

London and amsterdam monopoly rights in the financial market



**ASSIGN
BUSTER**

- Eunice Wong

The paper ' Political Economy Origins of Financial Markets in Europe and Asia' focuses on the expansion of trading between companies that have been granted monopoly rights. Through exploring the historical events in the development of financial market in London, Amsterdam and vaguely of foreign countries, the impact of trading monopolies is discussed.

Furthermore, analysis of factors that leads to successful a country's financial state as well as appraisal of the paper will be elucidated.

London has achieved and maintained a successful and strong financial status in the market today and it begins in 1661 when trading in stock was first introduced. The London Stock Exchange was officially established in 1733. The table " Statistics England, Scotland and Ireland to 1720" (conducted in Scott, 1912) suggested that throughout the 17th century, East India Company (EIC) was the largest joint-stock company, followed by the Royal African (RAC) and Hudson's Bay Company. In 1694, the Bank of England (BoE) was developed by the parliament and given the monopoly rights to issue paper money and take deposits. By the end of 1695, BoE overtook RAC as the second largest joint-stock company and reached a total market capitalization of £4. 25 million. By 1703, EIC was acquired by the New East India Company (NEIC) and reached 26. 6% of the total market. With 21. 2% of the market capitalization, BoE became the second largest joint stock company and RAC has 13\$ of the market. Hence, these three monopolies have a combined market capitalisation of more than 60% of the stock market. An Act was introduced in 1697 which attempted to regulate stock brokers' activities through implementing a limit to the number of brokers

<https://assignbuster.com/london-and-amsterdam-monopoly-rights-in-the-financial-market/>

and presenting licensing arrangements, the aim of restricting “ ill-practices of stock-jobbers” (Smith, 1929). Therefore, the introduction of trading in stocks has expanded development London’s financial market.

From the 1670s to 1680s, political influence was one of the key contributions to a steady development in the London’s stock market. The Glorious Revolution of 1688 was one of the political stimulation of London’s market to maintain a steady growth. The Glorious Revolution of 1688 has shifted majority of monarchy’s power to the parliament, which the monarchy accepts and appreciates the Parliament and their law regarding to the constitutional changes: the English Bill of Rights, Mutiny Act and Toleration Act where passed on 1689. (North and Weingast, 1989) Consequently, this meaningful historical event has subsequently steered the public finances by eliminating the conflict between the monarchy and the parliament.

Before 1688, there has been a persisting gap between government spending and government earnings. This has impeded the monarch to support a strong army, resulting England with weak military forces. Thus the size of government’s long-term debt has increased from £1M to £16. 7M by 1697. In order for the government to increase their capacity to raise long-term loans, the government has granted NEIC monopoly rights to trade to India in exchange for the loan. Similarly, the Bank of England has a mutual agreement with the government to exchange a granted monopoly license with the long-term loan. There are arguments for and against the London’s stock market because the government is granting monopoly licenses to companies to assist in raising long-term debt, thus strengthen public

finances. Since granting monopoly rights provide economic benefits to those companies, allowing them to raise their capital at ease.

The substantial growth in real incomes and trade were prominent in the era after 1660. The English “ Commercial Revolution” was used to describe this period, between the late 1660s and 1690, as it showed a substantial progress in trade. This increase played a sizeable component in government measures and actions taken, such as increasing defence on English shipping and the new navigation policy. (Holmes, 1993)

Monopolies have played a crucial role in London and Amsterdam’s financial market but more prominently in London. The market monopolised various business functions, such as, producing and securing economic rents in foreign trade, protecting finance sources for government and improving investors’ property rights. In regards to the monopolies that are involved in trading, security concerns led to operational economies of scale. Therefore indicating that building and sustaining a private army is a right insisted on their incorporation agreement. Both scale and scope of economies are presented in trading technology as large system costs in developing trading outpost, which assisted the improvement of trade and expanded into foreign regions. One of the largest monopolies, EIC, has generated financial success that led to financial advancement, as well as the development of their financial market. As evident in 1660s, EIC began to issue permanent capital which resulted in the increase of trading in shares, thus developing financial innovation of simple reassignment of shares’ ownership. Consequently, analysis shown that trading monopolies have evidently protected finance sources and economic rents, as well as securing investors’ property rights.

<https://assignbuster.com/london-and-amsterdam-monopoly-rights-in-the-financial-market/>

Another factor leading to government's standing finance source is joint-stock companies. The monopoly rights of joint-stock companies such as the EIC were conceded and refurbished for the royal charter along with large funds being transferred from company to the monarchy in power at the time. From a borrower's perspective, the trading monopoly with valuable resources permitted the government to generate a standing finance source. However, from lender's (monopoly) perspective, assisting government funds was not their main objective in trading economies. Meanwhile from borrower's (government) perspective, granting monopoly license on valuable resources assisted the government to raise their long-term debt, creating a fixed source of finance. This also balances the wealth of poor and rich through obtaining large funds from wealthy and powerful companies, rather than imposing heavy tax on poor immobilised mass.

Monopolies have also contributed in strengthening investors' property rights. However the monarchy's lack of credibility made investors reluctant to have business relationship with the monarchy directly. Nevertheless, monopolization generated government's success in amending credibility to repay as monopoly's stocks are more beneficial compared to government bonds investments. Conclusively, granting royal charter strengthened investors' property rights in 16th and 17th century in England, and significantly improved after the Glorious Revolution in 1668.

There are two key constraints that restricted trading monopoly's growth, wide-range scope and joint-stock company's exclusive rights. First restriction is that even though monopolies were efficient in England financial market

but monopoly ownerships were wide-ranged, hence did not result in the establishment of economic oligarchies. Secondly, awarding joint-stock companies exclusive rights were popular and it was believed that it may be unfair and of bad concerns.

The Amsterdam's emergence in financial market is similar to London's market which both involved trading monopoly rights with several differing factors. The Amsterdam stock exchange was monopolized by the Dutch East India Company with assistance from the Verenigde Oostindische Compagnie (VOC) developing the Amsterdam's stock market. This example portrayed that both London and Amsterdam's trading monopoly were important for the government in the emergence of financial market.

This paper shows great insight in regards to the historical events in London, Amsterdam and other foreign financial market. However the paper focuses mainly on the emergence of the London's financial market, starting as early as the emergence of London's stock market from 1661 to 1703. Given the detail provided with reference to historical evidences and sources, it is understood that the largest joint stock companies during this era were dominating the market. For example, the source from North and Weingast (1989) has been discussed and analysed in great depth, providing the development and expansion of London's trading stock, as well as the improvement of England from weak military to a strong army in 1670s to 1690s. However the concept of " Commercial Revolution" between in the 1660s is surprisingly vague and lacked analysis in the effects of the market. Furthermore, the expansion on the idea of monopoly rights, and the benefits and detriments it imposed on England's market were presented with great <https://assignbuster.com/london-and-amsterdam-monopoly-rights-in-the-financial-market/>

depth and analysis. However, arguments shown primarily support the benefits of monopoly rights and lacking detrimental effects of trading monopoly.

Other countries were also examined in the paper such as Amsterdam and Hong Kong, though more details and consideration should be analysed to provide a more comparative and fair report into regards to London. In particular, the analysis of Amsterdam's financial market is relatively shallow in contrast to London's. The paper briefly touched on the idea that the Amsterdam's market is similar to London's but also quite dissimilar, even though this idea was not elusive and expanded upon. The paper aimed to provide research on what kick-started the financial emergence and expansion in London, Amsterdam and Hong Kong, advocating the perception that the monopolies were the key to the financial improvements and hence resulted in the expansion in trading shares and reinforce investors' property rights. As claimed above, the aim of the paper is too focused and engraved on the London market. Financial performance reports of other countries were not necessary, the focus was on Amsterdam's financial expansion and therefore, the paper should provide different aspects of the growth and how it grew, instead of growth of other countries.

The ideology of the emergence of London and Amsterdam's monopoly rights in the financial markets are vastly explored above. Monopolies are portrayed to be the fundamental methods to the growth in both London's and Amsterdam stock market and financial innovations and the strengthening of public finances, as well as investors' property rights. Even monopoly rights have been largely in use in both London and Amsterdam's market but due to <https://assignbuster.com/london-and-amsterdam-monopoly-rights-in-the-financial-market/>

the wide-range ownership of monopoly, economic oligarchies did not arise.

The paper has provided adequate and detailed research on London's market, though a more insightful aspect of Amsterdam is yet to be explored. Through multiple iterations of change, monopolies appeared to be beneficial and undoubtedly helpful in the short term as the debt can be serviced, but would be detrimental for the long-term health of the country.

References

Holmes, G. (1993). *The making of a great power*. London: Longman

North, D. C., & Weingast, B. R. (1989). Constitutions and commitment: The evolution of institutions governing public choice in seventeenth-century England. *The Journal of Economic History*, 49, 803–832.

Scott, W. R. (1912). *The Constitution and Finance of English, Scottish and Irish joint-stock companies to 1720*. Cambridge: Cambridge University Press (in three volumes).

Andrianova, S., & Demetriades, P., & Xu, C. G. (2010). Political Economy Origins of Financial Markets in Europe and Asia. *World Development*. Vol. 39, No. 5, 686-699.