

Satirical engraving on share trading and the 1720 bubble from *The Great Mirror of Folly*. Credit: Stichting VvdE



Delft blue plate from 1720 depicting share trading. Credit: Stichting VvdE

The South Sea Company, which was based in England, was created to profit from trade with South America.

The Mississippi Company persuaded the French government to allow it to service its debt, and so government debt instruments were exchanged for stock in the company. The South Sea Company did the same with the British government debt. Both companies promoted their stock heavily, making unverifiable claims about the profit potentials that drove share prices up exponentially.

During this time, many other enterprises were formed in England to cash in on the speculative fever that had taken place. Some of the ideas were practical; others fantastical. Europe was in the grip of a speculative frenzy, and the wealth being generated seemed to know no limits. Skeptics who watched their neighbors get rich overnight quickly became speculators themselves, clamoring for a share of the wealth that was seemingly being created out of thin air.

Dutch investors were also investing in England and France, and unrealistic optimism soon spread to the Dutch exchange. The "Wind-Handel," or "wind trade," saw the share prices of the VOC and the WIC skyrocket for no apparent reason, inspiring the creation of a number of "wind companies" which sought to benefit from the new availability of speculative capital. When the Mississippi and South Sea bubbles imploded in March and September of 1720, the same happened in Amsterdam in October of that year.

Reality finally settled in, and it became clear that the astronomical rise in share prices far outstripped the profit potential of the colonies. Once this became obvious, the public quickly lost confidence and a selling frenzy ensued. France was plunged into economic turmoil from which it didn't recover for decades. Unlike in England and France,

the Dutch economy was not significantly damaged by the wind-trade. Normal trading resumed, and the economy entered a period of growth in the following years.

A great deal of satirical literature and artwork was created at this time, as commentary on the madness that had swept Europe.

JOHN ADAMS IN THE DUTCH REPUBLIC

In 1780, the Continental Congress was desperately short of the money it needed to fight the war for US independence. Though the Congress could requisition money from the states, it had no way to make them pay. It could print and borrow money, but it had little hard currency with which to pay its debts, and the fledgling government's credit was feeble at best. Next to London, Amsterdam was at the center of the financial world, and the Dutch supplied capital to borrowers around the globe. The Continental Congress sent John Adams to Amsterdam to negotiate a loan from the Dutch with which to refill its coffers so that it could wage war.



The Amsterdam Stock Exchange, interior view. Credit: Stichting VvdE

Adams knew that in order to obtain a loan, the Dutch would first need to formally recognize American independence. However, independence wouldn't be a real possibility until Congress had enough capital to fight the war. Adams had to juggle the parallel processes of obtaining the loan and obtaining recognition of American independence. It wasn't until General Cornwallis' surrender at Yorktown in October of 1781 that American independence became a real possibility. The Dutch Republic formally recognized the United States in April 1782. Adams was finally able to secure a loan, which was agreed to later that year. This loan was followed by others, and by 1794, the Dutch had loaned the United States over 30 million guilders, or the equivalent of \$22 billion today—a sizeable sum on which Alexander Hamilton could build the financial system of the United States.

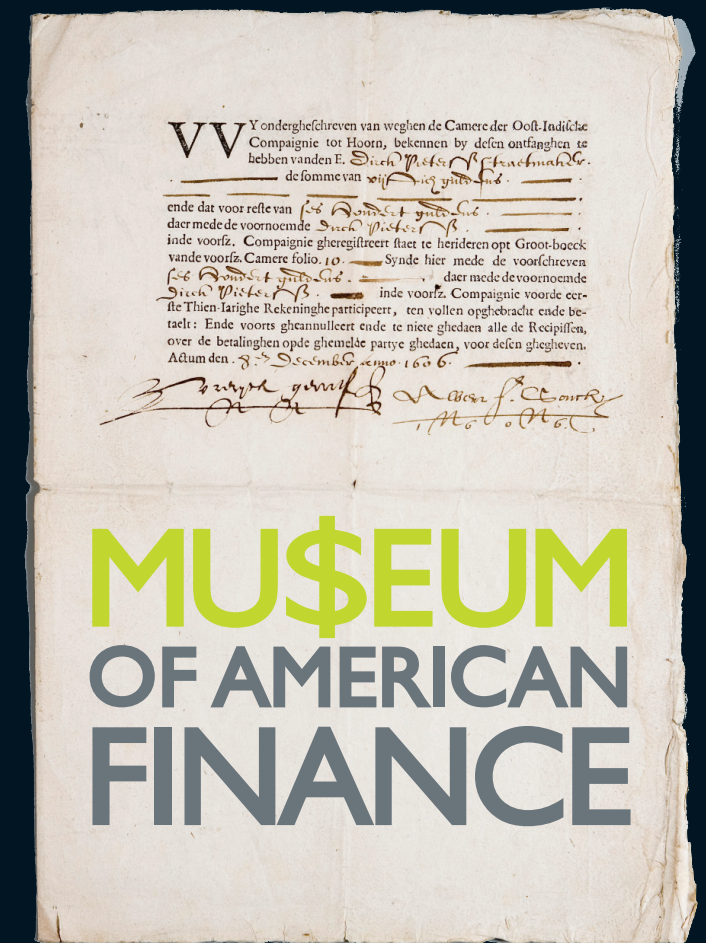
A conservative investor by nature and unused to the trappings of high finance, Adams bristled at the terms of the loan, although they were reasonable considering that the United States was essentially an emerging market. Personally opposed to borrowing, he expressed his chagrin that he was "burdening the industry and labor of my fellow-citizens and countrymen with a heavy load; and when demands are laid before me for millions of livres, for interest already due, I cannot help wishing that I might never have occasion to sign another obligation." Despite this, he called his success in Amsterdam "the greatest triumph of my life."

"Actiën Handel" is a collaboration among the Museum of American Finance and the following organizations:



ACTIËN HANDEL: EARLY DUTCH FINANCE AND THE FOUNDING OF AMERICA

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Earliest share certificate, 1606. Credit: Amsterdam Stock Exchange Foundation

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Engraving of the Amsterdam Stock Exchange. Credit: Amsterdam City Archives

INTRODUCTION

In September 1609, Henry Hudson and the crew of the *Halve-Maen* sailed into the waters around present-day New York City. An Englishman by birth, Hudson had been commissioned by the Dutch East India Company to find a new route to Asia. Formed in 1602, the Dutch East India Company was one of the first truly modern companies—it offered limited liability to its shareholders, issued printed shares, and worked with a permanent base of capital to develop and defend its vast trade empire. It was also the first company to be traded on an exchange, and laid the foundation for share-trading practices in the centuries to come.

In 1625, a thriving Dutch settlement called New Amsterdam was founded at the southern tip of Manhattan. Governed by the newly-formed West India Company, New Amsterdam was the base of the New Netherland colony—which covered much of what is now New York, New Jersey, Pennsylvania, Connecticut and Delaware. Under the auspices of governors like Peter Minuit and Peter Stuyvesant, the Dutch colony was known for its tolerance and diversity and was a thriving center of trade from its inception—traits which have survived in the present-day culture of New York City.

It is no small coincidence that New York City became the stock-trading capital of the world, given that that title was held by Amsterdam in the 17th century. And although the birth of listed companies and share-trading was quickly followed by the introduction of regulation, this did not prevent the speculative fever that swept England, France and the Netherlands in the 1720s, and is eerily reminiscent of events within the last decade.

As an important financial center which supplied capital all over the world, the Netherlands also played a vital role when America was fighting for independence against Britain. John Adams was the ambassador to the Dutch Republic, which was one of the first countries to recognize US sovereignty in 1782 and the first country to enter into an official treaty of amity and commerce with America. While there, Adams successfully negotiated a 5 million guilder loan from the Dutch merchants, funds which provided vital capital to the Continental Congress to wage war.

Actiën Handel (“share trading”) is a celebration of the financial ties between the United States and the Netherlands, and focuses on how intricately linked the two nations were in the 17th and 18th centuries.

HENRY HUDSON AND THE DUTCH EAST INDIA COMPANY Creating a Trading Empire

Amsterdam, the 1590s: The Dutch were vying with the Portuguese for dominance of the Asian spice trade. Voyages to Asia yielded astronomical profits for investors who had the capital to finance them. Around the Netherlands, early companies (known as the ‘*Voorcompagnieën*’) were created to finance voyages to Asia. However, there were two disadvantages: 1) they were dissolved upon the return on the ships, and so did not have a permanent capital base and 2) competition among them threatened the profitability of the spices they imported. Because of this, the heavy capitalization needed to develop the Asian trade was impossible to find.

The solution: in 1602 the Dutch government granted a charter to the *Vereenigde Oost-Indische Compagnie* (the Dutch East India Company, or the VOC), which combined fleets from around the country and which was given a 21-year monopoly to profit from the spice trade. All Dutch citizens were invited to invest in the VOC with as little or as much capital as they wanted. For the first time, a durable company with a permanent base of capital had been founded, whose shares were traded on an exchange—paving the way for the global share-trading practices we see today.

During the first 20 years of the VOC’s existence, shareholders had no way of knowing how the company was being managed—which was not initially an issue because the investors were mainly interested in the final settlement. However, when the VOC was not dissolved in 1622 and shareholder capital became permanent, shareholders began to demand influence and control over how their money was spent. The government soon



Dutch government ruling on the trading of WIC stocks, 1630. Credit: Stichting VvdE

passed regulations that limited the power of directors and increased the influence of shareholders. One of the first truly modern companies had been born, and for almost

September 1609, he sailed on the *Halve Maen* (Half-Moon) into the area that is now New York City, claiming it for the Dutch. Two years later, while exploring further north, he was set adrift by his mutinous crew and never heard from again.



Early VOC shareholders received their dividend payments in spices such as mace, pepper and nutmeg. Credit: Stichting VvdE

200 years, it was the most successful commercial organization of its age.

Hudson and the *Halve-Maen*

Henry Hudson was an English explorer who attempted to find sea passage to Asia by sailing through the Arctic and over Russia on behalf of the Muscovy Company in England. Hudson was later commissioned by the VOC to find a new passage to the spice routes in India. In

PAYMENT IN KIND

Due to its heavy initial investment in developing the Asian spice routes, the VOC’s income lagged behind its spending in the first few years, and the company was unable to pay dividends to its shareholders. Shareholders received their first dividends in 1610, but not in cash: they were paid in mace to 75% of the value they had invested, followed by a 50% dividend in pepper later that year. Only after that were the first cash dividends paid out. The investors received another distribution of 30% in March of 1612, this time in nutmeg.

Many shareholders were disappointed with their dividends in the early days of the company, even though they made 162.5% in the first 10 years—an excellent return by today’s standards, but low considering the astronomical profits that single voyages

could yield. Even though initial returns may have been modest, dividends paid out to the company’s original shareholders and their heirs by the time the company was dissolved in 1800 amounted to 3600%.

NEW AMSTERDAM AND THE WEST INDIA COMPANY

Founded in 1625 as a permanent settlement for the *West-Indische Compagnie* (the Dutch West India Company, or the WIC), New Amsterdam was ideally situated to profit from the fur and beaver pelt trade along the North River (later the Hudson River). The WIC was another exchange-traded company formed along similar lines as the VOC, whose purpose was to cultivate trade in the New World. The company directors in the Netherlands appointed a governor general, who oversaw all of the New Netherlands colony.

The WIC tried to encourage settlement by offering land to patroons, who would bring settlers over at their own expense. However, because the company kept exclusive rights to the profitable fur and beaver pelt trade for itself, the prospect of patroonship was significantly less appealing. The New Amsterdam settlement was unique; known for its policies of tolerance, the Dutch colony was a refuge for people who sought freedom of worship. It quickly became a thriving merchant outpost which promoted religious tolerance and was even pluralistic, especially when compared to other colonies in the New World. The colony’s government was autocratic, and the inhabitants began to agitate for change when Willem Kieft, who was governor from 1638 to 1647, was accused

of bad decision-making that caused conflict with the Native American tribes in the area (later referred to as Kieft’s War). The colonists protested, accusing him of endangering their safety, and consequently the company’s directors recalled him to Amsterdam. His replacement was Peter Stuyvesant, a rigid, peg-legged minister’s son who had most recently been director of the WIC’s Curacao colony.

Once the colonists had a say in how they were governed, they were unwilling to let the issue drop. Try as he might to impose autocratic rule, Stuyvesant was resisted at every turn. In 1664, four English ships sailed into New York harbor and demanded the surrender of the Dutch colony. Though Stuyvesant wanted to fight, the colonists pressured him into accepting the generous terms of the English—which promised “life, estate and liberty to all who would submit to the king’s authority.” Basic civil rights and freedom of religion were enshrined in the Articles of Capitulation that Stuyvesant signed. Although the Dutch would take Manhattan back twice in the following years, it came under English rule again in 1674, when the name was permanently changed to New York City.

WIND-TRADE: THE SOUTH SEA AND MISSISSIPPI BUBBLES

The year 1720 saw the implosion of two speculative bubbles that involved shares of companies that were formed to profit from trade in the New World. The Mississippi Company, based in France, was created to profit from trade with French territory in North America, which spanned nearly half of what is now the United States.



Aerial view of the Amsterdam Stock Exchange. Credit: Stichting VvdE