5.7

Economic Developments and Innovations

Man is an animal that makes bargains: no other animal does this - no dog exchanges bones with another.

—Adam Smith (1723-1790)

Essential Question: How did the development of economic systems, ideologies, and institutions contribute to change between 1750 and 1900?

Industrialization and modernization led to new philosophies and business structures. In the *Wealth of Nations* (1776), Adam Smith, arguing that humans are naturally transactional, provided a foundational text in support of capitalism and the establishment of private entrepreneurship and shaped the economics and politics of the industrial age and the centuries to follow. Mercantilism, a system of economic protectionism, was replaced by a laissez-faire ("leave alone" in French) policy that promoted minimal governmental involvement in commerce and encouraged countries to reduce tariffs on trade.

These economic ideas were reflected in, and supported by, emerging transnational institutions, including banks such as the Hong Kong and Shanghai Banking Corporation (HSBC) and manufacturers such as Unilever. As trade increased, so did the availability, affordability, and variety of consumer goods.

Effects on Business Organization

New ways of organizing businesses arose during the Industrial Revolution. Some manufacturers formed giant **corporations** in order to minimize risk. A corporation is a business chartered by a government as a legal entity owned by **stockholders** (individuals who buy partial ownership directly from the company when it is formed or later through a **stock market**). Stockholders might receive sums of money, known as dividends, from a corporation when it makes a profit. If a corporation experiences a loss or goes bankrupt, the stockholders are not liable for the losses. The most that stockholders can lose is what they paid for the stock in the first place.

Markets with One Seller Some corporations became so powerful that they could form a **monopoly**, control of a specific business and elimination of all competition. For example, Alfred Krupp of Essen, Germany, ran a gigantic company that used the **Bessemer process**, a more efficient way to produce steel, gaining a monopoly in the German steel industry. In the United States, John D. Rockefeller created a monopoly in the oil industry.

Companies Working Across Boundaries British-born **Cecil Rhodes**, founder of De Beers Diamonds, was an especially enthusiastic investor in a railroad project that was to stretch from Cape Town, in modern-day South Africa, to Cairo, Egypt. Connecting all of the British-held colonies with a transportation network could make governance easier and aid in conducting a war, if necessary. The project was never completed because Britain never gained control over all the land on which such a railroad was to be built. The overwhelming majority of railway workers in Africa were natives who were paid far lower wages than their European counterparts. Thus, railroad technology was a means of extracting as many resources as possible from subject lands while paying colonial laborers as little as possible.

De Beers was one of many **transnational** companies—those that operated across national boundaries—that emerged in the 19th century. For example, the **Hong Kong and Shanghai Banking Corporation**, a British-owned bank opened in its colony of Hong Kong in 1865, focused on finance, corporate investments, and global banking. The **Unilever Corporation**, a British and Dutch venture, focused on household goods—most famously, soap. By 1890 it had soap factories in Australia, Switzerland, the United States, and beyond. Unilever sourced the palm oil for its soaps first from British West Africa and later the Belgian Congo, where it operated huge plantations. Because these companies were transnational, they gained wealth and influence on a scale rarely approached before. (Connect: Defend or refute the claim—mercantilism was necessary for the eventual growth of transnational companies. See Topic 4.4.)

Corporations A sole proprietorship is a business owned by a single person, and a partnership is a small group of people who make all business decisions. A corporation differs from these two other major forms of business ownership in that a corporation is a more flexible structure for large-scale economic activity. It replaced the traditional system of a single entrepreneur engaging in high-risk business endeavors with a system of larger companies, collectively engaging in lower-risk efforts. By spreading risk, investments became much safer and more attractive.

Four Features of a Corporation

Feature	Description
Limited Liability	Capital suppliers are not subject to losses greater than the amount of their investment.
Transferability of Shares	Voting rights in the enterprise may be transferred easily from one investor to another.
Juridical Personality	The corporation itself acts as a “person” and may therefore sue and be sued, may make contracts, and may hold property.
Indefinite Duration	The life of the corporation may extend beyond the participation of any of its incorporators.

Despite critics' charges that corporations undermined individual responsibility, they became a common form of business organization. They eventually dominated many areas of business, from banking to manufacturing to providing services. With their growth, corporations gained great economic and political power. For example, the decision by a corporation about where to build a new factory could create thousands of new jobs for a community.

Banking and Finance Another way to reduce risk was through insurance, especially marine insurance. Lloyd's of London, with beginnings in a coffee house where merchants and sailors went for the most reliable shipping news, helped establish the insurance industry. The number of banks rose as merchants and entrepreneurs looked for a reliable place to deposit money and to borrow it when needed to build a factory or hire workers for a new enterprise.

Effect on Mass Culture

A culture of **consumerism** as well as of leisure developed among the working and middle classes of society in Great Britain, and for some people, living standards rose. Consumption needed to keep up with production, so producers began to advertise heavily, particularly to the middle class whose members had some disposable income, money that can be spent on nonessential goods.

Leisure activities such as biking and boating became popular during the late 1800s. In the 1880s, the penny-farthing bicycle (below left) was replaced by the newer safety bicycle (below right). The older style featured one large wheel and one small one. This allowed riders to travel fast, but the danger of falling over was high. The newer style, by using a chain connecting different sized gears on the wheels, could go the same speed, but with less risk.

Source: Getty Images

Companies encouraged their workers to participate in athletics, because they believed that sports rewarded virtues such as self-discipline and playing by the rules. The sales of athletic equipment also generated business for those who made everything from soccer` balls to sports stadiums.

Perhaps because workers spent most of their waking hours in a bleak industrial environment, material goods and leisure entertainment became important escapes. In Europe, soccer (known there as football), became popular, while baseball dominated sports in the United States. Particular sports developed along class lines: tennis and golf in England, for example, were played by the upper classes, while certain types of rugby were played only by the lower classes.

The commercialization of the demand for public culture was also seen in the construction of music halls and public parks, particularly during the second half of the 19th century. Both the halls and the parks were built to accommodate a wide range of social classes. One aim of this mingling of classes was for the lower classes to see more civilized, rational behavior so that they would be encouraged to emulate it. The manner in which one class may have ultimately influenced the other is difficult to quantify, yet the enduring presence of such public mingling places remains intact.

KEY TERMS BY THEME

ECONOMY: Structures	**ECONOMY:** Businesses	**CULTURE:** Population
corporations	Hong Kong and Shanghai Banking Corporation	consumerism
stockholders	Unilever Corporation	urbanization
stock market		**TECHNOLOGY:** Industry
monopoly		Bessemer process
Cecil Rhodes		
transnational		