With cross-sectional and historical evidence indicating that financial development is an essential precursor to economic development (e.g., Sylla 2002; Siegel and Roe 2009), there is much interest in understanding what supports or predicts financial development. Among other factors, financial development appears linked to strong and stable private property rights, in particular legal protection of minority investors (La Porta et al. 1997, 2000): the more investors feel that they have some level of recourse against expropriation by managers or large shareholders of corporations, the more they are willing to invest.

Identifying the need for strong investor protections is one thing, but it is quite another to actually change the level of protection in a particular jurisdiction. Existing regimes and institutions typically have vested interests who benefit from the status quo, which means that inefficient institutions can persist for some time (North 1990). In the case of financial development, the managers and/or controlling owners of large enterprises can become “entrenched” (Morck, Wolfenzon and Yeung 2005), using their substantial resources to influence government policy and action to support their ability to expropriate minority investors.
The question of financial development then becomes a historical one: to assess how financial development has occurred and how entrenchedness has been overcome in the past. In this way, historical research into the institutional evolution of corporate governance is essential to understanding financial development (Sylla 2002; Rajan and Zingales 2003; Mork 2005; Musacchio 2008).

The East India companies of the seventeenth century are an important topic in this regard. Douglass North (1990) has argued that the institutions and organizations developed to conduct long-distance trade were the basis for the West’s modern economy. And, as Oscar Gelderblom, Abe de Jong, and Joost Jonker (2010) point out in this same volume, the Dutch East India Company in particular has often been viewed as the world’s first diffusely held public corporation.

One of the essential features of the modern corporation that the Dutch East India Company (Vereenigde Oost-Indische Compagnie, or VOC) pioneered was a permanent capital base (Scott 1912; Steensgaard 1974; Frentrop 2003). This describes a situation in which the company is never required to return its full capital to investors; the capital is permanently in the hands of the company. This contrasts with the terminable capital structure traditionally employed in the late sixteenth century, in which investments were pledged for a finite period of time, after which profit and principal were returned and the enterprise was wound up (as in modern-day private equity funds) (Scott 1912; Gelderblom and Jonker 2004).

Permanent capital facilitates long-term investments in specific assets and is thus a key financial innovation (Blair 2004). In fact, the VOC’s establishment of permanent capital by 1622 was seen not only by historians but also by company directors themselves as a source of advantage that contributed to its early out-performance of its rival, the English East India Company (EIC), which was founded at the same time with a similar form (a terminable joint-stock with a national monopoly) but did not establish a permanent capital base until 1664 (Scott 1912; Masselman 1963; Chaudhuri 1978; Frentrop 2003).

However, the development of permanent capital at the VOC poses an interesting puzzle, since it was facilitated by what amounted to a state-sponsored expropriation of minority shareholders. As described elsewhere in this volume by Gelderblom et al. and de Jongh, as well as in Frentrop (2003), the company was founded as a terminable venture, with investors promised the opportunity to cash out after ten years. But the company’s directors quickly recognized a need for long-term investments overseas (in forts, factories, and ships left in Asia) that would be hard to wind up or transfer. They also faced poor returns in the early years, precluding the payment of dividends that