Industrial Revolution
AP World History
Kienast

The era known as the Industrial Revolution was a period in which fundamental changes occurred in agriculture, textile and metal manufacture, transportation, economic policies and the social structure in England. This period is appropriately labeled "revolution," for it thoroughly destroyed the old manner of doing things; yet the term is simultaneously inappropriate, for it connotes abrupt change. The changes that occurred during this period (1760-1850), in fact, occurred gradually. The year 1760 is generally accepted as the "eve" of the Industrial Revolution. In reality, this eve began more than two centuries before this date. The late 18th century and the early l9th century simply brought to fruition the ideas and discoveries of those who had long passed on.

So, why did the Industrial Revolution begin in Britain? Britain was located on the Atlantic Ocean with all of its seaports, it had abundant natural resources such as coal, iron and timber, cheap workers due to rapid population growth, many cities in which to locate factories, a population that was well-paid and could buy products, had infrastructure like rivers, canals, and railroads, had access to foreign resources through colonies and its government protected private property which led to increased money among investors.

The Industrial Revolution also saw innovations in how to finance industry and protect industry. Stock markets were one way that people tried to raise money to build their businesses. At some point, just about every company needs to raise money, whether to open up a business, build a factory, or hire new employees. In each case, they have two choices: 1) Borrow the money, or 2) raise it from investors by selling them a stake (issuing shares of stock) in the company. When you own a share of stock, you are a part owner in the company with a claim (however small it may be) on every asset and every penny in earnings. As a company's earnings improve, investors are willing to pay more for the stock. Over time, stocks in general have been solid investments, so naturally people began to buy and sell shares of stock, much like people would sell baseball cards or comic books as investments.

Businesses also began to protect themselves by buying insurance. Businesses can be destroyed by weather, accident, piracy (in the case of shipping) and theft, among other factors. Eventually insurance evolved as a way to protect against these circumstances. The concept behind insurance is that a group of people exposed to similar risk come together and make contributions towards a pool of funds. In case a person actually suffers a loss on account of such risk, he is compensated out of the same pool of funds. Contribution to the pool is made by a group of people sharing common risks and collected by the insurance companies in the form of regular payments called premiums. So, let's say I have a shipping company and I'm worried that I might lose one or more of my ships to piracy, storms, etc. Such an event might destroy my company. To solve this problem, I buy shipping insurance. Several shipping companies pay a certain amount every month…let's say $10,000 per ship, toward a pool of money that can be used to pay for a new ship if any of us loses one to disaster. Insurance companies make money because they are betting that they will collect more than they have to pay out since disasters really are not that common.

Britain also dominated trade because their paper money was tied to the gold standard. What that means is that paper currency is worth in gold what the note's denomination says. So, if the bill says $10 then the bill is worth $10 in gold. This helped international trade because traders trusted currency from other countries due to the fact that gold backed the currency. After World War I, countries gradually went away from the gold standard. The question is, of course, why go away from gold standard if it helps trade? The problem is that economies of countries can't grow unless more gold is found because a country's worth is based on how much gold they have. Now a country's paper money has its value based on the perceived worth of a country. The U.S. and Britain have strong currencies because our countries are stable and secure.

One last problem with businesses was protection from creditors. When a business owner borrowed money for his or her business, one risk they took is that the bank or individual(s) that were owed money might sue the business owner if the investors lost their money due to the collapse of the business. Let's say my factory goes out of business and I owe $2 million to my investors. It is possible that my investors may sue me for the money, leading me to lose my house, my car, etc. Because of this, few people wanted to risk borrowing large amounts of money and businesses were not built. Business owners and governments during the Industrial Revolution solved this problem by passing limited liability corporation laws. In a limited liability company or corporation, a creditor can sue the company, but not the owners of a company. My company's assets (machines, equipment, bank holdings, land) can be sold to pay back investors, but not my personal possessions. A corporation was like an entity that could be sued, but the people controlling the entity could not be sued.