondary market for VOC shares. These markets were relatively small, especially when compared to commodities markets, and the transactions that were dealt on them could be characterized as high-risk
and complex. This combination of characteristics spurred the developments on the sub-markets: traders wanted to make use of the derivatives market because of the financial functions it provided at low cost, but due to the high risk and complexity, institutional developments were required. It was these sub-markets of the rescontre and the trading clubs that historians have marveled at; this was the part of the securities market that looked most ‘modern’. Most interestingly, and this is what De la Vega’s observation that the share trade ‘became a game out of necessity’, quoted in the Introduction, referred to: the traders established it out of necessity.

The self-regulation of the parts of the trade that were illegal by law worked pretty well, but this book must not be regarded as a plea for self-regulation as a means to create better functioning financial markets in the present-day world. The derivative transactions used by the seventeenth-century traders – short-selling, straddles and repos, to name but a few examples – might give the impression that they were highly advanced financial techniques and the seventeenth-century world probably thought so too, but these transactions are only child’s play in comparison with, for example, today’s hybrid securities and collateralized debt obligations, whose complexity often disguises the underlying assets. What is more, the number of parties involved in today’s derivatives markets, originating from all parts of the world, could never be regulated by a simple trading system of the kind the Amsterdam share traders of the seventeenth century devised. The history of the seventeenth-century share market does offer an interesting parallel for today’s attempts to regulate financial markets, however. It shows how traders of financial assets, in their search for ways to minimize transaction costs, have always tried to find loopholes in the law and searched for ways to by-pass official regulations.

Finally, after an extensive analysis of the development of the secondary market for VOC shares, it is important to review the wider significance of this market for the economy of the Dutch Republic in the seventeenth century and for economic development in later ages. A critique on the market, occasionally voiced in the seventeenth century, was that the participants of the securities market wasted time buying and selling shares – a mere ‘game’ instead of a respectable trade – whereas they could have better used their time for commercial trade that would benefit not only their personal financial situation, but also the economy as a whole.² The critics were mostly right; the secondary market for VOC shares did not directly contribute to the economy of the

² Most notably, Muys van Holy, Middelen en motiven, 8.
Dutch Republic. After the subscription of 1602, and – to a lesser extent – the subscription to the WIC in 1621 and, again, in 1675, the securities market did not mobilize capital.

What is more, as the examples in this book – particularly the case of Jeronimus Velters – have shown, active participation in the trade in VOC shares did indeed take up a lot of time. While Velters was a wealthy man who had already made his contribution to the growth of the Dutch economy, it is no doubt true that there were many other traders who could have contributed more to the economy had the share trade not taken up such a great deal of their time. Individual investors certainly benefited from the market, however. It enabled them to invest their money in a (most of the time) profitable way. They could do so at low cost and it was always possible to liquidate their investment. Moreover, they could benefit from the risk-management possibilities provided by the market. The market thus increased the wealth of individual investors and hence also contributed, indirectly, to the economy of the Dutch Republic.

However, the economy as a whole could certainly have benefitted more from the presence of a highly developed securities market. The market framework and the large pool of ready investors could relatively easily have been used by new companies to issue capital stock or by the government to issue debt. The market could then have performed the function of bridging the gap between long-term capital needs of companies and governments and short-term investment horizons of investors on a larger scale – i.e. not only for the VOC. It could then, moreover, have contributed to allocating the available capital in the Dutch Republic in an efficient way. Such did not happen in the seventeenth-century Dutch Republic, however. Neither the government, nor private companies recognized the possible advantages of using the market for their capital requirements.

The main reason for this, in the case of companies, seems to be that the capital requirements were generally too low to consider issuing public stock. It is also possible that the government refused to grant charters to new companies, which was necessary to obtain joint-stock status, but very little is known about this for the seventeenth century. Gelderblom, De Jong and Jonker have moreover argued that the example of the VOC, where the government forced the company to also pursue ambitious military goals instead of only commercial goals, was a rather uninviting prospect for other companies; new companies decided not to request official joint-stock status, because
they feared that the government would also demand a large say in their objectives, which might deter investors from subscribing money.\textsuperscript{3} I am not sure whether this reasoning is correct. The investors of the VOC were not naive, as chapter 5 has shown. The investors of the earliest decades knew perfectly well that the VOC would also pursue military goals and this did not discourage them from investing in the company. To be sure, they even actively supported the military efforts to oust European enemies from the East Indies. It is true, however, that investments in the company stock of the WIC were disappointing, to say the least, which might have been a signal that investors were unhappy with the prospect that their money would be used for the pursuance of government goals. So perhaps the VOC was a fortunate coincidence; investors were willing to support the grand goals of the Dutch Republic in the start-up phase, and at about the time investors started being unhappy with the government say in the company, the VOC started to make considerable profits.

The government itself, on the other hand, could have used the structure of the securities market to consolidate its debt, but here the decentralized government of the Dutch Republic obstructed wider use of the market. The market was, for example, not easily accessible for the States of Groningen to issue their provincial debt. Moreover, it would have been hard to replace the system of provincial receivers-general, the officials responsible for issuing government debt, who were generally very influential persons.

The power of the securities market was thus not fully explored in the Dutch Republic. However, economies of later ages undoubtedly benefited from the experience of the Amsterdam market. New markets for corporate equity could be established relatively easily – they could be shaped after the example of the Amsterdam market. These markets could optimize the organization of the Amsterdam market, without the need to develop from scratch. The experience of the market for VOC shares thus enabled these economies of later ages to grow faster than what would have been possible if this market had not existed.

Eighteenth-century London was the first to reap the benefits of the experience the Dutch. What is more, the London securities market quickly outperformed its Amsterdam counterpart: more companies were traded and the government also used the market structure to finance its debt. In my view, the English financial markets could reach their high stage of development so quickly, because they could build on Amster-

\textsuperscript{3} Oscar Gelderblom, Abe de Jong and Joost Jonker, ‘An admiralty for Asia’.
dam’s achievements. London simply continued developing the market from the point that had been reached in Amsterdam. The foundations of London’s market, like those of today’s financial markets, were laid in seventeenth-century Amsterdam.