Guha on Harris, 'Going the Distance: Eurasian Trade and the Rise of the Business Corporation, 1400-1700'

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This is a large and ambitious book. It develops an analytic typology that encompasses all the basic structures of market-based economic life, from the individual peddler to the large impersonal corporation. It then seeks to explain why the last of these only emerged in northwestern Europe and how it was uniquely able to create and support long-distance economic integration, which has made the modern world. Ron Harris also differentiates the two types of the early corporation represented by the English and Dutch companies founded to trade with Asia. While the subtitle restricts the scope of the model to the period 1400-1700, the book also considers evidence from much earlier—going back to shipping finance contracts in Greece in the fifth century BCE, the Muziris papyrus from second-century Egypt, and documents illustrative of patterns of Sogdian trade across Inner Asia in the eighth and ninth centuries CE.

Harris is obviously inspired by the vast temporal and interregional comparisons made by Max Weber in the early twentieth century. He sees the intellectual successors of Weber as largely non-economists who were interested in relations within firms of all types but did not invoke economic theory to understand why they took the diverse shapes actually found historically and regionally. To remedy this analytic deficiency, Harris draws on a substantial literature that has grown around the argument developed by R. H. Coase in 1937 about the nature of the firm. The firm as conceived by Coase was an entity that existed because the transaction costs of contracting in open markets exceeded those of organizing the same functions within the firm. The resulting sharply contrasted forms of economic organization were stylized by Oliver Williamson in 1975 as “markets” and “hierarchies.” The model was thus one in which similar goals were attained by means of either the deployment of authority within organizations or the arrangement of market contracts between them. Williamson, Avner Greif, Masahiko Aoki, and many others sought to look inside the “black box” model of the firm to understand what transactions it conducted “internally” and what were left in the marketplace. They began to see the firm as a “nexus of contracts,” not a permanently bounded entity. But some pushed further. Aoki in particular rejected the idea of the shareholder-oriented exchange-traded model of corporate governance as the “end of corporate history”—an idea popular twenty years ago. He added that the diversity and unpredictability of the world meant that “rule-making games” are constantly played at many levels and outcomes can only be studied historically. Harris undertakes such a study for the processes that culminated in the great trading and fighting corporations of the
seventeenth century—the firms that founded the British and Dutch Empires in Asia.

Harris lucidly digests a considerable literature and seeks to incorporate insights from the new economics of information into it as well. But this is fitted into the framework largely provided by Douglass North’s just-so story about the rise of the West as due to its ability to design institutions that protected property rights and reduced transaction costs. Harris cites North but introduces a more sophisticated analysis by introducing the concept of path-dependence, meaning that choices on technology or institutions once made constrain future decisions even when better alternatives became known to the actors in the system. He also deploys the idea that institutions “migrate” and can be adopted far from their origins and even for new purposes. But early commitments to alternate forms of organization may obstruct the adoption of imported ones.

Harris also applies his evident expertise as professor of law in his analytic description of the many institutions of long-distance trade that have resulted in the flow of commodities across Eurasia for some twenty centuries. Chapter 3 considers how trade happened at the most elementary level and describes what he sees as five practices that likely emerged endogenously at various locations across Eurasia: the itinerant trader, the family firm, the relationship of borrower-lender, the relationship of agent-principal, and the transactional complex centered on the trading ship as an organizational unit. His analysis of the last practice as a business unit is especially interesting: “Capital, labor, maritime know-how, and trade know-how met on board ships” (p. 91). Ships facilitated and consequently enlarged trade all over Eurasia. They not only carried goods and people but also allowed the migration of organizational ideas and contractual types.

Chapter 4 moves on to institutions invented in one part of the world but adopted in other areas. The modern corporation is of course its prime example. But before that there were others: from the domestication of crops and animals to the idea of writing. Animal transport and written records became vital logistical elements in Eurasian trade. The Mediterranean world developed a special financial form, “the sea-loan,” for ship-borne transactions. The Indian Ocean world on the other hand relied more on the shipmaster as entrepreneur, agent, guarantor, and enforcer over the vaster distances and longer voyages of the Indian Ocean. Harris focuses on institutions that facilitated larger, stable volumes of trade, such as the caravanserais and the fondaco/funduq. These two provided permanent structures supplying protection, provision for people and animals, and information. Harris rightly emphasizes the role of information in not only matching supply and demand over great distances but also allowing principals to monitor the doings of their debtors, clients, and agents in faraway locations. These establishments—often founded by rulers—reduced the risk and uncertainty faced by individual traders.

Such traders might be funded by contracts like the “commenda” (chapter 5). This was a migratory institution that spread over Eurasia. It shared risk, reward, and responsibility between adventurer who traveled and financier who stayed in the home base. The distribution of risks and share of future profits could vary, but only the assets committed to the venture were at risk, not the private assets of the parties involved. The commenda thus possessed the germ of the limited liability essential to the future corporation. Harris argues that this institution was far more widespread and important than has been recognized. It was “the prime migratory institution” (p. 166). He tracks its earliest appearance to early Islamic Arabia, where it was known as qirad. It migrated into the Mediterranean world where it was renamed commenda, and it began to displace the old sea-loan as the preferred
form of finance for long-distance trade from the 1180s. It was found in Central Asian trade too.

Three chapters—6, 7, and 8—successively consider three possible types of enterprise that might conceivably have been Asian alternatives to the Dutch or English companies. These were family firms, state-trading enterprises, and merchant diasporas. Each of these is explored in rich detail, with case studies from all major regions. The family firm could grow very large but depended greatly on the energy and political adroitness of its leaders. Vast transcontinental enterprises lay beyond their horizon of knowledge. Diasporic networks depended on the existence of a community hub to which capital and information returned and enabled the networks to sustain themselves. But as early as 1600-1700, surviving networks did not even seek to compete with the great corporations, “in symbiosis with them and on their margins” (p. 225).

Finally, there are two cases of state-sponsored trade: the Ming voyages (1405-33) into the Indian Ocean and the Portuguese expansion along the coast of Africa that culminated in the establishment of a patrimonial empire of monopolistic trade, the Estado da India. Ming voyages sent out large and expensive fleets, and it is unclear to me if they were conceived as economic ventures at all. Of course, the Portuguese had dual motives of finding “Christians and spices,” so that theirs was not an unmixed business venture either. But the exploitation of the newly discovered sea route to Asia needed funding from Italian and German merchants with whom the mercurial kings of Iberia had a fluctuating relationship. Harris also shows how the chronic budgetary shortfalls of the Portuguese monarchy led it to depend on external financiers. These foreign financiers felt more secure against expropriation than the king’s own subjects did. Still Portuguese subjects were not entirely under royal control: a profitable intra-Asian trade was soon captured by them when operating over the horizon. There is little doubt that if their kings had sought to recall them as the Ming emperors did their fleets, a large fraction would have switched from semi-official armed trade/piracy to full-fledged buccaneering. The Portuguese enterprise was marginalized at sea by the Dutch company that emerged out of a coalition of powerful Dutch cities in 1602. This was two years after a group of London merchants secured a royal monopoly of trade in Asian waters and founded the English East India Company. The Portuguese state enterprise simply imploded in the face of this competition.

With this we come to the concluding part 4, “The Corporation Transformed: The Era of Impersonal Cooperation.” Chapter 9 provides an analytic definition of the “business corporation” as endowed with seven core characteristics. These were separate legal personality, a collective decision-making mechanism, joint-stock equity finance, lock-in of investment, transferability of participants’ share of interest (that is, decision-making and profits) in the corporation, protection from expropriation (Harris argues that no such legal entity could have been found in 1600), and asset partitioning (shareholders’ private assets were protected against the creditors of the corporation, while their creditors had no claim to the assets of the corporation as such). Harris argues that these seven traits only gradually coalesced into the modern corporation. But the first six emerged in the English and Dutch companies. This combination of traits in a single legal and economic institution amounted, Harris argues, to “an organizational revolution” (p. 252).

Chapters 10 and 11 then track the careers and evolving internal structures of the Dutch and English companies. Issues of managing the tension between ownership and control and preventing the misconduct of remote (so hard to monitor) employees from wrecking the enterprise are carefully analyzed with a wealth of material. Finally chapter 12 asks why the corporation only arose in Europe,
and why China, India, or the Ottoman Empire did not develop similar entities and also why they were so slow to import it. After all, he points out, other business institutions had spread by emulation.

The sea route to India was of course developed by a Portuguese state enterprise. The Ottomans were perhaps the best candidates to have contested Asian waters against it. After annexing Egypt in 1517, they were able to create and sustain a naval presence in the Indian Ocean in the face of the Portuguese and might have been there at the arrival of the Dutch and English. The latter after all were prepared to collaborate with the Safavids to destroy the Portuguese base at Hormuz in the Persian Gulf. It was ultimately a strategic decision by the Ottomans to focus in Europe that closed off such possibilities.

Chapter 12 then considers alternate organizational forms from which the modern corporation could have developed, such as the Islamic endowed trust or waqf from which it might have emerged and discusses the reasons why it did not. Explaining what did not happen is of course a difficult task. This exploration is part of Harris’s commendably rigorous approach that seeks to close off alternative explanation so as to strengthen his own. I shall not extend this review by discussing each of the arguments he develops, but they turn on examining the societal embedding of business practices, laws, and institutions. But how did the societies in question change themselves? The security of merchant property in the Dutch and English states was not after all fortuitous: the city of London was a bulwark of the Parliamentary armies in the English Civil War of the 1640s and the Dutch cities perhaps even more important in the long resistance to Spain. In neither did burgher elites dominate seventeenth-century politics, but nowhere else in the world did they play so large a role. Harris rejects Weber’s Protestant ethic—in my view correctly. Is it perhaps necessary to look again at the old argument about the “rise of the bourgeoisie”?


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