1

The East Indian Monopoly and the Transition from Limited Access in England, 1600–1813

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History shows that many important markets are limited by laws and customs enforced by political and religious authorities. Examples are bans on trade, prohibitions on migration, and grants of monopoly. The result in all cases is that favored individuals and firms earn "rents," or an excess payment over and above the amount expected in open markets. Introductory economics suggests that limiting markets generally reduces social welfare and hampers development by lowering incentives for innovation.

The importance of limited markets has led to much theorizing and analysis. North, Wallis, and Weingast (2009) is an important recent work tackling this issue. They argue that most societies in human history can be described as "limited-access orders," where the ruling coalition limits entry to markets and the political system. The resulting rents give elites in the ruling coalition an economic incentive to support the regime rather than undermine it through violence or other means. Some limited-access orders can be fragile, such that commitments to elites are fluid and unstable. Shocks can easily lead to violence and the creation of a new coalition. There are alternative systems called "open-access orders." In these societies, governing coalitions do not limit entry to markets and the political system. Instead, social stability is sustained through political and economic competition. Open-access orders are also capable of sustained development above and beyond what

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is possible in limited access. The interesting question then is why don't all societies transition from limited- to open-access orders?

Providing a satisfactory answer to this question is extremely difficult. The approach taken by North, Wallis, and Weingast (2009) is to use history to illuminate the transition. They propose three doorstep conditions in the transition from limited to open access: the rule of law for elites (doorstep 1), the existence of perpetually lived organizations (doorstep 2), and consolidated political control of the military (doorstep 3). Rule of law for elites is achieved when law is applied equally to all elites and is enforced without bias. In such settings, elite-owned assets and organizations are protected from predation even when the ruling coalition changes. Perpetually lived organizations are those whose existence does not require the sanction of the governing coalition. Companies formed under general incorporation law are good examples of perpetually lived organizations, but there are many other examples in the public and religious spheres.

This chapter studies the English East India Company, with the aim of understanding how the doorstep conditions were met in England. The English Company is notable in the broader literature because it paved the way for Britain's colonization of India starting in the mid-eighteenth century.[1] But for more than a century prior, it was a privileged company with a monopoly over all trade between England and Asia. The East India monopoly is an excellent example of limited access. The Company gave the monarch added tax revenues through special customs duties and a share of the prizes from captured ships. It also provided defense against other European nations in Asia. In return, the Company got the right to earn profits from its monopoly privileges. This partnership was made explicit by the original charter in 1600 and those that followed.

The English Company's monopoly lasted several centuries, but it was far from secure, especially before the early eighteenth century. The government (at first the monarchy and then parliament) authorized groups known as interlopers to trade in East Indian markets, which violated the terms and spirit of the Company's monopoly. The government also forced the Company to lend money and demanded extra payments. As I argue below, political instability and fiscal incapacity were the root causes of the insecurity. The Company usually had political connections to the government to strengthen its privileges, but these were less effective or counterproductive when politics became unstable, as often happened in the seventeenth century. The government was also desperate for loans and taxes, usually in times of war, and thus it could not commit to allow the Company to earn profits in accordance with its charter and agreement.

1. There are several important historical works on the East India Company. A few include Philips (1961), Chaudhuri (1965, 1978), Desai (1984), Bowen (2005), Robins (2006), Webster (2009), and Stern (2011).

Remarkably, the East Indian monopoly became more secure by the mid-eighteenth century. Previously, the Company's trading privileges were renegotiated according to the dictates of politics and finance. But after 1744, the monopoly was renegotiated only when the terms of the previous charter expired. Thus an important step was taken toward the rule of law for elites. The achievement of political stability under the early Hanoverian monarchs (1715–1760) and the greater capability of Britain's fiscal system were some of the key factors behind this step.

Despite these developments Britain had not yet reached the second doorstep condition, in which most organizations operate without sanction from the governing coalition. From 1781 to 1813, the monarch and parliament continued to renew the Company's trading privileges for terms of ten or twenty years despite pressures to end them. Key reasons were the Company's strong political connections and its value in defending India against the French. British governments were also keen to preserve the monopoly because the Company earned vast new revenues following the Battle of Plassey and its takeover of tax collection rights in Bengal in the 1760s.

A huge step toward open access was taken in the 1813 charter act. In this act, the Company lost its monopoly over trade with India. From that point forward, private traders could enter the Indian market with few restrictions. The opening of Indian market access was due to several factors. First, manufacturers in the north of England, whose economic interests went against the Company's monopoly, became more influential by 1813. Lord Liverpool's "Liberal Tory" government believed it was necessary to accommodate the growing manufacturing interest and end the monopoly. Second, a random event played a related role. In May of 1812 the Prime Minister Perceval was assassinated. In the election that followed the Company's connections to the governing party in the Commons were much weaker than in previous years, and it could not defend itself against opponents. The timing was bad for the Company because its charter was up for renegotiation in the winter of 1813. Third, the fiscal value of the Indian monopoly diminished as the customs revenues from Indian trade fell in the early 1800s. Notably customs revenues in the lucrative Chinese tea trade rose sharply in the early 1800s, and partly for this reason the Chinese monopoly was kept intact until 1833.

This chapter contributes to a broader understanding of the transition from limited to open-access orders.[2] It also contributes to the literature on the evolution of markets and British institutions.[3] The history of the Company suggests there was no moment when the rule of law for elites and open

2. See North et al. (2012) and Franke and Quintyn (2014) for some examples.

3. A sample of papers in this literature include North and Weingast (1989), Clark (1996), O'Brien (2001), Acemoglu, Johnson, and Robinson (2005), Pincus (2009), Cox (2011, 2012), Zahedieh (2010), Sussman and Yafeh (2006), Mokyr (2009), Stasavage (2003), Broz and Grossman (2004), Quinn (2001), Wells and Wills (2000), Klerman and Mahoney (2005), Griffiths, Hunt, and O'Brien (1991), and Carruthers (1999).

markets emerged in Britain. In particular there was no dramatic shift to open access following constitutional reforms, like the Glorious Revolution. The gradual building of political stability and fiscal capacity by the mid-eighteenth century were the key processes leading to the rule of law. The growth of northern manufacturing interests in the late eighteenth century was also significant in bringing the monopoly to the end. The last finding raises more general questions about the relationship between the transition to open access and economic growth. It is not clear which caused the other. The conclusion returns to these broader themes.

1.1 The Origins of Monopoly in the East Indian Trade

The East India Company was founded in 1600 through a charter granted by Queen Elizabeth. Management was in the hands of a governor and a board of directors. Shareholders with a minimum number of shares elected the governor and directors. The Company was given a monopoly over all trade and traffic from the Cape of Good Hope to the Straits of Magellan—an area encompassing much of the world's population (Scott 1912, 92).

The East Indian trade was not unique in being organized around monopoly. Jha (2005) identifies twenty-eight chartered companies in foreign trade from 1555 to 1640. Most of these companies were granted a monopoly over trade with a particular region, like the East Indies. Monopoly was common because it offered the monarchy added tax revenues, a source of loans in times of emergency, and assistance in governing at home and abroad.[4] In the East Indian context, there is an argument that monopoly was also selected because of the efficiency benefits to directors and employees due to the violent trading environment in Asia, and the challenges of corporate governance in an age with poor communication.[5] The social welfare implications of the monopoly are not obvious, but for our purposes this is not the main issue. The monopoly was mainly selected because it suited the needs of the monarch.

It is important to note that the legal foundation for the East Indian monopoly was weak. The original charter from Queen Elizabeth allowed any privileges to be voided by the monarch with two years notice and with little justification (Scott 1912, 92). Therefore, is not surprising that the Company's first directors tended to be closely connected to the monarch, and were part of the governing coalition. The Company's first governor, Thomas Smythe, was connected to Queen Elizabeth because his father had improved

4. See Johnson and Koyama (2014) and Quinn (2008) for examples of sovereign borrowing from privileges companies in early modern Europe.

5. See Chaudhuri (1978), Carlos and Nicholas (1988, 1996), and Hejeebu (2005) for a discussion of the monopoly and efficiency.

Elizabethan customs collection.[6] Smythe strengthened his connections to the Queen in his early life. He was appointed as a trade commissioner to negotiate with the Dutch in 1596 and 1598. In the 1590s he became purveyor for the troops in Ireland. Smythe remained the Company's governor over the next two decades. He retained connections to the monarchy after James I came to the throne. Smythe was made joint receiver of the Duchy of Cornwall in 1604 and receiver for Dorset and Somerset. In that same year he was appointed special ambassador to the Tsar of Russia. See North, Wallis, Weingast (2009) for a discussion of the natural state.

1.2 The East Indian Monopoly under the Stuarts

At the start of the King James I reign in 1603, the Company's monopoly appeared secure. But it quickly became apparent that the Stuart monarchs would not honor the terms of the charter. King James I, and later King Charles I, regularly authorized "interloper" traders to enter the East Indian market. This section details these events and argues that the Stuart's actions were linked with their need for revenues and to reallocate rents to an evolving coalition of supporters.

The first group of interloper traders was headed by Sir Edward Michelborne. In 1604, Michelborne obtained a license from King James I "to discover the countries of Cathay, China, Japan, Corea [Korea], and Cambaya [Cambodia], and to trade there." The license claimed to supersede all previous grants and allowed Michelborne to trade in the East India Company's territory.[7] Michelborne had strong political connections to King James I through the patronage of Thomas Sackville, the first Baron of Buckhurst. Sackville was one of James I's closest advisors, serving as Lord Treasurer beginning in 1603, just one year before Michelborne was granted the license to trade in Asia.[8] After receiving the license Michelborne sailed two ships to Asia, but he was ultimately not successful and returned to England in 1606.[9]

The next interlopers were headed by Richard Penkevell. In 1607, they were given a grant to discover the northern passage to China, Cathay, and other parts of the East Indies (Scott 1912, 100). Less is known about Penkevell

6. Basil Morgan, "Smythe, Sir Thomas (c. 1558–1625)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/25908, accessed Sept. 25, 2013).

7. D. J. B. Trim, "Michelborne, Sir Edward (*c.* 1562–1609)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/18650, accessed Sept. 25, 2013).

8. Rivkah Zim, "Sackville, Thomas, first Baron Buckhurst and first Earl of Dorset (*c.* 1536–1608)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Oct. 2009 (http://www.oxforddnb.com/view/article/24450, accessed Sept. 25, 2013).

9. D. J. B. Trim, "Michelborne, Sir Edward (*c.* 1562–1609)," *Oxford Dictionary of National Biography*.

except that he was a member of Parliament in the late sixteenth century.[10] After Penkevell, the Company reaffirmed its legal position by getting a new charter from King James I in 1609. In the charter, James I stated that the whole trade in Asia was conferred upon the Company forever, except if the king or his heirs deemed that the Company was not profitable to the monarchy or to the realm.

James I honored the letter of the charter, but not the spirit. In 1617 the king granted a charter to a new interloper group under the name of the Scottish East India Company (Scott 1912, 104). The Scottish Company was headed by Sir James Cunningham, a member of the Scottish Privy Council. The Scottish Company was authorized to trade in the East Indies, the Levant, Greenland, and Muscovy. It appears that James I exploited that he was also the King of Scotland and chose to charter the rival company under the Scottish royal seal, not the English seal. The Scottish East India Company posed a significant threat to the East India Company and the Levant Company, another chartered company operating at the time. The two bought the license from the Scottish East India Company and paid a "valuable consideration" to its leaders and promoters (Bruce 1810, 193–94).

The 1620s marked the beginning of a prolonged period in which the monarchy tried to extract revenues from the East India Company. Scott's (1912, 125–26) analysis of the Company's early dividends shows that the trade had proven profitable. At the same time, tax revenues were stagnating, making the Company an attractive target for royal extraction. In 1620 James I ordered the Company to pay £20,000 to himself and the Duke of Buckingham for captured prizes from Portuguese ships (Chaudhuri 1965, 31). A few years later, in 1624, James I offered to become an adventurer and to send out ships under the royal standard. The Company refused the offer on the grounds that "the whole undertaking would revert to the Crown, since there could be no partnership with the King." In 1628 there was another scheme to admit King Charles I as an adventurer for one-fifth of the stock and profits in return for taking the Company under royal protection. The Company refused once again (Scott 1912, 108–12).

Charles I's failed attempt to gain ownership in the Company provided an opportunity for the interlopers. In 1635 a new syndicate obtained a license from Charles I for a trading voyage to Goa, Malabar, China, and Japan, an activity considered to be within the bounds of the Company's monopoly (Scott 1912, 112). One of the main promoters of the syndicate, Endymion Porter, had been in the service of Edward Villiers, the royal favorite of King James I in the 1620s. Porter's connections to the monarchy continued under Charles I, serving as the "Groom of the King's Bedchamber." Another promoter, William Courteen was a wealthy merchant who made loans to

10. See Irene Cassidy, "PENKEVELL, Richard" The House of Commons, online ed. (http://www.historyofparliamentonline.org/volume/1558–1603/member/penkevell-richard-1616).

Charles I through Villiers.[11] Charles I eventually became an adventurer in what became known as the Courteen Association. The king was credited with stock worth £10,000, and his secretary of state, Windebank, was also credited with £1,000. The East India Company protested that the license to the Courteen Association violated their charter. Charles I responded that no hindrance or damage was intended to the Company's trade as the ships being prepared by Courteen were for a voyage of discovery. The king also stated that the East India Company neglected to make discoveries and plantations in the East, and thus had no legal basis to protest.[12] The Courteen Association received further support from Charles I in 1637 when the king authorized the partners to send out ships and goods to the East for five years "without impeachment or denial of the East India Company or others" (Scott 1912, 113–14). The Courteen Association was generally unsuccessful in its trading ventures, but in the process the Association caused much financial damage to the Company.

The Company experienced further extractions in 1636 and 1641. In 1636, Charles I increased the customs duties on pepper by 70 percent. The result was that the customs duties derived from the Company's trade were yielding around £30,000 per year by the early 1640s (Foster 1904, 1929, xxviii). At this same time, the political conflicts between Charles I and Parliament were increasing. This made the king's fiscal situation dire. In this context, the king forced the Company to hand over its stock of pepper, which was valued at £63,283. The so-called pepper loan of 1641 was to be repaid in four installments and was secured by the farmers of the customs. The Company had recovered around £21,000 by the late 1640s, but at this point Charles I was executed and the monarchy was abolished. The remainder of the pepper loan was lost for the moment, and was only partly recovered in the 1660s.[13]

1.3 The East Indian Monopoly under the Commonwealth and Restoration

The pepper loan of 1641 set a precedent in which the Company made loans to the government in exchange for promises to respect their monopoly privileges. However, the loans were not sufficient to secure the monopoly because of the instability created by the English Civil War. Parliamentary forces ultimately prevailed in the war, and in the late 1640s a new governing coalition came into being under the Commonwealth government. Executive

11. Ronald G. Asch, "Porter, Endymion (1587–1649)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/22562, accessed Sept. 26, 2013).

12. John C. Appleby, "Courten, Sir William (*c.* 1568–1636)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/6445, accessed Sept. 26, 2013).

13. According to Foster (1904, 463) £10,500 more was recovered in the early 1660s from the former farmers of the customs, leaving £31,500 unpaid.

powers were now held by the Council of State, which was appointed by leaders of the Rump Parliament. The Council immediately faced pressures to undermine the Company's monopoly. In 1649 a group of interlopers known as the "Assada Adventurers" applied for a voyage to Asia. The Adventurers offered a loan of £4,000 to the Council to advance their cause. In the same year, the Company also appealed to the Council of State to protect its interests and offered a loan of £6,000. The Council of State recommended a merger of the two companies, which was enacted in 1650 and became known as the "United Joint Stock" (Scott 1912, 120).

The United Joint Stock financed a series of voyages in the early 1650s but it was not a success, in part, due to continual entry by interlopers. In 1651 an appeal to suppress interlopers was made to Oliver Cromwell, whose authority in the Council of State was increasing. Cromwell gave a disinterested reply in writing stating that "he has much public business and that he neither could nor would attend to private matters" (Scott 1912, 121). Once Cromwell rose to the position of Lord Protector of the Commonwealth in December 1653, the Company again tried to seek his assistance. In 1655 the Company lent £50,000 to the Council of State, and two years later, in 1657, the Company received a new charter. It created a permanent joint stock company, eliminating the financing of individual voyages by investors.

The establishment of the new United East India Company moved forward in 1657, but it was not a great success. Subscriptions for capital amounted to just over £739,000, but the directors limited their calls on investors to £369,000 (Scott 1912, 121). The death of Oliver Cromwell is perhaps one reason. Richard Cromwell, Oliver's son, succeeded as Lord Protector. Richard Cromwell followed in the footsteps of previous English monarchs by undermining the charter. In 1658 Richard granted a license to an independent trader named Rolt. Little is known about Rolt's voyage except that the Company directed its officers in India to seize any articles and dispose of them on their own account (Bruce 1810, 537). In the end, Richard Cromwell was unable to build a ruling coalition in the protectorate and was forced to step down. A new Council of State was formed, and like previous governments it turned to the East India Company for a loan. The Council demanded £30,000, but the company negotiated the loan to a smaller amount of £15,000 (Scott 1912, 130). To put these figures into perspective, the total tax revenues of the Commonwealth government were £1.2 million in 1659 (Dincecco 2011).

The restoration of the monarchy in 1660 represented another change in political power, but it was more lasting than the Commonwealth and Protectorate. The immediate effect on the Company was a series of losses. The Company's loans to the Council of State in 1655 and 1659 were canceled (Foster 1929, vi–vii, xxxii). Its recent charter from Cromwell was also nullified. In the wake of these events, the Company set out to renew its charter by appealing to King Charles II. As a sign of loyalty the Company gave the new king a plate estimated to be worth £3,000, and his brother James, Duke of York, received cash worth £1,000. These "gifts" were followed by a new charter in 1662 and a loan of £10,000 to Charles II (Scott 1912, 131).

More loans followed in Charles II's reign. The Company lent the King £120,000 in 1666 and 1667 and £150,000 in 1676 and 1678. These loans were linked with the Second Anglo Dutch War (1665–67) and Third Anglo Dutch War (1672–74), which tightened the king's finances. The loans were also linked to a suit against the Company for the king's share of prize money from seized ships. The king had sold his rights to the Duke of Monmouth, who then pursued the Company in court for a failure to pay. Following the loan of 1676, the king issued a warrant that all such suits against the Company before 1676 must be withdrawn.[14] The loans of the mid-1670s were also linked with an attack against the Company by a coalition of interlopers, the Levant Company, and the woolen cloth industry. Together these three groups submitted petitions and wrote pamphlets arguing that the Company's trade was not profitable to the realm. The king effectively ended this attack in 1676 by granting the East India Company a new charter confirming its trading privileges (Scott 1912, 178).

Over the course of the 1670s, the East India Company earned large profits and its share price rose from around £80 in 1672 to £365 in 1681 (Scott 1912, 139). In part because of the Company's financial success, a new group of interlopers emerged to challenge its monopoly. The interlopers raised £1,000,000 and submitted a proposal to Charles II for a new joint stock company. They were refused and the Company was granted a new charter. Two factors were important in the interlopers' failure. First, the Company gave Charles II a gift of 10,000 guineas (around £10,000) and promised to offer a similar gift every New Year's Day for the rest of his reign. Second, the Company's governor, Josiah Child, was a strong political supporter of Charles II.[15] Child's support for the king became a controversial issue in the Company. Some of the directors, like Thomas Papillion, were favorable to the Whigs, an emerging political party at this time. The rivalry between Child and Papillion was so severe that Papillion's group sold their shares and left the Company.

1.4 The East Indian Monopoly in the Aftermath of the Glorious Revolution

The Glorious Revolution of 1688–89 is thought to be a watershed moment in the evolution of Britain's institutions because it gave Parliament greater political authority and increased the security of property rights (North and Weingast 1989). While there may be some truth to this view, in the case of

14. Ottewill, *Calendar of Court Minutes*, 1674–76, p. xxvii–xviii, 1677–79, p. 134.

15. Richard Grassby, "Child, Sir Josiah, first baronet (*bap.* 1631, *d.* 1699)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/5290, accessed Sept. 27, 2013).

the East India Company, the Glorious Revolution looks similar to earlier regime changes in which interlopers were emboldened by a weakening in the Company's political connections. What was different is that interlopers came to be allied with a powerful political party, the Whigs. Also, in the short term, the Glorious Revolution greatly increased the king's need for loans because it led to an expensive war with France.

The opponents of the Company, including Thomas Papillion, were strongly represented in the Convention Parliament of 1688.[16] In 1690, Papillion led an interloper syndicate and raised £180,000 as a campaign fund to influence Parliament. The Company responded by requesting an act of Parliament ratifying their previous charters, but no action was taken (Scott 1912, 150–52). In 1692 the Papillion Syndicate petitioned King William asking him to dissolve the Company and to incorporate a new one. William encouraged the two groups to come to an accommodation. The Company offered stock to half of the members of the syndicate. The other half appealed to the Privy Council for regulations that would change voting rights and effectively allow them to take control from the governor, Josiah Child. They also proposed that in twenty-one years the holdings of the Company should be wound up and a completely new subscription of capital should then be made. It is revealing that the Company responded to these proposals by likening its monopoly to landed property and appealing to the rule of law. An anonymous author, clearly working in the interest of the Company, argued that restricting voting rights of shareholders in the Company is "against the laws and customs of England."[17]

The Company successfully defended itself against the Papillion Syndicate in 1692. A year later it also got a new charter from King William. The charter enlarged the Company's capital and imposed voting regulations, but it did not allow for the removal of Josiah Child. For the moment, it appeared the Company survived the aftermath of the Glorious Revolution. It even took legal actions against interlopers in the following legislative session. However, it appears that the Company was too bold. Numerous petitions were submitted to the House of Commons complaining of attacks on interlopers. The Commons then resolved that "all subjects of England have equal right to trade in the East Indies, unless prohibited by act of parliament." The validity of the Company's royal charter was now in doubt. The Commons also began investigating accusations of bribery by Company officials in the

16. Perry Gauci, "Papillon, Thomas (1623–1702)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online ed., Jan. 2008 (http://www.oxforddnb.com/view/article/21247, accessed Sept. 27, 2013).

17. The author goes on to argue that "the Company by the true rules of policy ought never to alter nor any man be forced to sell its stock, any more than he can be forced to buy a stock that has none; or any gentlemen that has an over-growth estate in land in any country can be forced to sell part to make way for some purchasers that pretend they will buy land in that country." Quoted in Scott (1912, 155).

spring of 1695. It was alleged that the Company spent upward of £200,000 to influence the king and MPs (Scott 1912, 157–60).

The Company's fortunes turned for the worse in 1697 when King William needed new loans to finance the Nine Years' War against France. The Company offered a loan of £500,000 at 4 percent interest. This was a substantial offer considering the total funded debt of the government was £3.4 million in 1697 (Mitchell 1988, 600). However, an interloper syndicate went much further and offered a loan of £2 million at 8 percent interest along with the condition that it would get exclusive trading rights to Asia. The interlopers were emboldened by their strong connections to the Whigs, who had recently come into favor with King William. For example, Samuel Shepheard, one of the largest interloper investors, had a strong connection to the Whig leader Charles Montagu, who served as the Chancellor of the Exchequer.[18] The end result was that the king and Parliament accepted the offer of the rival syndicate. An act in 1697 (9 William III, c. 44) authorized the formation of the "New" East India Company. It got exclusive rights to the East Indian trade with the proviso that the "Old" East India Company could trade until September 29, 1701 (Scott 1912, 165–68).

Despite its recent failure, the Old East India Company was not finished. It began a successful campaign to reestablish its monopoly through a merger with the New Company. A deal to merge Old and New Companies was brokered in 1701 and signed just after Queen Anne took the throne. The deal would lead to the re-creation of monopoly in a single East Indian Company.

Reflecting on this whole episode, it is clear that political instability was one of the important factors. In the 1690s the Whigs and Tories were engaged in a fierce partisan struggle for control over the House of Commons and King William's government.[19] From 1690 to 1695 the Tories had a slight majority in the Commons and in the ministry, but their relationship with King William weakened. After the election of 1695 the Whigs had a majority in the Commons and by 1696 they had a majority in the ministry as well. The Whigs aggressively pushed their policies and purged the Tories whenever possible. The tables turned in 1700 as the Whigs lost influence and several of their leaders were impeached. The Tories were able to take advantage and regain a slight majority in the Commons and the ministry in 1701. The Whigs regained some influence late in December 1701 just before King William died early in 1702.

The shifts in political power mattered for the East India trade because the Company was connected to the Tories and its opponents were linked with the Whigs (Horwitz 1978). An analysis of the actions of MPs and their party affiliation shows the difference in political connections. The actions

18. Watson and Gauci (2002).

19. See Cruickshanks, Handley, and Hayton (2002) and Horwitz (1997) for a more general discussion of parties.

Table 1.1 **MPs acting for or against the Company and their party affiliation**

Session	No. favoring EIC	No. against EIC	No. favoring EIC, Tory	No. against EIC, Tory
A. 1690–95 Parliament				
1690–91	5	2	3	1
1691–92	23	40	13	8
1692–93	13	16	9	5
1693–94	6	7	3	2
1694–95	4	19	2	4
Total	51	84	30	20
Share Tory			0.588	0.238
T-stat for difference in shares				4.176
$P(T <= t)$ two-tail				0
B. 1695–98, 98–1700 Parliaments				
1695–96	1	6	1	2
1696–97	1	1	0	0
1697–98	12	10	2	8
1698–99	9	7	1	5
1699–00	8	2	3	1
Total	31	26	7	16
Share Whig			0.226	0.615
T-stat for difference in shares				–3.15
$P(T <= t)$ two-tail				0.003
C. 1701 Parliament				
1701	10	3	10	0
Share Tory			1	0

Sources: See text.
Notes: See text.

of MPs relating to the East India Company are found in the biographies of every MP edited by Cruickshanks, Handley, and Hayton (2002) in the *History of Parliament* series.[20] A keyword search identified whether an MP spoke or told on a bill or made a motion favorable or unfavorable to the Company. For example there was a motion in 1693 to address King William, asking him to dissolve the East India Company. Some MPs spoke in favor of this motion and others spoke against. To organize the data, I created an indicator variable for each legislative session equal to 1 if an MP acted in the Company's favor at least once and another indicator if the MP acted against the Company (EIC) at least once in a session. I also use new data identifying whether each MP in the 1690–95, 1695–98, 1698–1700, and 1701 parliaments were affiliated with the majority party, either Tory or Whig (Bogart 2016). The results are shown in table 1.1. In the 1690–95 and 1701

20. See http://www.historyofparliamentonline.org/research/members.

Table 1.2 **Tax revenues, expenditures, and deficits in the reign of King William**

Year	Tax revenues in £	Expenditures in £	Ratio deficit to tax revenue
1692	4,111	4,255	0.035
1693	3,783	5,576	0.474
1694	4,004	5,602	0.399
1695	4,134	6,220	0.505
1696	4,823	7,998	0.658
1697	3,298	7,915	1.4
1698	4,578	4,127	–0.099
1699	5,164	4,691	–0.092
1700	4,344	3,201	–0.263
1701	3,769	3,442	–0.087

Source: Mitchell (1988, 575–78).

parliaments, MPs acting in favor of the Company were more likely to be with the majority Tories than the MPs who spoke against the Company. By the same token, the MPs who acted in favor in the parliaments from 1695 to 1700 were less likely to be with the majority Whigs compared to those who spoke against the Company.

In the context of the 1690s, changes in the party in power could end the Company's trading privileges. The Company was under attack throughout the 1690–95 Parliament, but it was able to defend itself with the help of the Tories, who were in the majority. However, once power shifted to the Whigs from 1695 to 1700, the Company was unable to defend its privileges against its opponents who were now better connected. The Whig leader Montagu argued strongly in favor of the New Company, which eventually gained the exclusive right to trade. Also telling is the fact that the Old Company was able to force a merger with the New Company in 1701 when the Tories regained political power. The timing again suggests that shifts in political power contributed to successful attacks on trading privileges, including those of the New Company.

Fiscal instability was another important factor in the events following the Glorious Revolution. The Nine Years' War against France brought new levels of government expenditure. To meet its fiscal needs, the government raised taxes and borrowing. It also established the Bank of England in 1694. However, by 1697 expenditures were greatly outstripping revenues. Table 1.2 shows figures for English government revenues, expenditures, and deficits in William's reign. The deficit was building from 1693 and reached new heights in 1697. Recall that it was in 1697 that King William made it known that he expected a loan from the East India Company. As discussed earlier, the Old Company's loan offer (£500,000) was one-fourth the offer by its rival (£2,000,000). Had the government's fiscal deficit been smaller, then perhaps the Old Company's modest offer would have been accepted and its privileges would have remained intact.

1.5 The East Indian Monopoly from the Merger to the Battle of Plassey

The United East India Company was formed in 1709 from the merger of the Old and New East India Companies. Just before the merger was to be completed, Queen Anne demanded an interest-free loan of £1,200,000 from the United Company. Like King William before, Anne's government was facing a fiscal crisis due to its involvement in the War of Spanish Succession. The United Company consented to the loan and in return it got confirmation of its monopoly over all trade between Britain and the East Indies. The monopoly was to last for a minimum of eighteen years, at which point the government had the option to repay its £3.2 million in debts to the Company and repeal the trading privilege with three years' notice.

After 1709 the Company would get its monopoly extended again in 1712, 1730, and 1744 by acts of Parliament. The act in 1712 was a relatively minor event, but it extended the guarantee for the Company's monopoly over East Indian trade until at least 1733 when the government had the option to open the trade with three years' notice and upon repayment of its debts to the Company. In 1730 merchants from London, Bristol, and Liverpool submitted a petition to the House of Commons proposing a new company that would control the whole trade and grant licenses to traders for a fee. In return, the merchant group offered to redeem the government's debt to the Company at a lower interest rate. They proposed to make five payments totaling £3,200,000 between 1730 and 1735. The petition for a rival company failed in the Commons by a vote of 223 to 138 (Sutherland 1962, 29). In the same session, the Company got an act of Parliament extending its monopoly trading rights to at least 1769. In return the Company had to make a £200,000 payment to King George II and they had to accept a lower interest rate on the £3.2 million debt owed to them by the government.[21]

The events of 1730 reveal much about the Company's evolving status in the governing coalition. After the Hanoverian succession of 1715, the Company became more connected to the Whig party, which held a majority in the Commons for many decades in the early to mid-eighteenth century. According to Sutherland (1962, 23), connecting to the Whig leadership, especially the first Prime Minister Robert Walpole, was a deliberate strategy by the Company to secure its privileges. One indication of the Whig connection is provided by the political affiliation of the Company's current or former directors who held seats in the House of Commons.[22] In the 1722 to 1727 Parliament, the Company had eight or nine directors in the Commons and 67 percent of them can be classified as Whigs. The overall percentage of

21. House of Commons, *Public Income and Expenditure* (532), and Desai (1984, 122).

22. The directors are identified using a keyword search for directors or governors in the East India Company found in the History of Parliament, http://www.historyofparliamentonline.org/. See Cruickshanks, Handley, and Hayton (2002) and Sedgwick (1970) for the printed version of biographies.

Whigs in the 1722 to 1727 Parliament is 56 percent, and thus the Company directors were more likely to be Whig than the average MP.[23] The Company's connections to the majority party weakened, however, in the next parliament. Its representation in the Commons contracted to between five and eight directors in the 1727 to 1734 Parliament, and only 28 percent are classified as Whigs when nearly 50 percent of MPs in the Commons were Whigs. Thus the Company's connections to the majority Whigs were weakest at the moment it was attacked by interlopers in 1730.

Moreover, the interlopers of 1730 were supported by several Tory MPs and a new coalition, called the Opposition Whigs (Sutherland 1962, 29). The Opposition Whigs defected from the majority Whigs because they thought Robert Walpole was too corrupt. The close connection between Walpole and the so-called monied companies, like the East India Company, was a prime example. Walpole was aware of the antimonopoly sentiment, and the threat that it posed to his party's rule. On this basis, it is likely that Walpole's support for the East India Company was tenuous in 1730. Perhaps for this reason, the Company made efforts to move closer to the majority Whigs in the years that followed. In the 1734 to 1741 Parliament the Company had seven to eight directors in the Commons, and on average 75 percent were affiliated with the Whigs. In the 1741 to 1747 Parliament the Company had between four and seven directors, and 83 percent were affiliated with the Whigs.

Political connections helped to protect the Company's monopoly, but they could not prevent extractions, especially in times of fiscal crisis. In 1744 the Company was forced to lend £1,000,000 to King George II at 3 percent interest. It was reminiscent of earlier loans made by the Company in the reigns of Charles II, William, and Anne. In this case, Britain had been at war with Spain between 1739 and 1742 and then became involved in a broader European conflict, the War of the Austrian Succession, which lasted until 1748. The war was the most expensive that Britain had fought to that date, and the government's budget deficit rose by £9 million between 1740 and 1744 (Mitchell 1988, 575–78). The Company's £1 million loan helped to finance just over 10 percent of the deficit.

In return for the loan in 1744, the Company got an extension of their monopoly trading privileges until at least 1780.[24] Importantly, this commitment was upheld as there was no legislation changing the Company's trading privileges until 1781. In that year another charter act guaranteed the Company's monopoly until at least 1791, and it too was honored. In 1793 another charter act guaranteed the Company's monopoly until at least 1813. Thus by the mid-eighteenth century the Company's trading privileges came to be renegotiated in accordance with the law as defined by the provisions of

23. For details on the party affiliation of MPs, see Bogart (2016).
24. See House of Commons, *Public Income and Expenditure* (532).

the charter acts. The change is remarkable considering the Company's early history where its rights were renegotiated according to politics and finance. In this context, Britain had reached one of the first doorstep conditions, rule of law for elite organizations.

The relative security that the Company enjoyed was related to the evolution of Britain's politics. By the 1750s party strife had largely disappeared. The Whig party had held a majority in the Commons for over thirty-five years. Their long-time adversaries, the Tories, continued to challenge Whig policies, but according to Colley (1985) most remained loyal to the Hanoverian regime and did not seek to destabilize the political system. The Opposition Whigs lost influence by the late 1740s and many chose to join the majority Whigs by the 1750s. The transition from party strife under William and Anne to the stability of Hanoverian politics in the mid-eighteenth century has been described by historians as one of the most "striking changes in English history." According to Sutherland (1962, 18), stability was due to the "good sense and absence of rancor of the English landed and commercial classes" and to the skill and determination of Robert Walpole in consolidating and manipulating political power.

Greater fiscal capacity was the other long-term factor at work. Figures show that government tax revenue per capita increased by over 60 percent between 1690 and 1750. This was achieved through tax innovations, bureaucratic innovations, and political compromise (O'Brien and Hunt 1993; Cox 2011). The growth of tax revenues helped build fiscal capacity, but it was not sufficient to pay for Britain's wars. Public borrowing was necessary. The East India Company was forced to lend to the government in each of the wars up to 1750, but not during the Seven Years' War from 1756 to 1763. What changed? Arguably, one key development was the emergence of the Three Percent Consol, which was a redeemable, perpetual 3 percent annuity. As Neal (1993, 117) explains, there were several precedents to the Three Percent Consol from the 1720s. They allowed the Exchequer, Army, and Navy to issue bills in times of emergency and the bills could then be retired from the proceeds of selling new issues of perpetual annuities. Following the consol, the government had less need to seek emergency loans from the East India Company. Instead, it could rely on conventional borrowing backed by tax levies.

1.6 Survival of the East Indian Monopoly in the Late Eighteenth Century

The Company's trading monopoly survived the late eighteenth century. However, the monopoly could have ended earlier as the Company's charter expired in 1781 and 1791. This section examines why the monopoly was renewed several times. In this period, it is important to point out that the environment was quite different because the Company gained significant territorial possessions in India for the first time. Robert Clive, originally a company official and later a commander in the British Army, led a war against the Nawabs of Bengal in 1757. The end result was that the Company gained political control over Bengal, including its tax revenues by 1765. The new territorial revenues were vast and led to corruption and abuse by Company officials. Thereafter discussions of the Company's trading monopoly became intertwined with discussions of its territory in India.[25]

The added profits from Indian territories were immediately seen by the government as a new source of tax revenue. In 1767 and 1769 the Company was compelled to pay £400,000 annually to the government subject to conditions on the payment of dividends (Sutherland 1962). The Company made these payments for several years but then it ran into financial difficulties in 1773. The causes of financial distress were mainly due to the cost of war in India, but also partly to the new taxes levied by government. The end result was that the Company needed an emergency loan from the government, which they received in the amount of £1.4 million. The Company also got extended privileges over the tea trade in North America, which led to the famous Boston Tea Party. The crisis for the Company proved to be short lived, and it was able to repay the loan in 1777.

Financial transfers were again an issue in the negotiations over the renewal of the charter in 1781. Prime Minister Lord North proposed that the Company lend £2 million to the government in order to renew its monopoly for another term of years (Sutherland 1962, 340). The loan was deemed necessary in part because the government was facing a deficit problem due to the cost of the American Revolution. The Company did not react favorably to the proposal. Negotiations continued and in 1779 Lord North declared that the Company would need to lend £1.4 million to renew its monopoly. After being rebuffed, North threatened that he would terminate its charter following its expiration. In 1781 North's government dropped demands that the Company make a large loan. Instead it required the Company make a one-time payment of £400,000 and it required that all dividends beyond 8 percent had to be split three-fourths to the government and one-fourth to shareholders. The agreement was approved by the king and Parliament in the 1781 charter act (Sutherland 1962).

The Company did not pay all of the £400,000 owed to the government. Moreover, the Company's payment of customs duties went in arrears throughout the 1780s (House of Commons 1869, 553–34). There are at least two reasons why the government did not get more from the Company in the 1780s. First, the Company played a vital role in defending India against the French. Britain's rival sought to capture the territorial revenues of India, and their strong naval presence made the threat credible. The Company and

25. See Bowen (2005) and Stern (2011) for an analysis of the transition to territorial rule. Note also that there were two important acts in 1773 and 1784 that increased government control over the company in India.

the government coordinated military strategies, and it was agreed that the former would pay for the army in Asia (Bowen 2005, 46). Thus the government could not seriously challenge the Company at such a delicate moment for national defense.

Second, the Company came to be a bigger force in Parliament. The Company had more than 60 MPs in the Commons representing its interests by the 1780s (Philips 1961). It could pressure its MPs to support the opposition party if the Company's interests were sufficiently threatened. It is notable that the opposition in 1781, the Rockingham Whigs, rallied to support the Company when Lord North's government made its strongest threats. The Company's defense against government leader Charles James Fox provides another illustration. In 1783 Fox proposed a bill that would increase government control over the Company. Directors and shareholders formed a coalition with the king and defeated the bill in the House of Lords. The failure of Fox's India bill helped to bring down the governing coalition and paved the way for a new government led by William Pitt (Philips 1961, 24–25).

By the time of the negotiations over the charter renewal in 1792, the political environment evolved in a direction that was more troubling for the Company. For the first time, Liverpool merchants and Manchester manufacturers were particularly active in lobbying to open the export trade from Britain (Philips 1961, 75). Manchester's aim was to lower the cost of exporting cotton textiles to India. Liverpool had similar aims, but it also wanted exports to be shipped from its port rather than London, which was the hub of the Company's activity.

The lead negotiator for the government in 1792, Henry Dundas, was open to free trade in exports. But Dundas strongly favored the continuance of the Company's monopoly on imports because it was the best way to remit the Indian territorial surplus to England (Philips 1961, 73). To reach a compromise, Dundas proposed that the Company would retain its overall monopoly for another twenty years, but the Company would guarantee at least 3,000 tons a year for the export of British manufactured goods. This was not a large volume in comparison to the total, but it provided something to the Liverpool and Manchester interests. In the end, the 1793 Charter Act largely maintained the Company's monopoly. It did require the Company to repay its accumulated debts to the government to the amount of £500,000 per year, but only after making 10 percent dividend payments to its stockholders. Notably these debts went largely unpaid.[26]

The Company's relative success in the negotiations of 1792 is again related to their importance to national defense. War with France looked increasingly likely after its revolution, and the government needed the assistance of the Company to defend India. Another key factor was the Company's strength in Parliament and its connections with the government. Table 1.3 shows the

26. See House of Commons, *Public Income and Expenditure* (534).

Table 1.3 The Company influence in Parliament

Date (1)	EIC MPs (2)	EIC share of all MPs (3)	Govt. (4)	EIC MPs share with govt. (5)	EIC MPs share with opp. (6)	All MPs, share with govt. (7)	All MPs, share with opp. (8)
May 1784	57	0.1	Pitt	0.63	0.25	0.56	0.39
Aug. 1790	69	0.12	Pitt	0.51	0.36		
May 1796	69	0.12	Pitt	0.48	0.38		
Aug. 1802	93	0.14	Addington	0.4	0.32		
Apr. 1805	101	0.15	Pitt	0.37	0.34		
Dec. 1806	83	0.13	Grenville-Fox	0.4	0.22	0.47	0.14
June 1807	84	0.13	Portland	0.5	0.38	0.33	0.33
Apr. 1812	89	0.14	Perceval	0.57	0.38		
June 1813	87	0.13	Liverpool	0.28	0.31		
Aug. 1818	62	0.09	Liverpool	0.66	0.21	0.43	0.27

Sources: Company MPs are taken from Philips (1961, 307–35). The share of all MPs with the government coalition and opposition is taken from Evans (2014, 486).

Notes: Before 1801 the number of MPs was 558 and after 1801 the number is 658. Number of EIC MPs and government affiliation is taken from Philips (1961, 307–25). A selection of parliaments from Philips is analyzed. The list with some notes follows: May 1784 is after 1784 election and shortly before the Pitt India Act. Aug. 1790 is after 1790 election. May 1796 is just before 1796 election. Aug. 1802 is just after the general election of 1802. Apr. 1805 is after the change in ministry to Pitt. Dec. 1806 is just after 1806 general election. June 1807 is just after 1807 general election. June 1813 is after the 1812 election and at the same time as the Charter Act of 1813. Aug. 1818 is after the general election of 1818.

number of MPs representing the Company in the House of Commons, and their share of all MPs starting in 1784. Also reported is the government leader, the share of EIC MPs connected to the governing coalition, and the share of EIC MPs connected to the opposition. The data come from Philips (1961) and are drawn from parliamentary lists and Company records. To compare with the overall size of the governing coalition and opposition, columns (7) and (8) report the share of all MPs with each. According to Phillips' data, Company MPs were numerous and they were more connected to the governing coalition than the opposition. At the 1790 Parliament, when the charter was renewed, thirty-five or 51 percent of Company MPs sided with Pitt's government and twenty-five or 36 percent of its MPs sided with the opposition. These figures suggest that if the Company persuaded its thirty-five government MPs to withdraw support due to unfavorable negotiations, it could have significantly affected Pitt's ability to govern.

1.7 The Beginning of the End for the Company's Monopoly, 1813

The Charter Act of 1813 is one of the most significant events because it resulted in the Company losing its monopoly trading privileges to India. What changed? While there are many potential explanations for the opening of trade in 1813, several stand out. First, ideology on free trade evolved, especially the views of government officials. The philosophy of Liberal Toryism was born in this period, which among other things, articulated the economic benefits of free trade (Webster 2009). In 1811 Lord Melville, an important regulator of the Company, wrote a notable memo on free trade with India and the efficiency of competition:

> If the Company carry on their trade more expensively and with less activity and industry than private individuals, it is unjust to the country, as well as the inhabitants of British India, that the exclusive monopoly should be continued; and in such a state of things, the trade is more likely to be advantages to the country, and beneficial to the individuals in their hands, than in those of the Company: but if the latter shall conduct it with skill and enterprise, and with due and unremitting attention to economy, the extent of their capital, and the superior facilities which they must continue to possess, of providing their investment in India at the cheapest rate, will undoubtedly afford them the means of successful rivalship with all other competitors.[27]

Melville's views on opening the trade to India were shared by other government officials. Most notably, the views were shared by Lord Buckinghamshire, who was the lead negotiator for the government on the renewal of the charter in 1812 (Philips 1961, 184–86).

The government's position on opening the trade was also influenced by politics. Trading and manufacturing interests lobbied extensively to liberalize the trade in the charter renegotiation. Led by Liverpool and Manchester, 130 petitions were sent to Parliament arguing for the opening of trade in 1813 (Philips 1961, 184). Their campaign was better coordinated and more united than in 1791 (Webster 2009, 58). The government ultimately sided with the provincial manufacturing and trading interests and worked in Parliament to end the Company's monopoly with India. One reason is that the provincial manufacturing economy had grown significantly from 1791 to 1813, probably more than the London economy on which the Company's trade depended. Thus the government had to give more weight to provincial interests when making policy, otherwise they risked undermining the most dynamic part of the economy. Webster (2009, 59) also argues that rampant inflation in 1812 was raising concerns about riots in cities. As manufacturing was increasingly concentrated in cities, the government felt it could placate towns by opening trade.

A chance event also played a role in the Company losing its monopoly. The Company had a large number of MPs representing its interests in Parliament through the early 1800s. As shown in table 1.3, its MPs were also more likely to be connected to the government than the opposition. Most

27. Letter from Lord Melville to Chairman and Deputy of the East India Company, 1812, in *Papers Respecting the Negotiation with His Majesty's Ministers for a Renewal of the East-India Company's Exclusive Privileges* (80).

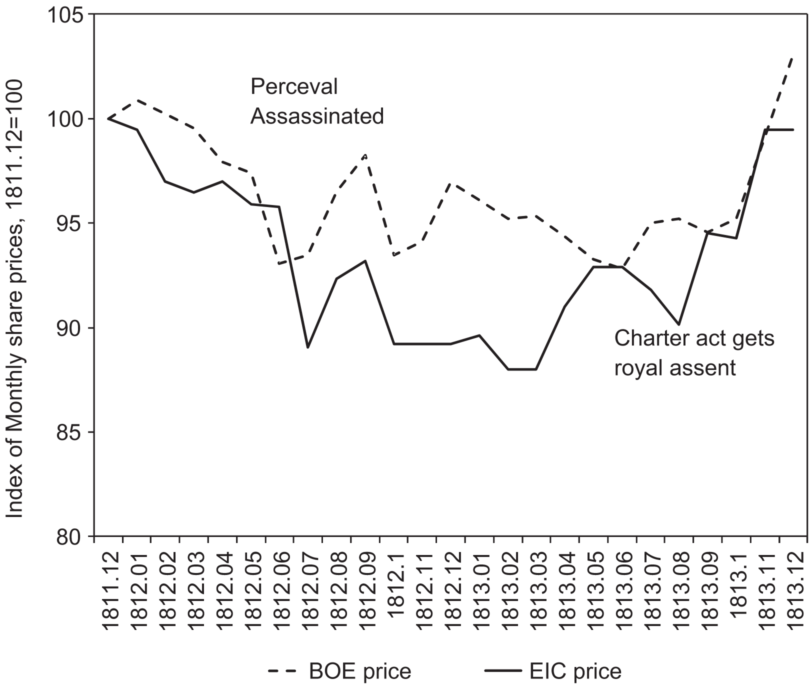

Fig. 1.1 Share prices of East India Company and Bank of England following assassination of Prime Minister Perceval
Sources: See text.
Notes: See text.

notably, the Company was highly connected to Prime Minister Perceval's government in April 1812 just prior to the charter renewal. But its connections changed dramatically after Perceval was assassinated on May 12, 1812. Lord Liverpool was named as the new prime minister in June, but he was unable to form a government. An election was held in October 1812, which led to a new governing coalition in the Commons. In the new parliament, which opened in November 1812, the Company had 87 MPs, but only 28 percent were affiliated with the government and 31 percent were affiliated with the opposition. This was much smaller than in April 1812. The Company's weak numbers seem to have hurt their cause when the trading provisions of the 1813 charter bill were being debated in the Commons. In a revealing statement, a director in the Company said, "I had no idea we stood on such weak ground . . . from that moment I felt myself humbled."[28]

The effects of Perceval's assignation can be seen in the Company's share price. Figure 1.1 shows an index of the Company's monthly price (EIC) from

28. Quoted in Philips (1961, 190).

the beginning of 1812 to the end of 1813. It also plots an index of the Bank of England share (BOE) price over the same dates for comparison.[29] The decline in the Company's share price following Perceval's assignation and the new election in October 1812 is evident. Relative to the Bank of England, the Company's stock declines by nearly 6.4 percent between the end of May 1812 and the end of March 1813 when the debate over the charter began in Parliament.

The evolution of government and company finances was a final factor in the move to open trade in 1813. East Indian customs duties were an important source of funding to the government for much of the Company's history. Table 1.4 shows the Company's customs revenues at decadal frequency from 1710 to 1810. The decadal figures are two-year averages (e.g., 1769 and 1770) to smooth some of the annual variation. Panel A in table 1.4 also reports Company customs for tea, all government customs revenues, and all government tax revenues for comparison. Company customs grow over time, as do all customs revenues and government tax revenues. There was an especially large increase in government revenues after the introduction of income taxes in the early 1800s. In panel B, the shares of Company customs revenues are shown. They rise as a share of all government customs and all government revenues up to 1770. Afterward, the Company customs decline as a share of both, especially between 1799 and 1810. Thus increasing government revenues meant that Company customs revenues were less important by 1813.

The rationale for taxing a monopoly East India Company made less sense in the post-1800 environment of greater fiscal capacity, but as noted earlier, the monopoly was only ended in the Indian trade in 1813. The monopoly in the China trade continued until 1833. One reason is that the Chinese trade was dominated by tea imports, and as table 1.4 shows, the customs revenue share from tea becomes substantial between 1799 and 1810. Customs from non-tea, which mainly came from Indian trade, fell sharply. Thus, in 1813 the monopoly was only eliminated in the trade whose fiscal importance declined. The government of 1813 still prized collecting tax revenues from monopolists in a thriving overseas trade.

1.8 Conclusion

Many markets in history are limited by laws and customs enforced by governing authorities. One prominent theory argues that the transition out of limited access requires a series of steps like rule of law for elites and the creation of perpetually lived organizations, or in other words, open markets. This chapter studies how these steps were taken in Britain in the case of the East Indian market. The Company had a legal monopoly over all trade

29. The stock price data come from Neal (1996).

Table 1.4 **Company customs revenues and government tax revenues in pounds.**

Year	EIC customs, all	EIC customs, tea	All govt. customs	All govt. revenues
		A.		
1710	253,544		1,223,542	5,213,518
1720	384,431		1,559,358	6,138,752
1730	407,853		1,562,552	6,172,649
1740	401,994		1,427,494	5,994,973
1750	no data		1,562,332	7,282,000
1760	528,637		2,152,422	9,400,926
1770	833,814		2,790,119	11,179,604
1780	619,438		2,896,433	12,901,965
1790	1,041,996	330,503	3,739,985	17,759,693
1799	1,443,811	579,685	5,898,699	29,364,292
1810	3,110,547	2,975,471	1,2010,816	66,830,560
	Share EIC customs in all customs	Share EIC in all govt. revenues	Share of EIC tea customs in all govt. revenues	Share of EIC non-tea customs in all govt. revenues
		B.		
1710	0.207	0.049		
1720	0.247	0.063		
1730	0.261	0.066		
1740	0.282	0.067		
1750				
1760	0.246	0.056		
1770	0.299	0.075		
1780	0.214	0.048		
1790	0.279	0.059	0.019	0.040
1799	0.245	0.049	0.020	0.029
1810	0.259	0.047	0.045	0.002

Sources: Chaudhuri (1978, 438), Bowen (2005), and Mitchell (1988).

Notes: From 1760, the EIC customs includes all customs including those coming from the company, private trade, and tea duties as distinguished in Bowen (2005).

between Britain and the East Indies, but its trading privileges were far from secure. The monarchy and Parliament authorized interlopers to enter the Company's market and it forced the Company to lend in order to retain its monopoly. The root causes behind these actions were the political instability and fiscal incapacity of British institutions in the seventeenth and early eighteenth centuries. The Company was part of the governing coalition, but its political connections diminished when the government changed. Credibility was also weakened by the fiscal system that evolved slowly to meet the costs of warfare.

A secure East Indian monopoly only emerged in the mid-eighteenth century when political stability and fiscal capacity increased. The Company's trading privileges were renegotiated only after the terms of the charter expired, and not according to the dictates of politics and finance. Thus after 1750 Britain was moving toward one of the doorstep conditions: rule of law for elites. However, the liberalization of the market had to wait several more decades. Monopoly remained stable because of the Company's strong political connections and also because the fiscal system had not yet reached full capacity. Further development of the fiscal system during the Napoleonic Wars, the growing influence of provincial manufacturing interests opposed to the Company's monopoly, and a negative shock to the Company's connections following an assassination brought the monopoly to an end in 1813.

The case of the East India Company described here has parallels in other markets. The Bank of England transitioned from a privileged monopoly to a central bank. Britain also liberalized access to the corporate form through general incorporation laws. In its wake, many banks and manufacturing companies were incorporated. Thus there was a broader movement toward open access throughout Britain from the mid-eighteenth century to the early nineteenth century. The consequences for economic development in Britain were substantial, yet as this case shows the process of development helped to undermine limited access. Growth of non-Indian taxes and the beginnings of the Industrial Revolution in Manchester and Liverpool played a role in bringing an end to the monopoly. The connection between economic development and the transition to open access needs to be further explored in Britain and other important historical cases.

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