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Volume 53, 2011 - [Issue 3](#)

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Path dependence, change and the emergence of the first joint-stock companies

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Pages 363-374 | Published online: 22 Jun 2011

 Cite this article

 <https://doi.org/10.1080/00076791.2011.565513>

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Abstract

This paper presents a model of path dependence and change and focuses on the gaining of new institutional knowledge. The main thesis is that in 'extraordinary' historical situations the possibility of change increases as a result of external pressure and successful adaptation to it. The model is tested applying it to the case study of seventeenth-century United Provinces (Dutch Republic). Such a situation existed in the sixteenth-seventeenth-century United Provinces, due to their uprising against Spanish rule. Because there existed no strong central authority, the decision-makers had to develop new institutions in order to successfully capture the lucrative spice trade from their enemies. The solution was the joint-stock company, which, through the phases of a continuous decision-making procedure, developed into the 'permanent' Dutch East India Company (VOC) in parallel also to the development of the Amsterdam Stock Exchange.

Keywords:

path dependence and change

institutions

joint-stock companies

sixteenth–seventeenth century

United Provinces (Dutch Republic)

VOC

Acknowledgements

The authors wish to thank Prof. `t Hart of Amsterdam University and the two anonymous referees for their valuable comments.

Notes

1. The idea of bounded rationality has been advanced by Simon (1982 and 1991) and has been proposed e.g. by Frier and Kehoe (2007) to explain historical path dependence.
2. The UP's independence was formally recognised by the Treaty of Muenster – Westphalia of 1648, but in fact, they were already independent of Spanish domination by the last decades of the sixteenth century.
3. We owe this information to an anonymous referee.
4. We owe this information to an anonymous referee.
5. We owe this information to Prof. `t Hart.
6. British authors still call it the ‘Indian Mutiny’, while Indians consider it a revolution against British occupation.

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