# Securing the East India Monopoly:

## Institutions, Property Rights, and the Economic Performance of Britain's Leading Company, 1600-1760

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## Chapter 1: Introduction

Corporations drive much of the capital investment and technological innovation in today's global economy. Some current examples include corporations like TransCanda and ConocoPhillips that are financing the construction of the Keystone Pipeline Project. If completed, the pipeline will likely transform the distribution of natural gas in North America. Likewise Apple and Samsung are continually providing an ever-evolving series of smartphones and other devises which are transforming the way humans communicate.  Corporations are also significant because they contribute to fluctuations in today's leading economies. When corporations alter their investment behavior, the growth rate of the economy often changes because they account for such a large share of investment. A recent example is the US economy which has seen a drop in private investment since 2010 due to the ‘cash-hoarding’ of corporations.

While there is little doubt about the economic importance of corporations that does not imply that corporations are uncontroversial. There are several ongoing debates about the legal powers given to corporations and how politics and government policy impacts corporations, both positively and negatively. The recent Citizens United Case in the United States has a created a wave of discussion about what rights corporations should have in a modern democratic society. Some are calling for corporation’s rights to be more restricted, others would like them to be further expanded.

Another current debate about corporations deals with regulatory uncertainty, which is the idea that firms have difficulty forming expectations about future regulations. Regulatory uncertainty often emanates from instability in politics like changes in political regimes, or the threats of cessation and civil war. Corporations are particularly susceptible to regulatory uncertainty because they are often the target of opportunistic politicians and interest groups. A key consequence of regulatory uncertainty according to some observers is the reduction in corporate investment and corporate profits. Others see regulatory uncertainty as a vastly over-stated problem and a rouse for corporate welfare.[1]

The controversies surrounding corporations are not recent phenomenon. Business organizations, like the joint stock company, have played a key role in the growth of the most successful economies in history. For example, joint stock companies played a role in driving

[1] See the article by Dr. Jan Eberly, Is Regulatory Uncertainty a Major Impediment to Job Growth?, http://www.treasury.gov/resource-center/economic-policy/Documents/Is%20Regulatory%20Uncertainty%20a%20Major%20Impediment%20to%20Job%20Growth_20111121_vFINAL.pdf

Britain's growth in overseas trade during the 1600s and 1700s. The most notable was the English East India Company founded in 1600. It provided shipping services for the trade between Britain and the East Indies, an area today that includes India, China, and Japan. Famously the East India Company held a monopoly over this vast trade. By the terms of its royal charter no individual or business entity was authorized to bring East Indian goods like tea, pepper, and textiles into Britain without a license from the Company. At times the Company's monopoly was controversial and there were proposals from private traders for free trade, but they were mostly unsuccessful. The East Indian trading monopoly lasted for more than 200 years from 1600 to 1813 when the monopoly over trade with India was finally revoked.

The early history of the East India Company is also notable for its strained relations with the British government. In the 1600s the king and parliament authorized traders, known as interlopers, to send ships into East Indian markets. Importantly such actions violated the terms and spirit of the Company's monopoly trading privileges. By encouraging interlopers the government was not espousing the virtues of free trade; instead it explicitly sought to extract revenues from the Company. The Stuart kings repeatedly forced the Company to lend it money and imposed additional customs duties, levies on the value of their capital, and sometime direct demands for cash and resources. Conditions changed for the Company in the half century from 1715 to 1765. The government stopped sanctioning or supporting interlopers, it eventually stopped demanding loans from the Company, and it committed to a stable tax rate for the Company. In short, the East Indian Company faced a more certain regulatory environment in the mid-eighteenth century compared with the seventeenth century.

This book examines the effects of Britain's political and legal institutions on the English East India Company during its early history from 1600 to around 1760. The main focus is on the security of the Company's trading monopoly. The choice to begin the study in 1600 is obvious given the Company's founding in that year, but 1600 also comes just before a key change in British politics: the transition from the Tudor to the Stuart Monarchy. Over the next 100 years Britain politics were dominated by conflicts between the supporters of the Stuart monarchs and the supporters of parliament and republican government more generally. These conflicts erupted most clearly in the Civil War, the Restoration, and the Glorious Revolution, which saw major shifts in political power. One of the leading questions about Britain in this period is whether its institutions were conducive to economic development. Some scholars have argued that Britain's institutions were transformed by events like the Glorious Revolution. Others are more skeptical and see continuity.[2] The issue which has garnered the most attention among economists is whether property rights became more secure in Britain following key political events. On one side there are arguments that political changes gave rise to more effective constraints on the executive and the emergence of merchant groups more favorable to secure property rights.[3] On the other side, there are arguments which see little evidence for an impact from political changes.[4] More nuanced views see property rights becoming more secure through an evolutionary process shaped by the common law, the Enlightenment, international trade, and war financing.[5] This book is distinctive in that it places particular events like the Glorious

[2] See Pincus, *1668: The First Modern Revolution*, for a recent argument that the Glorious Revolution led to fundamental changes in British society and political economic thought.
[3] See North and Weingast, 'Constitutions and Commitment,' Acemoglu, Johnson, and Robinson, 'The Rise of Europe,' Cox, 'Was the Glorious Revolution a Constitutional Watershed?,
[4] See Clark, 'Political Foundations', Zahedieh, 'Regulation, Rent-Seeking', Sussman and Yafeh,' Institutional Reforms'
[5] See Murrell, 'Institutional and Cultural Determinants,' Mokyr, The Enlightened Economy,' Cox, 'War, Moral Hazard and Ministerial Responsibility,' Dincecco, *Political Transformations*, Stasavage; *Public debt*, Broz and

Revolution in their long-run context. This book is also distinctive in that it is grounded in the events of a particular company. Thus the inferences and abstractions which often accompany studies in this literature will come to life in a 'real-world' example.

The end date for the book is more subtle as 1760 cuts through the history of the Company. It is important to understand that around 1760 there was a shift in the East India Company's purpose and its relationship with the government. The key events are the Seven Years War which involved some battles in India and the Battle for Plassey which led to the Company's acquisition of territory in Bengal. From this point forward the Company had dual functions: it was an economic corporation which derived profits from shipping and it was a colonial authority with administrative responsibilities. Because of the second function the British government relied more on the Company to implement its foreign policy in India and as a result it changed its strategies. In short, the East India Company's history after 1760 is more revealing of how corporations and the British government worked together to expand its colonialism.[6] My argument is that Company's history from 1600 to 1760 is more revealing of how the British institutions came to support property rights that involved special privileges such as monopoly.

The book is divided in three parts. Part I examines the security of the Company's monopoly and the impact on the Company's financial success and investment. It begins by examining why the East Indian trade was organized as a monopoly. I argue there was an economic and political logic supporting monopoly. Monopoly provided new and easily collected tax revenues for the government, it enhanced political stability by providing a stream of rents to

Grossman, 'Paying for Privilege,' Quinn, 'The Glorious Revolution,' Wells and Wills, 'Revolution and Restoration', Klerman and Mahoney, 'The Value of Judicial Independence'.

[6] See for example Bowen, The Business of Empire, and Stern's *The Company-State.*

supporters of the government, and third monopoly encouraged investments in ‘protection capital’ like armed ships and forts. While ‘free-trade’ had some benefits for consumers of East Indian products, it was not in the interests of most elites in Britain. Another chapter documents the important events relating to the Company’s monopoly and its property. It tells the story of how interlopers sought and sometimes obtained the assistance of the king and parliament in order to enter the Company’s market. It also documents how the king and parliament forced the Company to lend it money and extracted gifts and revenues. The narrative history is also complemented by a unique quantitative exercise, in which I estimate the frequency that the Company’s monopoly trading privileges and property were violated from 1600 to 1760. The results indicate that the likelihood that interlopers were authorized to enter the East Indian market was significantly higher in the seventeenth century than the eighteenth century. The likelihood and magnitude of forced loans and fiscal extractions were also higher in the seventeenth century, although here the change was more gradual. What is especially notable about the Company’s history is that it suffered some of its most severe attacks in the years immediately following the Glorious Revolution of 1688. Significant tax increases were imposed on the Company and most importantly it was forced to share its monopoly trading profits with a government sanctioned rival known as the New East India Company. Thus while the Company’s rights became more secure in the 1700s it was not an immediate consequence of the Glorious Revolution. The implication of this last finding will be explored at various points in the book, as it is at odds with some of the literature.

In Part I I also show that there were large financial losses to the Company from the insecurity of its trading privileges and property. The losses are reflected in the English East India Company’s share price relative to the Dutch East India Company over the seventeenth century.

The English Company's share price fell steeply in the 1620s and 1630s relative to the Dutch when its monopoly privileges were under regular attack. The English Company's price also fell sharply in the 1690s when interlopers began their campaign against the company after the Glorious Revolution. The English Company's net assets also declined in the early 1690s losing half their value by 1695 and nearly all their value by 1702. By comparison the effects of forced loans in the eighteenth century were less consequential.  The Company was generally able to borrow for a lower rate than the rate it lent the government and its share prices declined relatively less when the government forced it to make a large loan in 1744.

The last chapter of Part I examines how attacks on the Company's monopoly and property affected its investment in shipping capacity. Standard economic theories would predict that investment by firms should fall if their property rights are insecure. I examine these predictions in the context of the East India Company. The data show that the Company's shipping tonnage declined sharply in periods of significant insecurity like the 1690s and mid-1710s. The data also show that in periods of high insecurity the English East India Company's shipping capacity fell relative to its rival, the Dutch East India Company. More generally, the English Company looks to have fallen behind the Dutch Company throughout the seventeenth century and does not catch-up in tonnage capacity until the third-quarter of the eighteenth century.

Part II of the book examines the role of Britain's legal, political, and fiscal Institutions. The first chapter in II provides a theoretical framework for studying the security of the Company's monopoly. The chapter has not yet been written, but the main details can be outlined. In theory several factors influenced the government's choice to maintain the Company's monopoly. The first was the magnitude of the economic surplus produced by the Company. The higher the surplus the more likely it was that the government would predate on the Company as it was a prize worth capturing. A mitigating factor was the government's fiscal capacity. If the government was able to easily finance its deficits with borrowing then there was less to gain from extracting resources from the Company. The legal system could also mitigate predation. If the Company's rights were strongly protected by law then it was more costly for the government to predate. Political connections are a final factor. They capture the degree to which the government gains politically from favoring or disfavoring the Company. An example is that the government receives crucial support from the Company on its broader legislative agenda. The theoretical framework shows that there will be less predation on the Company the stronger are its political connections with government and the opposite when the government has strong connections with the Company's rivals.

The theoretical framework also explores the actions which the Company can take to increase the security of its rights. One action is to offer loans or other gifts to the government in exchange for more favorable treatment. The government is happy to accept these gifts as it saves on the costs of predation. Another action is to mitigate the surplus available for capture. For example, the Company can forgo investment in shipping or forts in order to mitigate its losses. The last tool available to the Company is to invest in political connections, such as buying seats in the House of Commons. Added political connections help to increase the security of the Company's privileges and at times could be a wise investment.

The implications of the theoretical framework are made clear in the following chapter which examines the period after the Glorious Revolution. In the 1690s the Company came under attack from interloping groups who were strongly connected to the Whig party. The Company was more connected to the Tory party, which for a while held a majority in the House of Commons and King William's ministry. But the Whigs gained political power in 1695, and through their help the interlopers were able to revoke (at least temporarily) the Company's trading privileges. The 1690s were also a period of fiscal pressures. Due to the high cost of the Nine Years War the government budget went into a large deficit. Having already borrowed from the Bank of England, the government needed other sources of funds. The Company made a loan offer as it had done in the past, but it was outbid by its rivals and subsequently lost its monopoly. Another factor was the Company's regulating charter. The king had the authority to revoke trading privileges with three years notice and minimal legal justification. King William exercised this option in 1697 under the encouragement of Whig leaders in the parliament.

The final chapter in part II examines the legal, fiscal, and political developments which increased the security of the Company in the eighteenth century. It argues for the importance of three factors which are related to the theoretical framework. First, the Company came to be regulated by acts of parliament which over time provided stronger legal protections than royal charters. Second, greater political stability made the Company's rights more secure by reducing the risks of violent and predatory regime changes. Third, greater fiscal capacity in the eighteenth century made the Company a less attractive target for government extractions.

Part III of the book offers some generalizations and conclusions. One chapter investigates whether the East India Company's history is exceptional in the British economy. The conclusion is that the East India Company was not alone in facing significant regulatory uncertainty in the seventeenth century. Among the overseas trading companies like the Russia Company and the

Royal African Company also experienced major violations of their trading privileges in the wake of the Glorious Revolution. One difference is that the government did not extract as much revenues from the Russia Company and the Royal African Company. Instead in these cases, the government was more influenced by the demands of interlopers who had strong political connections with the new regime. Drainage corporations and infrastructure utilities were another sector of the economy which experienced regulatory uncertainty. These business organizations are interesting for a further reason because they laid the foundation for investment in domestic infrastructure like roads, rivers, and canals. This broader summary of Britain's economy history suggests that the institutional developments which improved the regulatory environment for the East India Company were shared across other of companies and sectors.

The final chapter proposes a new research agenda emphasizing the history and performance of business organizations and their linkage with institutions. Scholars have made a number of advances in understanding the origins of economic divergence but there remain many areas of disagreement and confusion. The literature broadly aims to understand why property rights get enforced in some societies and not others. Some emphasize the structure of the state and the legal system; others emphasize relations between elites; others look at culture and group dynamics.[7] The British case is taken as an important example which informs the broader literature. For example, the view that constraints on the executive increases the security of property and hence encourages development is based in part on British history.

A major shortcoming of the literature is the small number of studies on organizations and firms. Most studies examine the country, region, or city as the unit of analysis, and do not

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[7] Acemogulu and Robinson, *Why Nations fail*,' North, Wallis, Weingast, *Violence and Social Orders*. Greif, *Institutions and the Path to the Modern Economy*, Besley and Persson, *Pillars of Prosperity*.

examine what happens to the property rights of individual organizations and firms.[8] The shortcoming is significant as organizations are responsible for much of the investment and innovation in economies. The literature has begun to make headway examining the effects of political uncertainty on firm's investment and organization, but much more analysis (especially historical) is needed.[9] This book will provide a model for other studies of companies and organizations. It shows how one can estimates the degree of regulatory uncertainty through the observed likelihood of various events like violations of trading privileges, forced loans, and fiscal extractions. It also shows how conventional tools of economics like event studies can be used to evaluate the effects of regulatory uncertainty on firm performance.

[8] For some exceptions see Bogart, 'Did the Glorious Revolution,' Broz and Grossman, 'Paying for Privilege,' Pettigrew, 'Freedom's Debt.'
[9] See for example Bloom, Sadun, and van Reenan, 'Organization of Firms.'

## Chapter 2: Why Monopoly? The Organization of the East Indian Trade

The founding charter for the East India Company in 1600 laid out an organizational structure that would continue in the trade for several decades. Management of the Company was in the hands of a governor and a board of directors. Shareholders, or 'adventurers' as they were initially known, elected the governor and directors but only if they held a minimum number of shares. Significantly the charter gave the Company a monopoly over all trade and traffic between British ports and the area spanning from the Cape of Good Hope to the Straights of Magellan. The charter went further in stating that unlicensed traders, known as 'interlopers,' could be imprisoned and their ships seized with half the value going to the monarch. The charter also stated that the first four voyages of the Company were exempted from customs duties but afterwards the Company would pay duties set by the monarch. The monarch also had the right to void the privileges in the charter if they were not profitable to the monarchy or the realm.[10]

This chapter is concerned with the question of why the East Indian trade was organized as a monopoly. Monopoly is not most obvious way to organize long distance trade because it generally leads to lower consumer welfare through higher prices and the encouragement of rent-seeking. However, monopoly had an economic and political logic in 1600 when the East India Company was formed. At this time, the British monarch assumed much of the authority to regulate foreign trade, so it could legitimately choose whichever organizational form it liked for the East Indian trade. The monarch had several things to gain from monopoly over free trade. First, there was a need for tax revenues. A monopoly company would generate tax revenues, but more importantly its ships would be easily detected by customs officials in British ports.

[10] Scott, Constitutions and Finance, Vol II, pp. 92-93.

Detection was important because small scale traders could avoid the special customs duties for the East Indian trade by disguising their ships. Second, monopoly provided a stream of profits today and into the future which can be extracted by the monarchy in times of fiscal crisis. Under free trade, the monarchy could seek out individual traders for payments but this would be costly and their profits would be minor. A monopolist is easy to find and it is likely to have more profits to extract. Third, monopoly entails a valuable privilege which the monarchy can use to enhance its political stability. Systematic corruption was at the heart of most political regimes in 1600. Following the logic of the 'natural state,' the monarchy increased political stability by giving elites privileges.[11] The elites then had an economic incentive to support the regime and eschew rivals to the throne. Privileged elites also provided services to the monarch which indirectly improved its stability. For example, they can consult and assist on matters of fiscal and diplomatic importance.

Systematic corruption helps to explain the connections between the East India Company and Queen Elizabeth at its founding. The Company's first governor, Thomas Smythe, was a trade commissioner negotiating with the Dutch in 1596 and 1598. In the 1590s he became purveyor for English troops in Ireland.[12] Smythe's father also had connections with Queen Elizabeth helping to improve her customs collection.[13] Smythe remained the Company's governor over the next two decades and retained connections to the monarchy after James I came to the throne. He was

[11] See North, Wallis, and Weignast, *Violence and Social Orders*.
[12] Scott, Constitutions and Finance, Vol II, pp. 92-93.
[13] Basil Morgan, 'Smythe , Sir Thomas (c.1558–1625)', Oxford Dictionary of National Biography, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/25908, accessed 25 Sept 2013].

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.[14]

The violent trading environment of the East Indies gave further logic to a monopoly trading organization in 1600. At that time the Portuguese were already trading in the region under a crown monopoly. The Portuguese were known to use force in their dealings with local traders. For example, they extracted payments from shippers along the Indian coast in exchange for allowing them to pass unmolested. The Mughal emperors in India were also known to extract from traders adding a further and important element of insecurity to the trade. The Dutch were also about to enter the East Indian market and if they adopted the same strategy of predation then another violent player would be added. In short, if the English were to enter and succeed in the East Indian market c.1600 then they would need a fleet of well-armed ships and forts for protection. An open access system among British traders was less likely to yield the necessary investments because of a free-rider problem. An individual trader would prefer that other traders make these investments, saving them the expense. A monopolist on the other hand would internalize the loss of market share and profits to the Portuguese, Dutch, and Mughal emperors if investments in protection capital were not made. Put differently monopoly solved a 'public-goods' problem which was inherent to the environment of East Indian trade in 1600.

*The East India Company was not unique in having a Monopoly*

The East India trade was not the only example in the British economy where the king or parliament sanctioned monopoly rights. In fact, much of foreign trade in the seventeenth and eighteenth centuries was organized around chartered monopolies. They included (1) the Russia

[14] Ibid.

Company with a monopoly over trade with Russia, (2) the Levant Company with a monopoly over trade with the Middle East, (3) the Royal African Company with a monopoly over the African Slave trade in the Atlantic, (4) the Hudson's Bay Company with a monopoly over the trade with North American region in present day Canada. The logic behind these companies was the same as the East India Company. They provided new streams of revenue to the king, they provided a source of privileges which enhanced the kings power, and they provided public goods which the king or parliament was unable to provide. In the case of public goods, the Royal African Company built forts along the African coast which fostered the slave trade. The Levant, Russia, and Hudson Bay Companies provided similar trading infrastructure in their spheres of influence. The Levant and Russia Companies also provided diplomatic services which aided the king. Many of these public goods could have been provided by firms competing in the market, but by most accounts it was considered more likely that they would be produced by monopolists.

There were more monopolies outside of foreign trade. The most important was the Bank of England founded in 1694. It was given a monopoly over note issue around London in its founding charter, and later it was authorized to be the only joint stock company in Britain's banking sector. The Bank of England's importance to Britain's fiscal system is well known. It financed and held much of the debts issued by King William's government in the 1690s. Later the Bank served as a facilitator in the market for government debt and the government's payment system. Therefore in addition to provide a source of revenues it provided a valuable public good. The Bank was also a partisan institution. It was founded at a time when the Whigs were prominent in King William's government and it directors were mainly Whigs. During its early history the Bank was an ardent supporter of Whig governments.

Transportation infrastructure is another important area where chartered monopoly was common. Starting in the early 1600s the king and parliament gave organizations special powers to improve roads and rivers. The most common tool was to allow road and river authorities to collect tolls. Most importantly for our purposes they were given exclusive rights to collects on particular roads and rivers. Authorities recognized the pricing problem associated with monopoly, but they were more concerned with generating revenues to pay for new infrastructure. The political value of creating local infrastructure monopolies was also understood. For example, Sir William Sandys was named as the undertaker for the Wye and Lugg rivers after the Restoration of King Charles II in 1660. Sandys received a patent from Charles I in the 1630s and was a prominent royalist who helped raise funding for the Restoration.[15] In another example, Henry Hastings was granted rights to make the Bristowe Causey navigable in 1664.[16] Hastings was a supporter of Charles I during the Civil War and was appointed lord lieutenant of Leicestershire by Charles II.[17]

Monopoly generally creates deadweight losses for the economy, but it had a political and economic rational in Britain's economy during the seventeenth and eighteenth century. Monopoly helped to provide the king with scare tax revenues, it helped to enhance political stability, and it aided the provision of public goods. Whether or not monopoly in the East Indian trade was on balance welfare enhancing for the British economy is not crucial for most of the arguments in this book. My aim is to use the East India monopoly as a test case to study how institutions did or did not contribute to the security of monopoly property rights in Britain. The importance of the East India trade is justification enough for such an exercise, but as is shown in

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[15] Chrimes *et. al.*, *Biographical Dictionary*, p. 592.
[16] Private Act, 16 & 17 Charles II, c. 6.
[17] Bennett, 'Hastings, Henry, Baron Loughborough'.

this chapter monopoly was fairly common in the British economy. Later in the book I will return to the issue of whether the enforcement of monopoly property rights was beneficial in some sectors of the British economy. For now readers need only accept the possibility that monopoly property rights generated some benefits.

## Chapter 3: Securing the Company's Monopoly

Although there was a political and economic logic behind the East India Company's monopoly that does not imply that the privilege was supported at all times by traders and the government. 'Interlopers' tried to enter the Asian market to capture a portion of the monopoly profits. They sought and sometimes obtained authority from the king and parliament to enter the market violating the Company's monopoly. The king and parliament also took actions against the Company by forcing loans and extracting revenue or gifts. If the Company refused to pay then the king's ultimate threat was to revoke the Company's monopoly and offer it to interlopers. This chapter reviews how interlopers, the king, and parliament sometimes attacked the Company's monopoly privileges and its property and also how the Company responded. It also compares the relative security of the Company's rights and property in the seventeenth and eighteenth centuries. Specifically, I estimate the likelihood that the Company experienced attacks by interlopers, forced loans, or various government extractions in each century. The same methodology has been used elsewhere for infrastructure authorities and is helpful in examining whether British institutions were able to provide secure property rights to business organizations like the East India Company.[18]

One of the main conclusions from the chapter is that the Company's monopoly privileges and its property were far from secure in the seventeenth century. What is especially notable about the Company's history is that it suffered some of its most severe attacks in the years immediately following the Glorious Revolution of 1688. Significant tax increases were imposed on the Company and most importantly it was forced to share its monopoly trading profits with a

[18] For an analysis of the security of infrastructure authorities' rights see Bogart, Did the Glorious Revolution?

government sanctioned rival known as the New East India Company. In this prominent case, the short-term consequences of the Glorious Revolution were dire for the protection of monopoly property rights.

*The Security of the Company's Privileges and Property in Practice*

Interlopers had designs on entering the East Indian market almost from the founding of the Company in 1600. The first interlopers were headed by Sir Edward Michelborne. In 1604, Michelborne obtained a licence from King James I 'to discover the countries of Cathay, China, Japan, Corea [Korea], and Cambaya [Cambodia], and to trade there'. It superseded all previous grants and allowed Michelborne to trade in the East India Company's territory.[19] Michelborne had strong political connections through the patronage of Thomas Sackville, the first Baron of Buckhurst.[20] Sackville was one of King James closest advisors, serving as Lord Treasurer beginning in 1603, just one year before Michelborne was granted the license to trade in Asia.[21] After receiving the license, Michelborne successfully sailed two ships to Asia, but was not ultimately successful and returned to England in 1606.[22] Scott, in his history of the Company, argues that Michelborne's syndicate "made the English name abhorred in the Eastern Seas by reason of the number of its piracies…the company was left to bear the odium of their misdeeds and the ill effects of this visit were experienced for some years to come."[23]

[19] Scott, Constitutions and Finance, Vol II, p. 99 and D. J. B. Trim, 'Michelborne, Sir Edward (*c.*1562–1609)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/18650, accessed 25 Sept 2013]
[20] Ibid.
[21] 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 edn, Oct 2009 [http://www.oxforddnb.com/view/article/24450, accessed 25 Sept 2013].
[22] D. J. B. Trim, 'Michelborne, Sir Edward (*c.*1562–1609)', *Oxford Dictionary of National Biography*.
[23] Scott, Constitutions and Finance, Vol II, p. 99.

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.[24] Less is known about Penkevell except that he was a Member of Parliament in the late sixteenth century.[25] At this point, the Company was still operating under the original charter from Queen Elizabeth and it was becoming clear that King James I would not uphold the monopoly trading privileges in the charter. To ameliorate this problem, the Company successfully pushed for a new charter in 1609. In the charter James I stated that the whole trade in Asia was conferred upon the Company forever except if the king deemed that the Company was not profitable to the crown or to the realm. In that case, the charter could be voided by the king with two years notice.[26]

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 the Scottish East India Company.[27] 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 the fact 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. The two bought the license from the Scottish East India Company and paid a 'valuable consideration' to its leaders and promoters.[28]

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[24] Scott, Constitutions and Finance, Vol II, p. 100.
[25] See Irene Cassidy, 'PENKEVELL, Richard' The House of Commons, online ed. [http://www.historyofparliamentonline.org/volume/1558-1603/member/penkevell-richard-1616].
[26] Scott, Constitutions and Finance, Vol II, p. 100.
[27] Ibid., p. 104.
[28] Scott, Constitutions and Finance, Vol II p. 104, Bruce, Annals of the Honorable East India Company, pp. 193-194.

The 1620s marked the beginning of a prolonged period in which the Crown tried to extract revenues from the East India Company. In 1620 James I ordered the Company to pay £20,000 to himself and the Duke of Buckingham on the grounds that the Company captured prizes from the Portuguese.[29] 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 effect would be that the whole undertaking would revert to the Crown, since there could be no partnership with the King.[30] 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.[31]

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.[32] 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 crown 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 Charles I through Villiers.[33] 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 £1000. The East India Company protested that the license to the Courteen Association violated their charter. Charles I responded that no hindrance

[29] Chaudhuri, The English East India Company, p. 31.
[30] Scott, Constitutions and Finance, Vol II, p. 108.
[31] Scott, Constitutions and Finance, Vol II, pp. 110-12.
[32] Scott, Constitutions and Finance, Vol II., p. 112.
[33] Ronald G. Asch, 'Porter, Endymion (1587–1649)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/22562, accessed 26 Sept 2013].

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.[34] The Courteen Association got 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'.[35]

The Courteen Association was generally unsuccessful in its trading ventures, but in the process the Assocation caused much damage to the Company. In their first voyage in 1635, the Courteen Association seized several native Indian ships. The English East Company was held responsible by governments in India and they seized the Company's goods and imprisoned its agents. The Company sued two adventurers in the Courteen Association, Thomas Kynaston and Samuel Bonnell, for its resulting losses, but the King is thought to have protected Kynaston and Bonnell.[36] Charles I eventually ordered the Courteen Association to desist from their trade, nevertheless some of the Assocation's members continued to operate and financed a new voyage to East Asia in 1641.[37] They were successful in setting up a fort on the island of Assada near Madagascar, where they minted counterfeit gold and silver coins generating financial losses for the Company in India.[38]

[34] John C. Appleby, 'Courten, Sir William (*c.*1568–1636)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/6445, accessed 26 Sept 2013].
[35] Ibid. pp. 113-114.
[36] Scott, Constitutions and Finance, Vol II., pp. 113-114.
[37] Ibid., pp. 113-114.
[38] Ibid., p. 117.

The Company suffered more negative shocks in 1636 and 1641. In 1636, Charles I increased the customs duties on pepper by 70%.[39] The result was that the customs duties derived from the Company's trade were yielding around £30,000 per year by the early 1640s. [40] At this same time, the political conflicts between Charles I and parliament were increasing making 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 had been 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. [41]

There were further developments following the establishment of the Commonwealth government. In 1649, the 'Assada Adventurers' linked to the Courteen Association appealed to the Council of State, headed by Oliver Cromwell. They asked for assistance against the Company and an application for a voyage to Asia. The Adventurers also made 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 House of Commons and the Council of State recommended a merger of the two companies, which was enacted in 1650 and became known as the 'United Joint Stock'.[42]

The United Joint Stock financed a series of voyages in the early 1650s, but separate voyages were also financed by interlopers and investors in the old East India Company. An appeal to

[39] Ibid. p. 114.
[40] Foster, 'Introduction' in Calendar of Court Minutes, 1640-43, p. xxviii.
[41] According to Foster, 'Charles I and the East India Company', p. 463, £10,500 more was recovered in the early 1660s from the former farmers of the Customs, leaving £31,500 unpaid.
[42] Scott, Constitutions and Finance, Vol. II, p. 120.

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.' [43] A few years later in 1655, the Company then made a loan of £50,000 to the Council of State. The loan ingratiated the Company with Cromwell's government and in 1657 a new charter was granted to the Company. The charter ended the rivalry between the Company and the interlopers from the Courteen Association. The new charter was also significant in that it created a permanent joint stock, eliminating the financing of individual voyages by investors.

The establishment of the new East India Company moved forward in 1657, but it was not a success. Subscriptions for capital amounted to just over £739,000, but the directors limited their calls on investors to £369,000. [44] Moreover, in 1657 the new Protector of the Commonwealth government, Richard Cromwell, granted a trader named Rolt a license to send a ship to the East Indies. 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 [45] In 1659 Richard Cromwell also pressed the Company for a loan of £30,000, which the company negotiated to a smaller amount of £15,000.

The Restoration of the Monarchy in 1660 marked a new turn for the Company. The immediate effect was a series of losses. The Company's loans to the Council of State in 1655 and to Richard Cromwell in 1659 were cancelled as a result of the Restoration.[46] Also its recent charter from Cromwell was nullified like all other Commonwealth legislation and ordinances

[43] Ibid., p. 121.
[44] Ibid., p. 177.
[45] Scott, Constitutions and Finance, Vol II p. 122 and Bruce, Annals of the Honorable East India Company, pp. 537.
[46] Foster, Introduction, A Calendar of Court Minutes, 1655-59, p. vi-vii, xxxii.

after 1649. 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.[47]

The Company made a series of large loans to the Charles II in the 1666 and 1667 totaling £120,000. These loans were related to a number of events. First, in the midst of the Second Anglo Dutch War (1665-67) the King needed funds to pay the arrears of wages to seaman.[48] Second, Charles II gave the island of Bombay to the Company in 1668, and although maintenance of the Bombay fort was costly to the Company in the short-run it was beneficial for the Company to control all territory in India. Third, in 1667 it was alleged in the King's court that perhaps as much as £100,000 was due by the Company to those who had been abused in their trade to East India.[49] All of these factors likely contributed to the Company offering generous loans to the King. Notably Charles II was able to repay these loans. It helped that the loans were secured by East Indian customs duties which were approaching £35,000 annually in the late 1660s.[50]

The Company made another series of loans to Charles II in 1676 and 1678 totaling £150,000. These loans were linked with the King's fiscal problems at the conclusion of the Third Anglo Dutch War (1672-74). They were also linked to a suit against the Company for the King's share of prize money from the Dutch War. The charters' stated that the monarch and the Company must split the value of the ship prizes. The King had sold his rights to the prize money to the

[47] Scott, Constitutions and Finance, Vol II., p. 131.
[48] Foster, Introduction, A Calendar of Court Minutes, 1664-67, p. xvii, 352.
[49] Scott, Constitutions and Finance, Vol II., p. 133.
[50] Foster, Introduction, A Calendar of Court Minutes, 1664-67, p. xvii, 352; Chaudhuri, The Trading World of Asia, p. 294. Ottewill, Calendar of Court Minutes, 1674-76, p. xxviii.

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.[51]

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. By the 1670s the Levant Company was losing trade as the East India Company was expanding. It appears its goal was to hamper the East India Company through new regulations. The woolen industry's stated aim was to get the East India Company to export more cloth to India and less bullion, thereby increasing demand for their products. [52] The interloper's goal, as usual, was to capture some of the monopoly profits from the East Indian trade. All these 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.[53] Thus once again the Company's loans to the King were associated with a thwarting of attacks on its privileges.

In the early 1680s a split emerged among some of the largest shareholders in the Company. The leader of one side was the governor of the Company, Josiah Child, who was also a strong supporter of King Charles II.[54] The other side was led by Thomas Papillion, who was an opponent of the King and affiliated with the Whigs, at this time an emerging political party. The conflict was centered on the Company's connection with the King and its future course in

[51] Ottewill, Introduction, A Calendar of Court Minutes, 1674-76, p. xxvii-iii., 1677-79, p. 134.
[52] Scott, Constitutions and Finance, Vol II., p. 136.
[53] Ibid., p. 139.
[54] Richard Grassby, 'Child, Sir Josiah, first baronet (*bap.* 1631, *d.* 1699)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/5290, accessed 27 Sept 2013].

politics. Papillion decided to sell his stocks and form a rival group. In 1681 Papillion and other interlopers submitted a proposal to Charles II for a new joint stock company that would trade in the East Indies. The Papillion syndicate was able to raise one million in subscriptions. Josiah Child then presented Charles II with a gift of 10,000 guineas. A similar gift was subsequently made every New Year's Day up to 1688. Not coincidentally Charles II rejected the proposal for a rival joint stock company. Moreover, in 1683, Charles II granted the Company a new charter, which included stronger penalties against interlopers. [55] The Company then brought a case against Thomas Sandys in the Court of the King's Bench. Sandys was accused of trading in India without a license and therefore violating the Company's charter.[56] During the course of the trial James Duke of York became a shareholder in the Company and before a verdict was reached James became King. Not surprisingly, the Company won the case.[57]

The East India Company faced its greatest challenges in the period following the Glorious Revolution. The first involved greater taxation by the government. In 1690, 1697, and in 1703 customs duties were increased by 20%, 5%, and 5% respectively.[58] The new customs came on top of a new set of duties in 1685 that represented a 10% increase on customs from Charles II's reign. The Company was also subject to a one-time tax of 5% on the value of its stock in 1692, which represented a payment around £35,000.[59] Another major challenge following the Glorious Revolution came from interlopers. In 1690 an interloper syndicate led by Thomas Papillion raised £180,000 as a campaign fund to influence Parliament. The Papillion Syndicate's petition to the House of Commons stated that the East Indian trade was likely to be utterly lost unless

[55] Scott, Constitutions and Finance, Vol II, p. 143.
[56] Philip J. Stern. The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India. Oxford: Oxford University Press, 2011.
[57] Scott, Constitutions and Finance, Vol II, p. 148.
[58] O'Brien, Griffiths, and Hunt, Political Components, p. 400.
[59] Scott Constitutions and Finance, Vol II p. 160, Dowell, a History of Taxation, p. 63

there was better regulation by a new joint stock company. The East India Company responded by requesting an act of parliament ratifying their previous charters. The Papillion Syndicate then proposed a series of conditions for ratifying their charters, but no further action was taken.[60] In 1692 the same interloper syndicate petitioned King William asking him to dissolve the Company and to incorporate a new one. King 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 thereby allow them to take control of the Company from the governor Josiah Child. King William responded that the best method was to proceed by drafting a bill in parliament to settle the issue. The House of Commons responded by asking the King to give a notice of dissolution to the Company as was allowed under previous charters. The King took no action and the Company's rights remained uncertain.[61]

In 1693 there was a new development as the Company got a fresh charter from the King. It enlarged the Company's capital and imposed voting regulations, but its effects did not allow for the removal of Josiah Child. For the moment it appeared that the Company and its leading directors had survived the aftermath of the Glorious Revolution.[62] The Company even took legal actions against interlopers in the following legislative session starting in 1693. However, it appears that the Company was too emboldened. 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. Matters became

[60] Scott, Constitutions and Finance, Vol II, pp. 150-52.
[61] Scott, Constitutions and Finance, Vol II, pp. 153-56.
[62] Scott, Constitutions and Finance, Vol II, pp. 157-8.

worse as the Commons began investigating accusations of bribery by Company officials in the spring of 1695. It was alleged and later supported by witnesses that the Company spent upwards of £200,000 in effort to convince the King and Members of Parliament to support the Company.[63]

In the new parliament starting in 1695 the Company faced yet another new challenge from interlopers. An act by the Scottish Parliament established the Darien Company with rights to trade in Asia. It is thought that interlopers in England were subscribing to the stock in order to make it a rival to the East India Company in English markets.[64] In 1696 a debate ensued in the English House of Lords over the East India Company's charter and its regulations. It was resolved that the trade to India should be carried out by a joint stock, which implied monopoly trading privileges should continue in the East Indian market.

The key events came in 1697 when it became known that King William expected a loan to help finance the Nine Years War which had lasted for several years. The Company offered a loan of £500,000 at 4% interest. A rival syndicate made an offer of £2,000,000 at 8% interest with the expectation that they would get the Company's exclusive trading rights to the East Indies. The rival syndicate was supported by Charles Montagu, the Lord Treasurer and Chancellor of the Exchequer. It was also supported by the Whigs in the House of Commons. The end result was that the King and Parliament accepted the offer of the rival syndicate. An act of Parliament (9 William III, c. 44) in 1697 authorized the formation of the 'New' East India Company. It held

[63] Scott, Constitutions and Finance, Vol II, p. 160.
[64] Scott, Constitutions and Finance, Vol II, p. 160.

exclusive rights to the East Indian trade with the proviso that the Old East India Company could trade until Sept. 29, 1701.[65]

Despite its recent losses, the Old East India Company was not finished. It was successful in frustrating the New Company's trading efforts. The fortunes of the Old Company improved in the 1701 parliament when Montagu and the Whigs lost seats in the Commons. The Old Company also got several of its own MPs into the Commons. With their political support, the Old Company began a successful campaign to re-establish its monopoly through a merger with the New Company. In 1702 a charter from Queen Anne ratified an agreement to merge Old and New Companies, effectively splitting the monopoly trade equally between them.

From 1702 to 1709 a committee composed of members of the Old and New Companies managed trade, but tensions continued between the two rivals. The state of the merger was uncertain until 1708 when both Companies made an interest free loan of £1,200,000 to Queen Anne. The Crown still owed £2,000,000 to the New East India Company and when combined the total government debt to the United Company was worth £3,200,000. In 1709, shortly after the loan, the merger took effect creating the United East India Company.[66] Under the authority of an act of Parliament (6 Anne, c. 71) the United Company was granted exclusive trading rights to East Asia until at least 1728. Moreover its privileges could not be cancelled unless the Crown's debts to the Company were paid off.[67]

During the last years of Queen Anne's reign (1710-1714) the Company was involved in the party conflict between the Whigs and the Tories. The level of partisanship was high and the

[65] Scott, Constitutions and Finance, Vol II, pp. 165-68.
[66] Scott, Constitutions and Finance, Vol II, p. 170.
[67] Russell, A Collection of Statutes concerining the Incorporation, trade, and Commerce of the East India Company.

Queen was known to favor the Tories.[68] Anne's partisanship presented a problem for the Company because most of the directors on the Board had Whig political leanings and the Company came to be known as a Whig institution. Investors associated with the Tories aimed to take over the Board and attempted to do so unsuccessfully in 1711.[69] The Company's political position improved significantly after 1715 when George of Hanover became the new King. George I was known to be favorable to the Whigs which were more closely connected to the Company.[70]

The next five decades from 1715 to 1760 were relatively calm for the Company. One of the few major events happened in 1730 when merchants from London, Bristol, and Liverpool submitted a petition to the House of Commons proposing a new company that would license trade to India for a fee. In return the merchant group offered to redeem the government's debt to the Company at a lower interest rate. The petition for a rival company failed in the Commons by a vote of 223 to 138. In the same session, an act of Parliament extended the East India Company's monopoly trading rights to at least 1769. In the same act it was stated that the Company must make a £200,000 contribution to King George II's treasury.[71]

The final major event of note occurred in 1744 when the Company lent £1,000,000 to the King. In return, the Company got an extension of their monopoly trading privileges until at least 1783.[72] The government's debt to the Company remained at £4,200,000 for the rest of the eighteenth century and was regularly serviced by an annual annuity payment. The debts were

[68] See Speck, *Tory and Whig*, and Holmes, *British Politics*.
[69] Carruthers, *City of Capital*, p. 145.
[70] Sedgwick, Romney, *The House of Commons 1715-1754.*
[71] See 3 George II, c. 14; G. B. House of Commons, Public Income and Expenditure p. 532 and Desai p. 122.
[72] See 17 George II, c. 17; G. B. House of Commons, Public Income and Expenditure p. 532.

officially redeemed in 1793, which laid the groundwork for the first revocation of the Company's monopoly trading privileges in 1813.[73]

*Assessing the Security of the Company's Rights and Property*

In the economics literature, the security of property rights is often measured by the 'risk of expropriation.' What would an expropriation represent in the context of the East India Company? The permanent loss of the Company's monopoly trading privileges to interlopers would undoubtedly be considered an expropriation from the Company's point of view. Another form of expropriation would be an event which forces the Company to share its profits with interlopers over the short to medium term. This would be less significant than the full revocation of its monopoly because the company could continue to operate and had the potential to earn monopoly profits over the long-run. Forced loans and fiscal extractions by the monarchy are another form of expropriation. These are potentially catastrophic events because they can entail large losses to the Company's surplus profits. In this section, I summarize the events affecting the Company's privileges and property and assess the risk of expropriation for the Company in the seventeenth century compared to the eighteenth century.

The place to begin is with the interlopers and their authorization by the government to trade in Asia. To organize the information, Panel A in table 3.1 lists all the instances where interlopers successfully obtained authorization to trade from 1600 to 1760. Panel B describes unsuccessful attempts by interlopers to obtain authorization. Authorizations were granted in 9% of the years from 1600 to 1701, while there were none from 1702 to 1760. Including the failed attempts to obtain authorization in 1649, 1681, and 1689 along with the successful attempts

[73] G. B. House of Commons, Public Income and Expenditure p. 532.

raises the likelihood to 12% between 1600 and 1701. By comparison an interloping group sought authorization to trade in just 1.5% of the years between 1702 and 1760. Thus the data suggests that the likelihood of an interloping group receiving government authorization to trade in the East Indies was much higher in the seventeenth century than in the eighteenth century.

Table 3.1: Summary of Interloper events affecting company's monopoly trading rights in Asia

Panel A: Summary of Instances where Interlopers obtained authorization to trade in Asia

| | |
|---|---|
| 1604 | Interlopers, led by Michelborne, receive charter from James I to trade in Asia. |
| 1607 | Interlopers, led by Richard Penkevell, are given license by James I to discover the Northern passage to China, Cathay, and other parts of East Indies. |
| 1617 | Scottish East India Company, led by Sir James Cunningham, receives charter from James I to trade in the East Indies. |
| 1635 | Interlopers, led by Endymion Porter, Thomas Kynaston, Samuel Bonnell, and William Courteen, are given a license by Charles I to trade in Asia. The 'Courteen association' is formed in same year to trade to Asia. |
| 1637 | The Courteen Association obtains charter from King Charles I to trade to all places in India where the EIC had not settled factories prior to Dec. 12, 1635. |
| 1658 | Interloper, Mr. Rolt, receives license to trade in Asia from Richard Cromwell. |
| 1695 | Darien Company receives license to trade in Asia by Act of Scottish Parliament. |
| 1698 | Act of Parliament authorizes a new East India Company with members having the option to form joint stock companies with monopoly trading rights to East Indies. |
| 1701 | Old East India Company petitions parliament and King to re-establish its monopoly in exchange for a government loan. A year later a charter from Queen Anne ratifies agreement to merge old and new Companies, splitting monopoly trade equally between the two rivals. |

Panel B: Summary Instances where Interlopers sought but did not obtain authorization to trade

| | |
|---|---|
| 1649 | Assada Adventurers linked to Courteen Association appeal to Council of State for assistance against Company and application for voyage to Asia. |

| | |
|---|---|
| 1681 | Interlopers linked to Whigs try to form a rival joint stock company. Petition King Charles II for charter |
| 1689 | Interloper syndicate led by Thomas Papillion petitioned King William to dissolve the Company and to incorporate a new one. |
| 1730 | Interlopers propose a company that would license trade to India for a fee. In return they offered to redeem government's 3.2 million loan to Company at an interest rate of 4%. |

Sources: Scott, Constitutions and Finance, Vol. II, pp. 92-160; Desai, The East India Co., p. 122.

The history of forced loans also points to the conclusion that the Company's property was more secure in the eighteenth century. A full list of the forced loans made by the Company to the government is given in table 3.2 along with information on their repayment. There are three patterns worth noting. First, the frequency of loans tends to decrease after the early eighteenth century. Between 1641 and 1690, loans occurred in 18% of the years. By comparison between 1691 and 1720 loans occurred in 7% of years, and between 1721 and 1750 the likelihood fell to 3%. Second, the size of loans peaked around 1700 with the contracts for £2,000,000 and £1,200,000 in 1698 and 1708. The 1744 loan was sizeable at £1,000,000, but it's less than a third of the 1698 and 1708 loans combined. Third, the likelihood of a forced loan being repaid is lowest before 1660. For three out of the four loans from 1641 to 1660 there is evidence that the Company suffered a loss in principal. The first was related to the Civil War which led to the cancelation of King Charles I's debts and the other two were related to the Restoration which led to the cancellation of loans to the Commonwealth governments. The general conclusion is that by the mid-eighteenth century loans were less common, they were more likely to be repaid, and were smaller in magnitude at least compared to the period around 1700.

Table 3.2: Summary of Company loans to the king

| Year | Loan Amount in £ | Comment |
|---|---|---|
| 1641 | 63,283 | King Charles I compelled Company to hand over its pepper stock. £31,500 unpaid. |
| 1643 | 6,000 | Loan to Committee of Navy in Long Parliament. Payment unknown. |
| 1655 | 50,000 | Loan to Council of State. £46,000 unpaid |
| 1659 | 15,000 | Loan to Council of State. Cancelled at Restoration. |
| 1662 | 10,000 | Loan to king Charles II. Payment unknown. |
| 1666 | 50,000 | Loan to king Charles II. Repaid in 1667 |
| 1667 | 20,000 | Loan to king Charles II. Payment unknown. |
| 1667 | 50,000 | Loan to king Charles II. Payment unknown. |
| 1676 | 40,000 | Loan to king Charles II. Repaid in 1678 |
| 1678 | 60,000 | Loan to king Charles II. Repaid in 1679 |
| 1678 | 50,000 | Loan to king Charles II. Repaid in 1679 |
| 1698 | 2,000,000 | Loan to King William by the General Society of Merchants trading to East Asia. Redeemed in 1793. |
| 1708 | 1,200,000 | Loan to Queen Anne. Redeemed in 1793. |
| 1744 | 1,000,000 | Loan to King George II. Redeemed in 1793 |

Sources: Foster, 'Charles I and the East India Company' (1904, p. 463); Foster, Introduction, A Calendar of Court Minutes, 1640-43, p. xxvii; Foster, Introduction, A Calendar of Court Minutes, 1655-59, pp. vi-vii, xxxii; Foster, Introduction, A Calendar of Court Minutes, 1664-67, pp. xvii, xxiii, xxvii-iii; Ottewill, Introduction, A Calendar of Court Minutes, 1677-79, p. vi; Scott, Constitutions and Finance, Vol II, p. 165; G. B. House of Commons, Public Income and Expenditure p. 532.

The summary of fiscal extractions experienced by the Company also indicates a greater level of security by the eighteenth century. Fiscal extractions came in various forms from demands for cash payments and gifts to higher customs duties. I include all these forms of extraction in table 3.3 which lists the main incidents. The high customs duties in the mid-seventeenth century were particularly ruminative to the government, but in terms of the rate of duties they peaked in the early eighteenth century.  Afterwards, the level of customs duties remained constant through the 1750s. There were various payments to the king, mostly in the seventeenth century. The largest single payment by the Company was in 1730 when it offered £200,000 in aid of public revenue, but it was exceeded by gifts and bribes to the monarchy and MPs in the 1680s and early 1690s when the interlopers posed significant threats to the Company’s monopoly. Overall it appears that the Company suffered the greatest fiscal extractions in the decade of the 1690s when new taxes, gifts, and bribes were all combined.

Table 3.3: Summary of Fiscal Extractions by the King and Parliament

| Year | Event |
|---|---|
| 1620 | King James I orders £20,000 payment following the Company's capture of Ormuz from the Portuguese |
| 1636 | New book of rates approved by King Charles I raises duties on pepper imports by 70%. |
| 1660 | Gift of 4000 to King Charles II and the Duke of York at the Restoration |
| 1685 | Additional duty of 10% on imports of Indian linens and silks |
| 1681-88 | Annual Gift to King Charles II and later James II of 10,000 guineas |
| 1690 | Additional duty of 20% on imports of Indian linens and other East Indian Goods |
| 1692 | One-time tax of 5% on value of Company's stock |
| 1692-95 | Gifts to King William and Bribes to MPs estimated at £200,000 |
| 1697 | Additional duty of 5% on imports of Indian linens and silks |
| 1703 | Additional duty of 5% on imports of Indian linens and silks |
| 1730 | Company gives £200,000 in aid of public revenue. |

Sources: Chaudhuri, The English East India Company, p. 31; Chaudhuri, The Trading World of Asia, p. 294, Dowell, a History of Taxation, p. 37; Scott, Constitutions and Finance, Vol II, p. 114, 131, 143, 160; O'Brien, Griffiths, and Hunt, Political Components, p. 400; G. B. House of Commons, Public Income and Expenditure p. 532.

The history of the East India Company's monopoly trading privileges and its property shows that it rights were insecure for much of its early history. The king and parliament authorized groups known as interlopers to trade in East Indian markets, which violated the terms and spirit of the Company's monopoly trading privileges. The government also forced the Company to lend it money and imposed various fiscal extractions, like additional customs duties, levies on the value of their capital, and demands for cash and resources. The summary analysis also shows the Company faced a higher 'expropriation risk' in the seventeenth century than the eighteenth. What is especially notable about the Company's history is that it suffered some of its most severe attacks on its privileges and property in the years immediately following the Glorious Revolution of 1688. Thus while the Company's rights became more secure in the 1700s it was not an immediate consequence of the Glorious Revolution. I will return to the significance of this conclusion in a later chapter. The next issue is to measure the magnitude of the financial costs to the Company from securing its privileges and property.

## Chapter 4: The Financial Costs to the Company from Securing its Monopoly

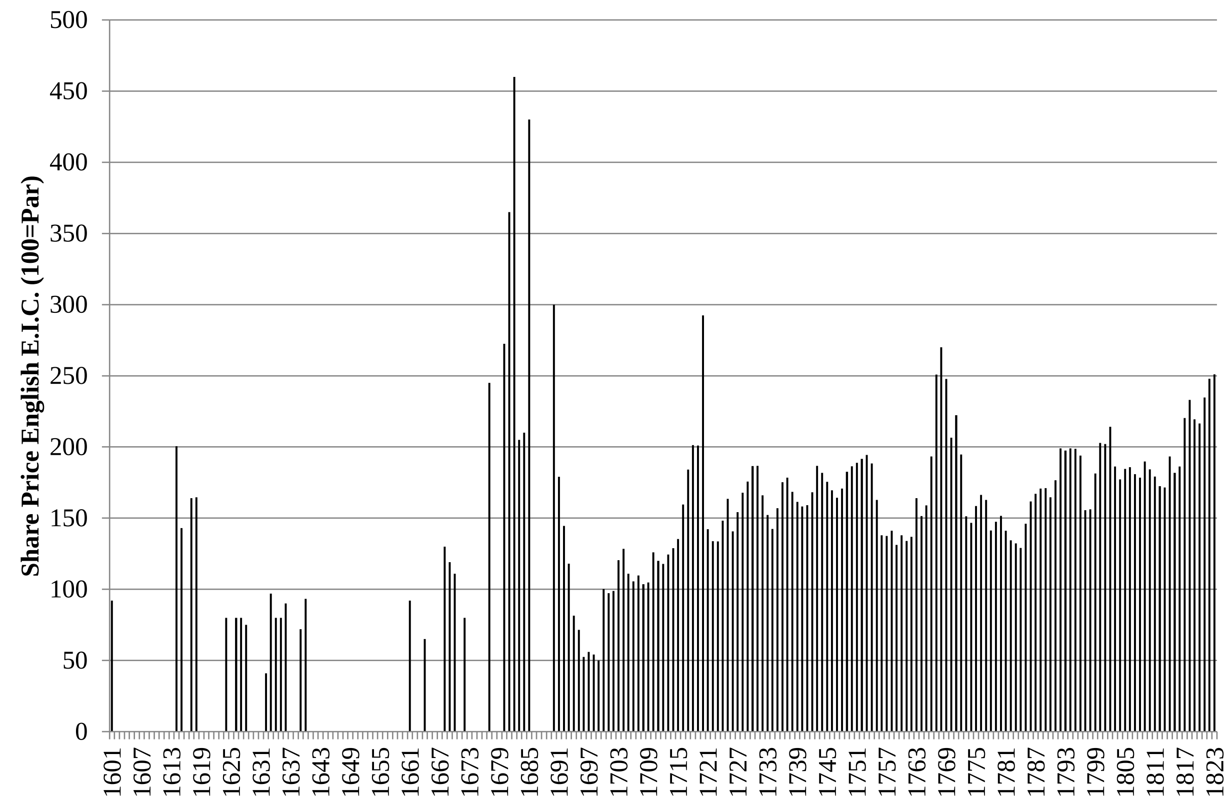
Any company operating in an uncertain regulatory environment is ultimately concerned that it will suffer financial losses. If the government takes actions or implements policies which are hostile to a company then the market value for its shares could fall and its assets degraded. However, despites these risks it is possible that the financial losses from regulations are not excessive. There are a multitude of other negative shocks which could be larger in importance for a company's profitability, such as a drop in product demand, exchange rate fluctuations, or a trade depression. This chapter examines the financial losses to the East India Company from securing its monopoly. Specifically it will examine the effects of the events reviewed in the last chapter, namely interlopers seeking to enter its market and the effects of forced loans and extractions by the king. The evidence suggests that the Company suffered financial losses from attacks throughout the 1600s and the early 1700s. The most notable events from the mid-1720s were the forced loans, but these appear to be less significant in terms of financial losses. Overall these findings support the broader conclusion that the institutional environment of the seventeenth century was less favorable to protection of monopoly rights.

There are several empirical challenges in assessing the financial costs to companies from government regulations and opportunistic behavior by interest groups. The first is to identify predatory events affecting companies. In the East India setting this is less of problem because the historical sources reviewed in the previous chapter give detailed records on what decisions the king and parliament made with respect to the East India Company. The second challenge is to identify an appropriate financial metric to evaluate regulations. Fortunately, there is rich data on the East India Company's share prices, assets, and other financial variables to draw upon. The third and most difficult challenge is to control for other shocks to the Company. I address this issue below by incorporating variables which proxy for domestic shocks, like population growth and inflation. I also use the Dutch East India Company as a control group for the English East India Company.  The Dutch Company operated in some of the same Asian markets as the English Company but it did not experience the same domestic political shocks as the English, at least not at the same times. Therefore, the English Company's performance relative to the Dutch nets out some of the effects of shocks in the Asian markets.

The best place to begin is by studying the Company's share price. Figure 4.1 reports the annual share price of the Old East India Company up to 1709 and the United East India Company afterwards. The share price data before 1693 are based on individual observations collected by Scott and there are no observations in several years.[74] These data need to be read with some caution. By contrast the data after 1693 are based on daily and weekly price quotes and are quite robust. The first impression is that the share price fluctuated significantly at various points in the Company's history. The fluctuations of special note in the seventeenth century are the share price declines in the 1620s, the rise in the late 1670s, and the collapse in the 1690s.

[74] The share prices for the Company up to 1709 are taken from Scott, Constitutions and Finance, Vol II, pp. 123-128, 177-179. The share prices after 1709 come from Global financial data and are based on daily stock prices in the Course of Exchange.

**Figure 4.1 stock price old east india company 1601-1709 and United Company, 1709-1823**



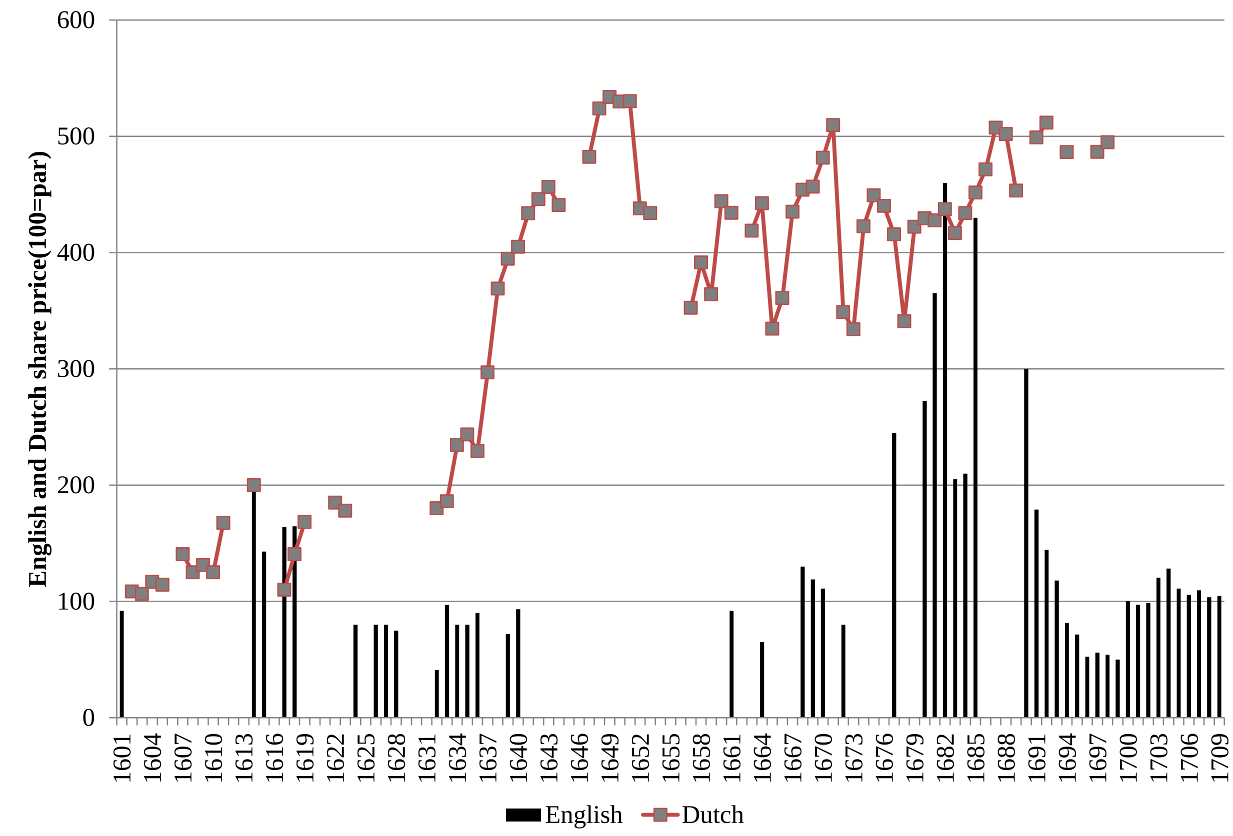

Sources: see text.

Figure 4.2 focuses on the seventeenth century and compares the Old English East India Company's share price with the Dutch East India Company share price, which is available on a nearly annual basis from 1602 to 1698.[75] There is a noticeable drop in the English Company's share price in the late 1620s relative to the Dutch Company. The English share price remains low relative to the Dutch price through the 1630s and does not return to parity with the Dutch until the late 1670s. The long depression in the English Company's share price coincides with James I

[75] The Dutch share price data are for the Amsterdam chamber and are quoted in Amsterdam. The data come from Lodewijk Petram, "The world's first stock exchange: how the Amsterdam market for Dutch East India Company shares became a modern securities market, 1602-1700," unpublished Ph. D. dissertation, University of Amsterdam. Downloadable at: http://dare.uva.nl/document/201694

and Charles I's attacks on the Company and the repeated entry of interlopers linked to the Courteen Association. The absence of any share price data in the 1640s and 50s suggests there was no market in the English Company's stock which is also consistent with the high degree of uncertainty during the Commonwealth period. There is another large decline in the English Company's stock from the late 1680s to the early 1690s. In 1685 the English Company's share price is 95% of the Dutch price. Afterwards the English price would drop dramatically relative to the Dutch price. In 1691, 1694, and 1697 the English price is 35%, 16%, and 11% of the Dutch price respectively. The dramatic decline in the English prices mostly likely reflects the greater fiscal extraction and the resources spent fighting the entry of the New Company in the early 1690s. It also represents the potential loss of the Company's monopoly trading privileges and the ramifications for future profits. From 1696 to 1697 the chances of the Company losing its monopoly privileges must have appeared high to investors.  The stock price reached its lowest point in these years at 52-55 a share, which represented a 90% decline in the English price relative to the Dutch price in late 1680s.

**Figure 3.2 English and Dutch East India Share Prices, 1601-1709**




Sources: see text.

Another potential explanation for the decline in the English Company's share prices would be some negative shock to the British domestic economy that was not shared by the Dutch economy. I assess this possibility by comparing the time series on share prices with a series on population growth and inflation rates from 1660 to 1709 (see figure 4.3 and 4.4). In both cases there is no reason to conclude that changes in inflation or population growth can explain the deep decline in English company share prices.

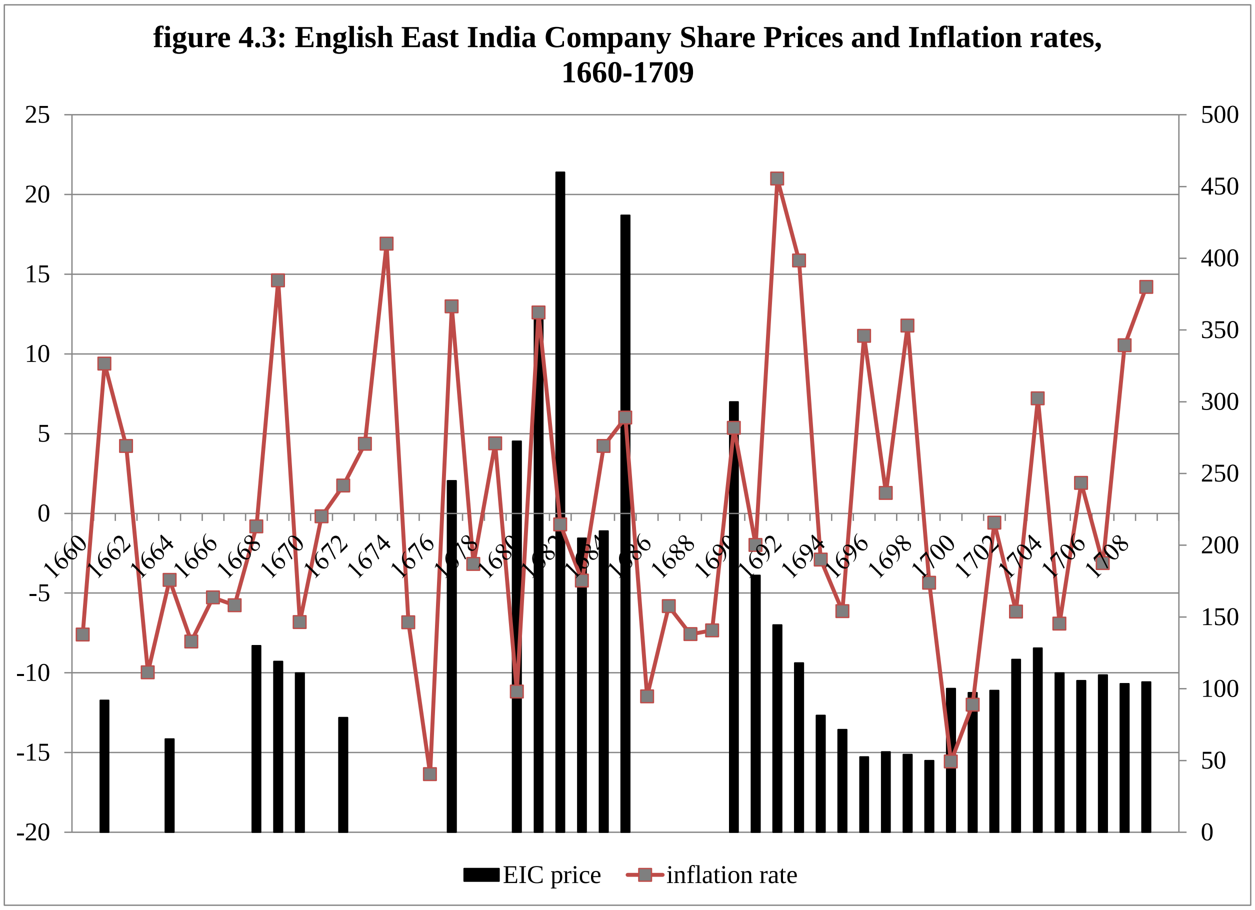
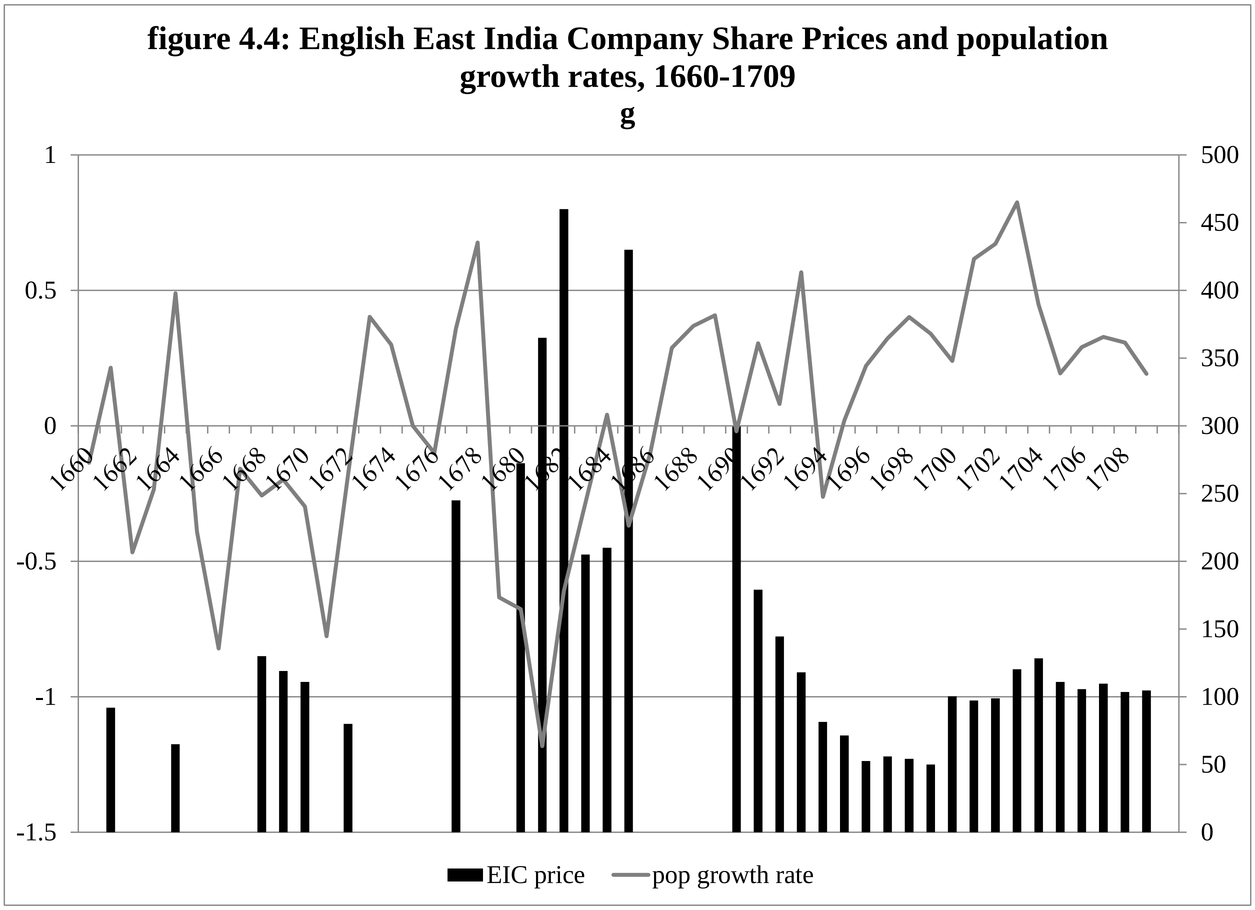


figure 4.3: English East India Company Share Prices and Inflation rates, 1660-1709
25
20
15
10
5
0
-5
-10
-15
-20
500
450
400
350
300
250
200
150
100
50
0
1660
1662
1664
1666
1668
1670
1672
1674
1676
1678
1680
1682
1684
1686
1688
1690
1692
1694
1696
1698
1700
1702
1704
1706
1708
EIC price
inflation rate




The decline in English Company's net assets provides further evidence that the Company suffered financial losses from attacks by the government and interlopers in the 1690s (see panel A in table 4.1). From 1671 to 1685 assets minus liabilities increased dramatically for the Company, notably at the time its share price also increased. Then from 1685 to 1698 assets fell by just under £900,000 and liabilities increased by just over £300,000 resulting in a loss in net assets of £1.2 million. The decline in assets is mainly due to the reduction of liquid capital like inventories and short term debts to the Company. However, the value of the Company's 'dead capital,' which mainly represented fortifications in India, also decreased (see panel B in table

4.1). The increase in liabilities was the result of the Company's greater borrowing, which was necessitated by the campaign against the New Company. Scott estimates that the Company spent upwards of £200,000 in bribes to MPs and King William in the early 1690s which can account for much of the £300,000 increase in liabilities.[76]

The deterioration of the Old East India Company's assets continued from 1695 to 1703, while liabilities increased slightly. Again the decline in assets came from a loss of dead capital and but mainly though liquid assets. It was in this period that the Old Company spent resources influencing the parliamentary elections of 1698 and January 1701.[77] There are no estimates on how much was spent but it is plausible that the parliamentary campaign accounts for much of the loss in net assets. The New Company was in better financial condition and when combined with the Old Company the two have positive net assets, albeit much less than in the 1670s and 80s.

[76] Scott, Constitutions and Finance, Vol II, p. 160.
[77] Horwitz, Henry, 'The East India Trade, the Politicians, and the Constitution: 1689-1702.'

Table 4.1: The value of Net Assets and Dead Capital, East India Company

Panel A: Value of Net Assets in £

| year | | Assets | Liabilities | Net Assets |
|---|---|---|---|---|
| 1664 | | n/a | n/a | 495,735 |
| 1671 | | 1,007,113 | 398,276 | 608,837 |
| 1678 | | 1,750,000 | 500,000 | 1,250,000 |
| 1683 | | 2,543,056 | 870,185 | 1,672,871 |
| 1685 | | 3,206,777 | 783,890 | 2,422,887 |
| 1695 | | 2,336,483 | 1,110,981 | 1,225,502 |
| | | | | |
| year | Old East India Company | | | |
| 1703 | | 850,011 | 1,249,807 | -399,796 |
| | | | | |
| year | New East India Company | | | |
| 1703 | | 988,500 | 332,400 | 656,100 |
| | | | | |
| year | Combined Both East India Companies | | | |
| 1703 | | | | 256,304 |

Panel B: Value of Dead Capital, Old Company

| | |
|---|---|
| 1657 | 20,000 |
| 1678 | 216,483 |
| 1685 | 719,464 |
| 1695 | 637,193 |
| 1702 | 400,000 |

Sources: Net Assets: Scott (1911), p. 132, 134, 138-139, 145, 147, 160-3, 175, 188,
Sources: Dead Capital: Scott (1911), p. 129, 138-39, 147, 163, 170.

*The financial costs of Forced Loans in the eighteenth century*

The Company was forced into making several large loans to the government in 1698, 1708, and 1744. While these were potentially costly to the Company they turned out to be less significant than the campaigns against interlopers. The Company financed loans to the government in large part by borrowing itself. In the eighteenth century the Company's outstanding debt was several million pounds, which is in the same range as its debt to the government.[78] Putting aside issues of rationing, as long as the interest rate the Company paid to its borrowers was lower than the interest rate the Company received from the government then there was no clear cost to the Company from forced loans. The Company's borrowing rates are estimated from the nominal interest rate of East India bills published by Pressnell.[79] The interest rate paid by the government to the Company is provided by the House of Commons report, *Public Income and Expenditure*. These rates changed at discrete moments following acts of parliament in 1698, 1708, 1730, and 1744. A comparison of the rates paid and received by the Company is given in figure 4.5. The average rate on East India Bonds is generally equal to or below the rate it received from the government for its loans.  However, from 1708 to 1716 the Company paid more in interest than it got from the government, suggesting that forced loans were costly in this eight-year period.

[78] Pressnell, the Rate of Interest.'

[79] The nominal rate and the yields on bonds were very similar. See, Pressnell, the Rate of Interest. pp. 211-214.

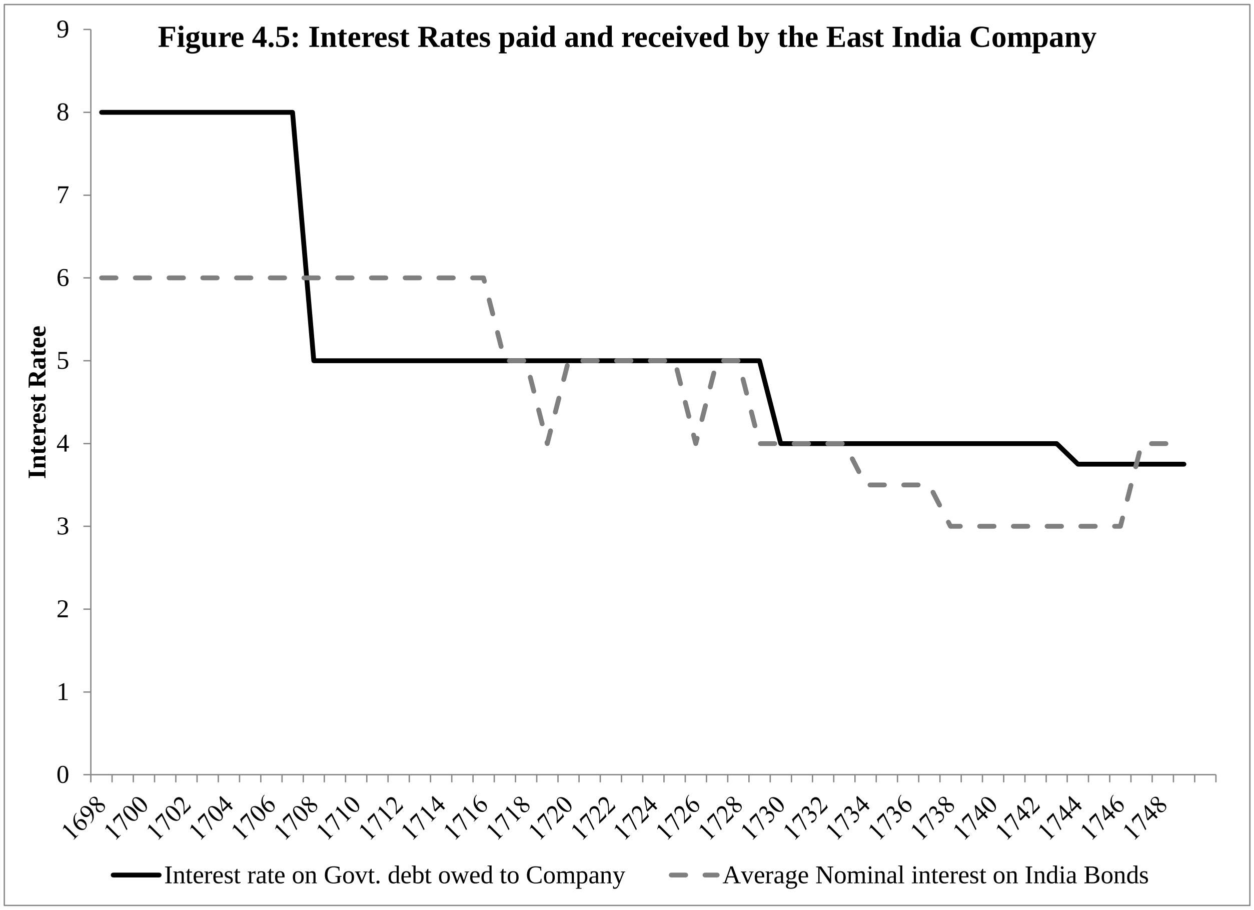



**Figure 4.5: Interest Rates paid and received by the East India Company**

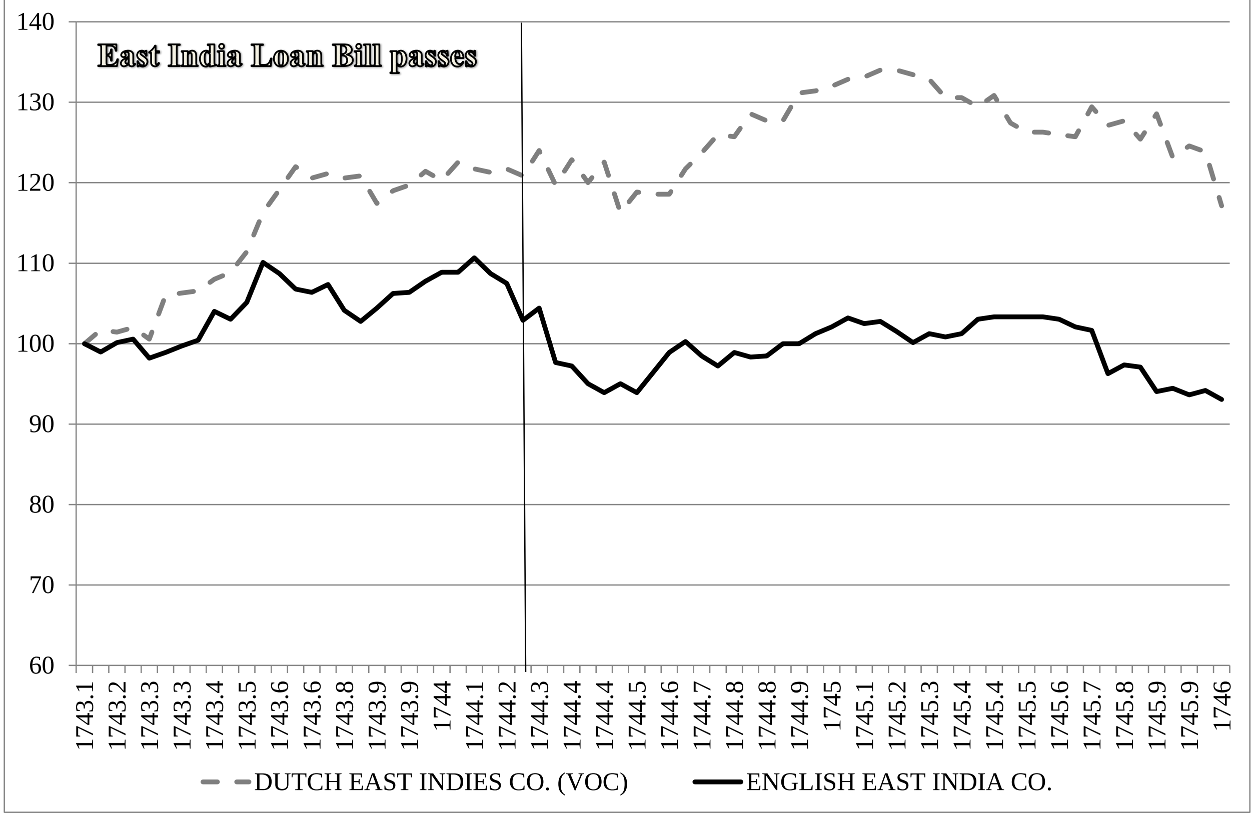
Sources: see text.

The change in Company share prices following the loan of 1744 provides another metric to study the degree of financial losses from forced loans. In this particular episode there is monthly price data on the English and Dutch East India Companies.[80] Figure 3 shows the share price of the two Companies 1.5 years around March 1744 when the bill was passed calling for the Company to lend the government £1,000,000. The English East India Company's price falls relative to the Dutch price immediately before the bill passes, presumably because the outcome of the bill was known somewhat in advance. More telling is that the share price continues to fall after March 1744. The relative decline in the share price of the English Company in the four

[80] See VAN DILLEN, "EFFECTENKOERSEN AAN DE AMSTERDAM BEURS."

months following March is 9%. The loss in market value indicates that loans generated some costs to the Company, but it was not as large as the contest with the New Company in the 1690s. Recall that in the early 1690s the Company lost 90% of its value relative to the Dutch.

**Figure 4.6: English and Dutch East India Company Share Prices before after the loan of 1744**




Sources: see text.

This chapter provides evidence that the East India Company did indeed suffer financial losses from attacks by interlopers and the government.  The losses are reflected in the English East India Company's share price relative to the Dutch East India Company. The English Company's share price fell steeply in the 1620s and 1630s relative to the Dutch when its monopoly privileges were under regular attack. The English Company's price also fell sharply in the 1690s when interlopers began their campaign against the company after the Glorious Revolution. The English Company's net assets also declined in the early 1690s losing half their value by 1695 and nearly all their value by 1702. By comparison the effects of forced loans in the eighteenth century were less consequential.  With the exception of the years around 1710, the Company was able to borrow at a lower interest rate than the interest rate it received from the government as a lender. Also its share prices declined relatively less when the government forced a large loan on it in 1744.

Stock prices and asset values provide an important metric for evaluating the effects of interloper and government attacks on the Company. Another metric is the Company's investment in shipping capacity. The next chapter turns to this issue.

## Chapter 5: Security and the East India Company's Investment in Shipping

Standard economic theories predict that firms are more likely to investment in physical capital when their property rights are secure. In fact, insecure property rights are often seen as one of the main factors leading to under-investment and ultimately lower levels of economic development. If these theories are applied to the East India Company then one would expect that the Company invested less in capital when there was a higher threat of an attack from interlopers and the government. One might also expect that in 'high-threat' periods the English East India Company's productive capacity fell behind its rivals in the Asian market like the Dutch East India Company. In this chapter, I examine these predictions by studying the East India Company's investments in shipping tonnage. I also compare it shipping investments by the Dutch East India Company. Briefly, the data show that the English Company's shipping capacity fell significantly in the 1690s when the Company faced a variety of attacks from interlopers and the government. It was also in the 1690s that the English Company's shipping capacity declined significantly relative to the Dutch Company. Other events also contributed to lower investment by the English Company. For example, the end of Queen Anne's reign and the succession of George I of Hanover is associated with a drop in English capacity. These results accord with the findings of earlier chapters, but they are at odds with some aspects of the British economic history literature. After reviewing the data patterns for the East India Company, I return to the implications for the literature.

Shipping services were the core business activity of the East India Company up to the mid-eighteenth century. Company ships were loaded in Britain with cargo that included a variety of British manufactured goods and bullion. They then sailed for Asia arriving at Company factories in diverse locations such as India and China. There the ships would be unloaded and after a period of time they would be reloaded with various Asian goods like pepper, tea, and Indian textiles. The ships would then set sail for Britain and would arrive approximately one year after they originally left Britain. There were many complications along the voyage. Ships were lost due to storms or they were taken by enemies from other European Companies as well as some Indian traders. The ships also required maintenance to deal with the pestilence of tropical waters.

Every year the Company's directors had to make a decision about whether to replace worn out or lost ships and also whether to expand the shipping tonnage employed by the Company. Among other things, the expected additional profit that came from replacing or adding shipping tonnage depended on the regulatory environment. The Company might be less likely to invest in tonnage if it feared that it would lose its monopoly privileges in the near future. In case of such an event the Company might have to sell its ships and then they would almost certainly take a loss. The Company might have also faced borrowing constraints when it was forced to make loans to the government. As discussed earlier the Company often borrowed to finance investments in shipping, but in uncertain times lenders might not have been willing to assume such a risk. Therefore there is potentially a link between shipping investment and events surrounding the Company's monopoly and property.

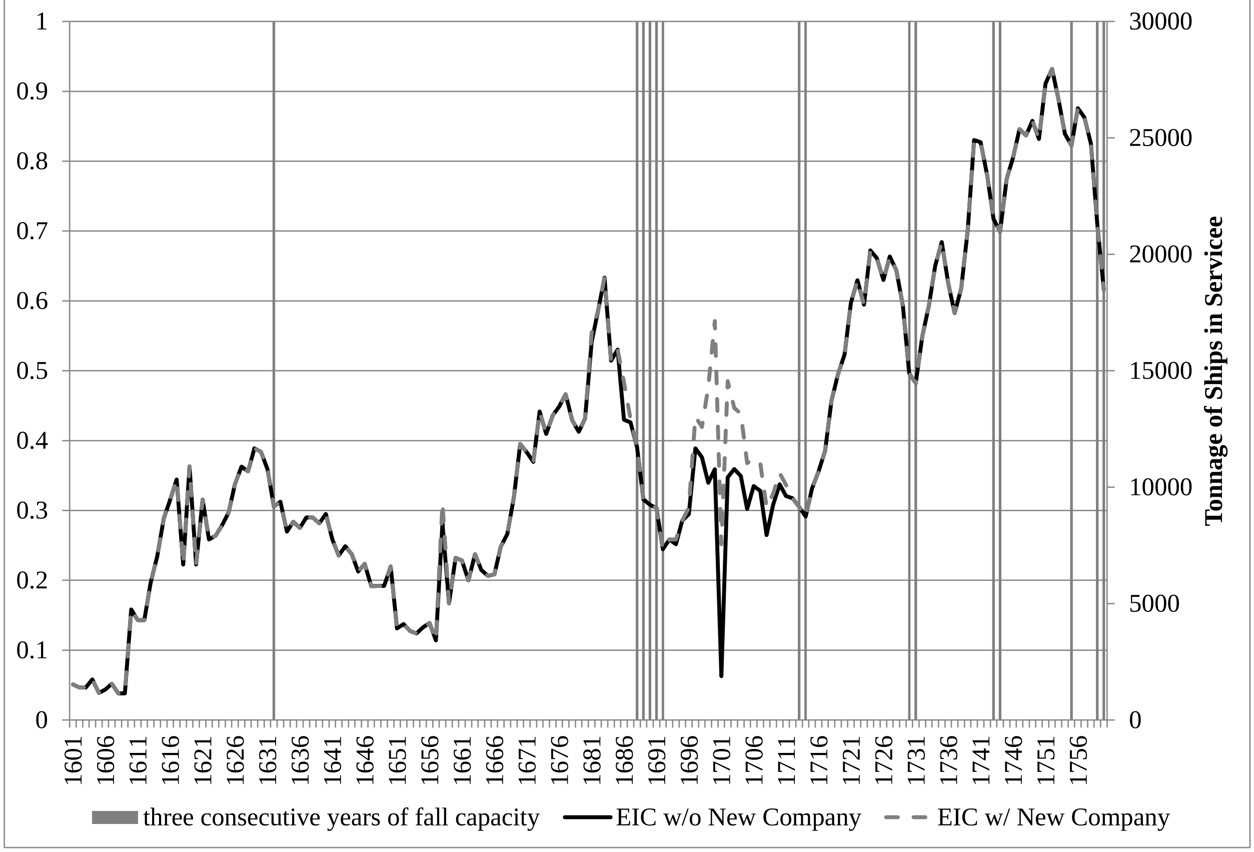
The outcomes of the directors' investment decisions are documented in the Company's shipping logs which state the number of ships that set sail from Britain every year. Jean Sutton has collected and summarized the available data on the East India Company's ships.[81] The

[81] Sutton, Lords of the East.

Sutton data includes the name of every ship employed by the Company, the first and last year it set sail from Britain, its tonnage, and whether the ship had a special ownership status as a merchant ship, a private ship, a ship sailing under permission of the Company, or a New Company ship. I estimate the amount shipping tonnage employed by the Company in any year using Sutton's data on the listed tonnage of each ship and the first and last year of its sailing. To be more specific, I identified all ships in Sutton's data that set sail for the first or last time in a year, say 1654, along with all ships that set sail in some previous year and sailed for the last time after the year of interest, such as a ship that first sailed in 1653 and last sailed in 1658. The aim is to count the tonnage for all ships that were employed in single year. Some error could be introduced because there could be missing ships. Moreover, there is an assumption that once a ship sets sail for the first time, say in 1653, it continues to be utilized by the Company until the last year it sets sail, say in 1658. This need not be the case if the ship sits idle in Britain or in Asia.

The resulting estimate of the East India Company's shipping tonnage level is shown in figure 5.1. The solid dark line represents the Old Company's shipping tonnage level minus private shipping tonnage and New East India Company shipping tonnage before 1709. After 1709 the sold dark line represents the United East India Company's shipping tonnage. The dotted grey line adds New Company shipping tonnage to the Old Company to illustrate the combined investments of the two Companies in the 1ate 1690s and early 1700s. The grey bars in the figure show 'contraction' years, which are defined as 1 if the three previous years each had declining shipping tonnage over the previous year. For example, 1691 is a contraction year if tonnage fell in 1690 to 1691, again in 1689 to 1690, and again in 1688 to 1689. What is striking from the figure is the prolonged contraction in shipping tonnage levels starting in 1688. As argued earlier the 1690s were a very difficult period for the Company because it suffered large financial losses from the fiscal extractions by the government and attacks from interlopers. It would appear that these events also led the Company's directors to significantly cut back on investment in shipping capacity.

**Figure 5.1: Tonnage of East India Company Ships in Service, 1600-1760**




Sources: see text.

There are other contraction years that are related to attacks on the Company's monopoly and property. The contraction year of 1632 followed the failed 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. It marked the beginning of a ten-year period where King Charles I sided with interlopers, like the Courteen Association. The contraction years of 1713 and 1714 are linked with the conflicts between the Whigs in the Company and the unfavorable Tory majority in the Commons and Queen Anne's cabinet. Note also that in these years the Company borrowed at a higher interest rate than it received from government loans indicating that forced loans could crowd out investment. It appears from the shipping data that they did as tonnage contracted in the early 1710s. The contraction year of 1730 is notable as it was associated with the failed attempt by interlopers to revoke the monopoly and it was the year when the Company was forced to contribute £200,000 to the King George II's treasury. The contraction years of 1743 and 1744 are linked with the Company making its last large loan to the King. In short, contraction years appear to be linked with events relating to interlopers and fiscal extractions.

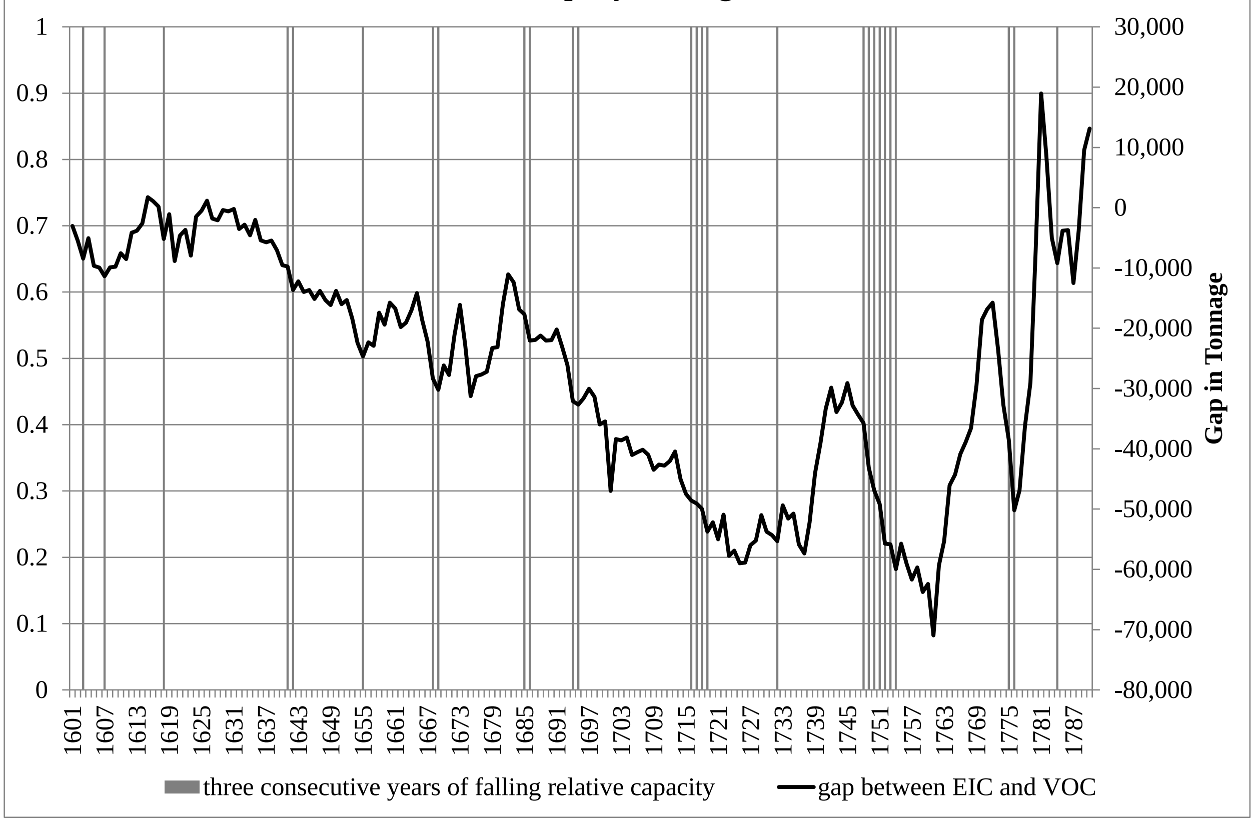
The investments of the English East India Company can be usefully compared with the Dutch East India Company. The two Companies competed in some of the same markets and so their relative tonnage speaks to the productive capacity of two competitors. The Dutch Company also shared some of the shocks in East Indian market as the English Company and so a comparative analysis controls for some factors that are absent in studying the English Company alone. Of course, it also introduces shocks that are idiosyncratic to the Dutch Company.

In order to carry out the analysis it is necessary to create a comparable tonnage series for the Dutch East India Company. Fortunately, there is a highly detailed study on the ships of the Dutch Company by Bruijn, Gaastra, and Schöffer. They provide data on the characteristics of Dutch ships and their individual voyages in every year.[82] From their data I constructed a time series on

[82] See http://resources.huygens.knaw.nl/das/index_html_en for online data.

the tonnage employed by the Dutch Company in every year from 1601 to 1790. As my main interest is in the English Company's shipping relative to the Dutch, Figure 5.2 below shows the series for English shipping tonnage minus Dutch shipping tonnage. I refer to this series as the English tonnage lead and the former as the English tonnage level. Note also that this graph extends the time period to 1790 as it is useful to show the long-run outcome before the Dutch Company exited the market in the mid-1790s.

**Figure 5.2 Gap between English East India Company tonnage and Dutch East India Company Tonnage, 1601-1790**




Sources: see text.

The most striking aspect of the tonnage lead series is its steady decline from the early 1600s to the 1720s. In other words, the English Company's shipping capacity was falling behind the Dutch Company's capacity throughout the seventeenth and early eighteenth centuries. The trend reversed in the 1730s and 1740s as the English Company caught up, before falling behind again in the 1750s. Eventually the English Company would catch up and surpass the tonnage of the Dutch Company in the 1770s and 80s.

There are some similarities between the English tonnage lead and the English tonnage level in terms of contraction years. The mid-1690s show a fall in the English tonnage lead and in the tonnage series, again suggesting a role for the attacks on the Company following the Glorious Revolution. The English tonnage lead and English tonnage level both fall in the mid-1710s suggesting some common effect from the end of Queen Anne's reign and the start of the Hanoverian period. The early 1730s also show a fall in the tonnage lead and level, possibly associated with the English Company's contribution to the English king's treasury.

The English tonnage lead series shows some additional contraction years which are not present in the English tonnage level. Many of these are linked with regime changes that sometimes led to attacks on the English Company. For example, there is a contraction in the English tonnage lead in 1641, which is significant because 1641 is the start of the English Civil. There is another contraction in 1655 which is shortly after Oliver Cromwell emerges as the leader of the Commonwealth government. There is a contraction in 1685 following the coronation of James II. Not incidentally 1685 also marked the beginning of a war between the English Company with the Mughal emperor. In general, there is an association between contractions in English shipping tonnage and events which lowered the security of the English Company's monopoly and property.

*Implications for the Literature*

Some scholars argue that Britain's property rights became more secure over the eighteenth century, especially following the Glorious Revolution of 1688.[83] According to this view investment should have increased in the eighteenth century, and especially following 1688. In my previous research I provide some evidence for this claim by showing that investment in roads and rivers increased substantially in the mid-1690s shortly after the Glorious Revolution.[84] But aside from this evidence, little data has been brought to bear on this topic. There is still a stream of thought in the literature that Britain's property rights were well protected throughout the seventeenth and eighteenth centuries, or at the very least the threat of insecurity is over-stated. Two leading proponents of this argument are Clark and Epstein. According to their arguments investment trends in Britain were unaffected by political events such as the Glorious Revolution.[85]

The findings for the East India Company modify these views in important ways. First, they provide additional evidence that politics mattered for some investment projects. As we have seen the Civil War, the Glorious Revolution, and the Hanoverian Succession are linked with fluctuations in investment. Second, and most important, the case of the East India Company shows that over the short-run the Glorious Revolution was not conducive to all forms of investment. There is clearly a drop off in the Old East India Company's shipping investment in the early 1690s. It was partly offset by the extra investment of the New East India Company in the late 1690s and early 1700s, but together they did not reach pre-1685 tonnage levels until 1720. As I shall argue in the next few chapters, the key to understanding the effects of the Glorious Revolution is to see that it was partly a regime-change similar to the Civil War and

[83] North and Weingast, 'Constitutions and Commitment'
[84] Bogart, Did the Glorious Revolution Contribute to the Transport Revolution?
[85] Epstein, S.R., *Freedom and Growth*, pp. 22-37 and Clark, 'Political Foundations'.

Restoration, and partly an event with long-lasting effects on the British constitution. I now turn to these issues.

## Part II

The following are snippets of chapters.

### Chapter 7: A theoretical Framework for Studying the Company's rights

To be written.

### Chapter 8: The Company in the Aftermath of the Glorious Revolution.

The Glorious Revolution has received special attention in the literature on politics, institutions, and property rights in Britain, yet much of this literature is in disagreement as to how the Revolution mattered. The history of the East India Company provides new insights. As we have seen the Company's monopoly trading privileges were taken away. The king and parliament jointed together in cancelling the Old Company's trading privileges. The Old Company also lost substantial assets and market value. One immediate conclusion is that the Revolution made some property rights *less* secure, at least in the short-run. As this conclusion runs counter to the argument that the Revolution made property rights more secure, it is worth taking a closer look at the events of the 1690s and early 1700s. My argument is that the political and fiscal instability following the Glorious Revolution provided the immediate impetus to the Company losing its rights, but it was the weak legal protections provided by the Company's royal charter which made it vulnerable to an attack

During the seventeenth century the Company's rights were specified in a series of royal charters in 1600, 1609, 1657, 1661, and 1694. One of the most important was the Company's monopoly trading privileges. Some charters granted them for a specific term and others made them indefinite; however, all of them contained a provision that the king could void the trading the privileges upon two to three years notice. Table 8.1 shows the provisions of the charters relating to the term of the monopoly privileges and the language under which they could be revoked. Based on the wording of the charters, the king's government could make a variety of arguments justifying revocation. Such an action was taken in 1697 when the Company was given three years notice that its monopoly trading privileges were cancelled. The Act of Parliament taking this action did not provide a justification, but in the parliamentary debates the main justification was that a New Company would be more profitable to the King and realm.[86]

[86] Horwitz, 'The East India Trade.'

Table 8.1: Summary of Provisions in Charters relating to the Monopoly trading Privileges

| Year of charter | term of trading privileges in years | Proviso for revoking trading privileges |
|---|---|---|
| 1600 | 15 | 2 years notice if the grant is not profitable to the King or his heirs and successors, or to the realm |
| 1609 | indefinite | 2 years notice if the grant is not profitable to the King or his heirs and successors, or to the realm |
| 1661 | indefinite | 3 years notice if the grant is not profitable to the King or his heirs and successors, or to the realm |
| 1694 | Indefinite | 3 years notice if the grant is not profitable to the King or his heirs and successors, or to the realm |

Sources: Charters Granted to the East-India Company From 1601,Also The Treaties and Grants, Made with, or obtained from, the Princes and Powers in India, From the Year 1756 to 1772 (London, 1773), pp. 25-26, 52, 78, 148, 168, 181

The Old Company's weak legal protections made them vulnerable to an attack, but this did not necessarily imply that it would lose its trading rights. The unstable political environment of the 1690s provided the immediate impetus. In the 1690s King William was the head of the British government, but he had to govern in conjunction with the Whigs and Tories, who often did not agree on policy. Political parties emerged in the 1670s and 80s during the Exclusion crisis. The Whig party favored excluding James Stuart from the throne because of his Catholicism and constitutional views on the monarchy. The Tory party formed to oppose exclusion because it represented too great an incursion into royal authority. After the Revolution, these differences persisted with the Tories supporting the royal prerogative and the interests of the Church of England. The Whigs believed in a contractual view of the monarchy and favored religious toleration for dissenters from the Church of England.[87]

In the 1690s the Whigs and Tories were engaged in a fierce partisan struggle for control over the House Commons and King William's ministry.[88] 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. One of the most powerful Whigs was Charles Montagu, who held the office of Lord Treasurer and Chancellor of the Exchequer from 1697 to 1699. The Whigs aggressively pushed their policies and purge 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 Tories were led by Sidney Godolphin, who held the post of Lord Treasurer. King William died in 1702 and Britain's political system entered a new period of partisan struggle that would last beyond Queen Anne's death in 1714.

The shifts in political power mattered for the East India trade because the Company was strongly connected to the Tories and its opponents were more strongly linked with the Whigs.[89] An analysis of the actions of MPs and their party affiliation shows the difference in political connections. The actions of MPs relating to the East India Company can be found in the biographies of every MP edited by Cruickshanks, Handley, and Hayton in the *History of*

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[87] Harris, *Politics Under the Late Stuarts*.
[88] See Cruickshanks, Eveline, Stuart Handley, and D.W. Hayton. 2002. *The House of Commons 1690-1715* and Horwitz *Parliament, Policy, and the Politics in the Reign of William III.*
[89] Horwitz, Henry, 'The East India Trade, the Politicians, and the Constitution: 1689-1702.'

*Parliament* series.[90] I carried out a keyword search to identify whether an MP spoke or told on a bill or a motion that was 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 similarly another indicator if the MP acted against the Company at least once in a session. I also use a new dataset 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.[91] The results are shown in table 8.2. In the 1690-95 and 1701 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. Similarly 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 a reversal of the party in power could bring an end to the Company's monopoly 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 1695-1700 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. Besides Montagu the New Company had other powerful Whig allies in the Commons which helped it overturn the Old Company's monopoly. Also telling is the fact that the Old Company was able to force a merger with the New Company in 1701 when the Tories

[90] See Cruickshanks, Eveline, Stuart Handley, and D.W. Hayton. 2002. *The House of Commons 1690-1715* http://www.historyofparliamentonline.org/research/members
[91] See Bogart, "Whigs and Tories: Party Representation in English and Welsh Constituencies, 1690-1740.'

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.

Table 8.2: MPs acting for or Against the Company and their Party Affiliation

Panel A: 1690-95 Parliament

| Session | # favoring EIC | # against EIC | # favoring EIC, tory | # against EIC, tory |
|---|---|---|---|---|
| 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 | 6.6E-05 | | | 0 |

Panel b: 1695-98,98-1700 Parliaments

| Session | # favoring EIC | # against EIC | # favoring EIC, whig | # against EIC, whig |
|---|---|---|---|---|
| 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 | 6.6E-05 | | | 0.003 |

Panel c: 1701 Parliament

| Session | # favoring EIC | # against EIC | # favoring EIC, tory | # against EIC, tory |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| 1701 | 10 | 3 | 10 | 0 |
| Share Tory | | | 1 | 0 |

Sources: see text.

Fiscal instability was another factor leading to the Company's privileges being revoked in the 1690s. The Nine Years War against France brought new levels of government expenditure. To meet its fiscal needs, the government raised taxes and borrowing, including establishing the Bank of England in 1694. However, by 1697 expenditures were greatly outstripping revenues. Table 8.3 shows Dincecco's figures for government revenues, expenditures, and the deficit ratio (expenditures-revenues)/revenues from 1690 to 1701. The deficit was building from 1693 and reached new heights in 1697. 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 not been so large, then perhaps the Old Company's modest offer would have been accepted and its privileges would have remained intact.

Table 8.3: Fiscal Instability in the Reign of King William

| Year | Revenue in Gold Grams | expenditure in Gold Grams | Deficit Ratio |
|---|---|---|---|
| 1692 | 31.6 | 32.71 | 0.04 |
| 1693 | 29.08 | 42.87 | 0.47 |
| 1694 | 30.78 | 43.07 | 0.40 |
| 1695 | 31.78 | 47.82 | 0.50 |
| 1696 | 33.71 | 55.9 | 0.66 |
| 1697 | 23.05 | 55.32 | 1.40 |
| 1698 | 31.99 | 28.84 | -0.10 |
| 1699 | 36.93 | 33.55 | -0.09 |
| 1700 | 31.07 | 22.89 | -0.26 |
| 1701 | 26.95 | 24.61 | -0.09 |

Source: Dincecco, Political Transformations and Public Finances.

## Chapter 9: Legal, Political, and Fiscal Developments in the Eighteenth Century

The Company's rights became more secure over the course of the eighteenth century with fewer government supported attacks on the Company's trading privileges and fewer fiscal extractions. There were several developments of importance in the eighteenth century which contributed to greater security. The first involves the greater legal protections the Company gained through acts of parliament. After the mid-1690s the king conceded his authority to regulate the Company through royal charters, and it became accepted that acts of parliament were required. A key moment was the resolution by the House of Commons in 1693 that "all subjects of England have equal right to trade in the East Indies, unless prohibited by act of parliament." This principle carried over into the foundation of the New East India Company in 1697 and all subsequent renegotiations of the East India trade would occur through acts.

The eclipse of royal charters was important because acts of parliament had stronger legal protections regarding the revocation of the Company's trading privileges. In all regulating acts there was a provision that the Company's trading privileges could not be revoked until a fixed future year and not unless the government debts to the Company were repaid (see table 9.1). Royal charters in the seventeenth century did not guarantee the trading privilege for a fixed number of years as the king could revoke at any time if the Company was deemed unprofitable to the realm. The first two acts of parliament (1698 and 1708) gave the Company a relatively short fixed period at 13 and 18 years. Subsequent acts gave a longer fixed period at 21, 36, and 36 years respectively. The large size of the government debts which stood at £3.2 million following 1708 and £4.2 million following 1744 also made it less likely that the Company's trading privileges would be revoked.

Table 9.1: Summary of Provisions in acts of Parliament relating to the Monopoly trading Privileges

| Year of charter | term of trading privileges in years | Proviso for revoking trading privileges |
|---|---|---|
| 1698 | 13 | 3 years notice after 1711 if debts are repaid by Parliament |
| 1708 | 18 | 3 years notice after 1726 if debts are repaid by Parliament |
| 1712 | 21 | 3 years notice after 1733 if debts are repaid by Parliament |
| 1730 | 36 | 3 years notice after 1766 if debts are repaid by Parliament |
| 1744 | 36 | 3 years notice after 1780 if debts are repaid by Parliament |

Source: 9 William III, c. 44, 6 Anne, c. 71, 10 Anne, c. 35, 3 George II, c. 14, 17 George II, c. 17.

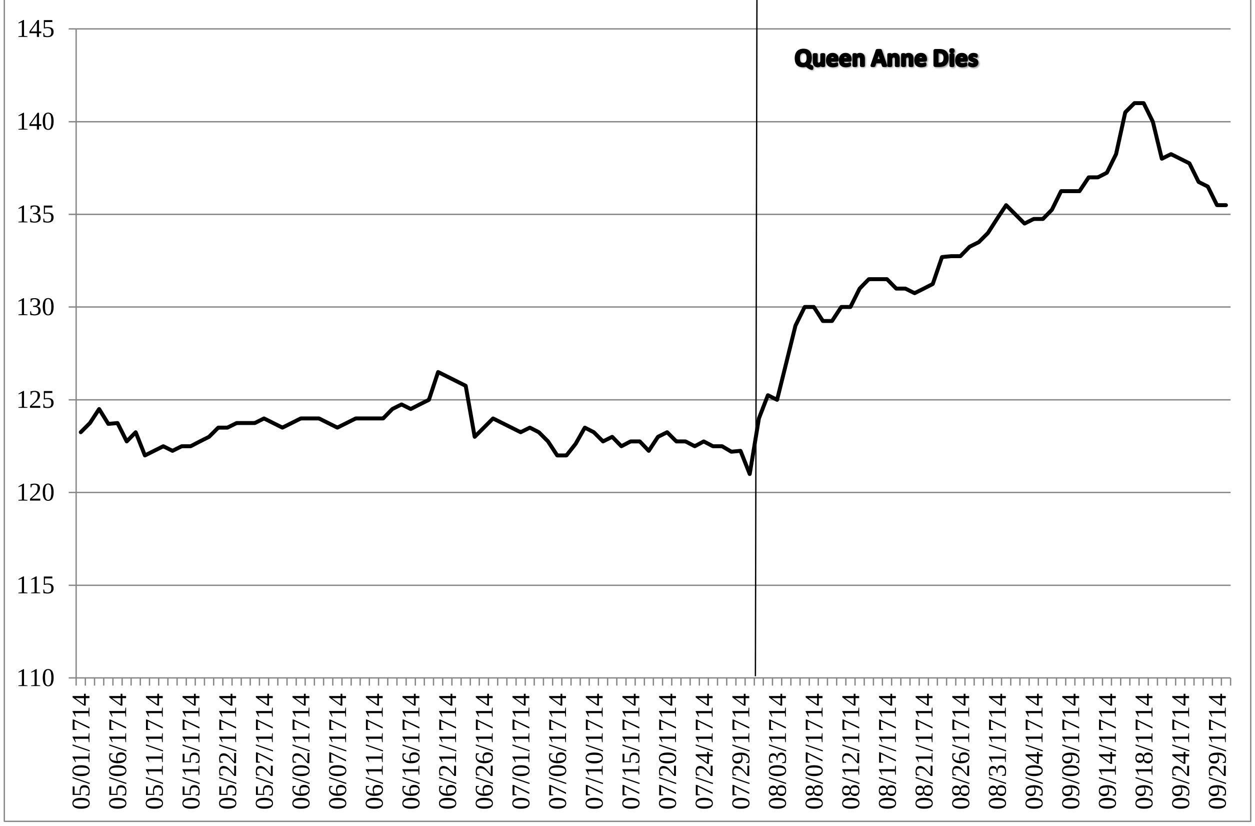
The greater degree of political stability in the eighteenth century was another factor that made the Company's rights more secure in the eighteenth century. Seventeenth century regime changes like the Civil War, the Restoration, and the Glorious Revolution were costly to the Company. As we have seen, government debts were cancelled, new taxes were introduced, and interlopers were emboldened following these regime changes. In the eighteenth century there were no regime changes of a similar magnitude to those in the seventeenth century. The reason according to many influential histories is that Britain had achieved a much greater degree of political stability by the mid-1720s.[92] As a side-benefit the Company was spared a number of attacks which followed previous regime changes.

[92] See Plumb, J. H., The Growth of Political Stability.

The transition to political stability was not immediate and a brief analysis of the 1710s is instructive as it reveals how instability associated with party strife could affect the Company. The potential costs of a partisan-motivated attack on the Company can be gauged by movements in the share price following the Hanoverian Succession of 1714. By the Succession Act in 1701 the crown was to pass to Queen Anne's closest protestant relative, George of Hanover. When Queen Anne suddenly went ill and died in the summer of 1714 the succession to the House of Hanover was now imminent. Moreover, King George I was known to be favorable to the Whigs which were more closely connected to the Company.[93] The effects on share prices of the new and more favorable Hanoverian regime are shown in figure 4.[94] The share price increases by 15% between August 1, 1714, when Queen Anne dies, and mid-September when George I arrives in Britain from Hanover. Therefore it appears that investors were optimistic about the Company's prospects under King George I and his Whig supporters. Their predictions were generally correct. The average daily share price from January 1, 1715 to December 30, 1750 was 168.3 compared to an average of 123.8 between January 1, 1709 and December 30, 1714. The Company's borrowing rates show a similar trend dropping below 6% after 1719 and falling to as low as 3% in the early 1740s (recall figure 2).

[93] Sedgwick, Romney, *The House of Commons 1715-1754.*
[94] The stock price data is from is available at Global Financial data, *https://www.**globalfinancialdata**.com/*, and is drawn from JOHN CASTAING, THE COURSE OF THE EXCHANGE, FROM JANUARY 1698 TO DECEMBER 1809.

**Figure 4: Share Prices East India Company Before and After Queen Anne's Death**

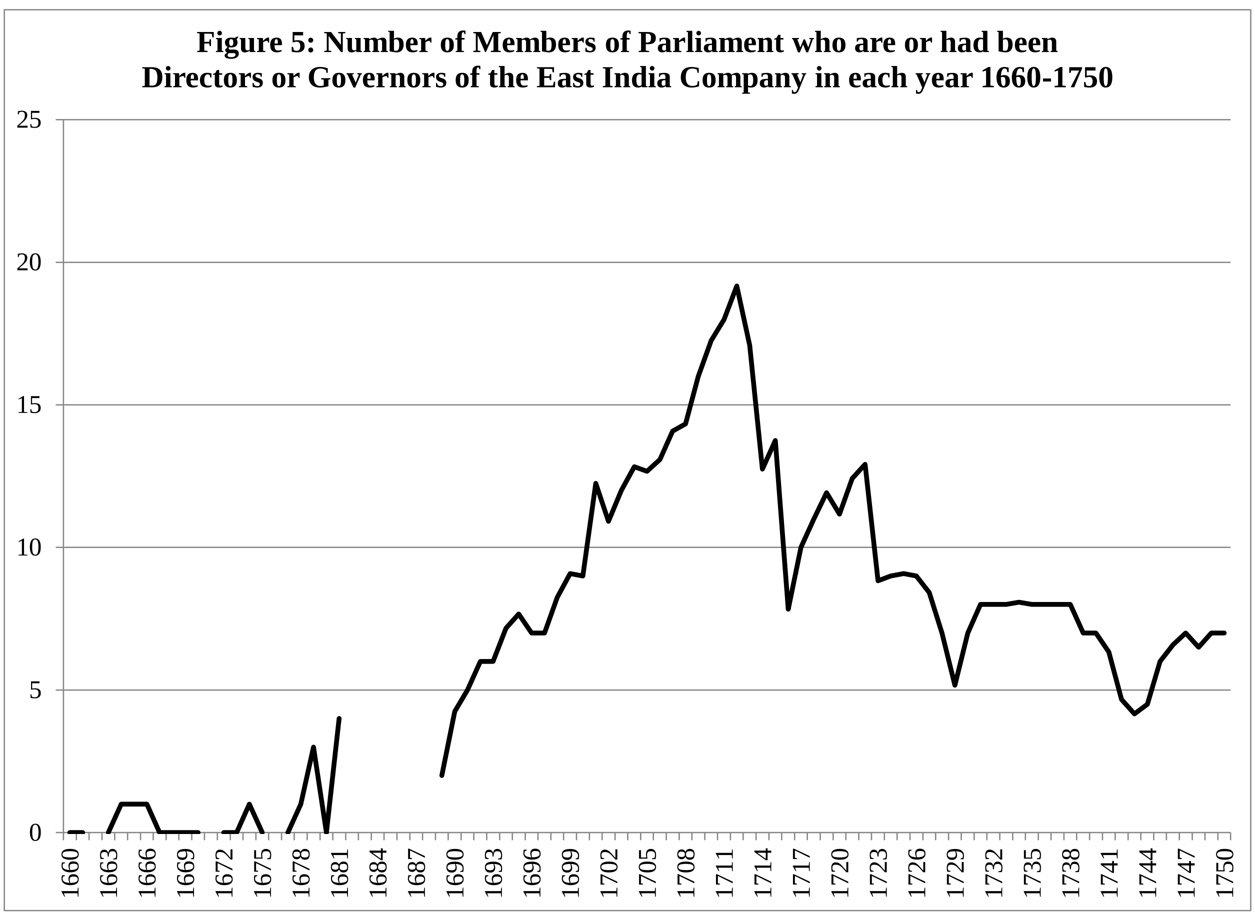



Sources: see text.

Another perspective is provided by the size of the Company's influence in the House of Commons. An MP could have various types of affiliation with the Company. They could be an investor, an officer, or a supplier. The most straightforward connection was a director or governor of the Company. Using the biographies in the *History of Parliament* series I identified all MPs that were directors or governors at any point in their life and then I calculated for each year the number of MPs that were currently a director or governor or had been one in the past.[95] The trends in the annual count of current and former Company directors and governors sitting in

[95] See Cruickshanks, Henning, Basil Duke. *The House of Commons 1660-1690;* Eveline, Stuart Handley, and D.W. Hayton. 2002. *The House of Commons 1690-1715*; Sedgwick, Romney, *The House of Commons 1715-1754* for the printed version of biographies and for the digital: http://www.historyofparliamentonline.org/research/members.

the Commons are instructive as they provide a measure of the Company's political influence and also its perceptions of the value of influence (see figure 5). The rise of Company influence in the 1690s is not surprising given the contest between the Old and the New Company in parliament. However, even after the merger was agreed upon in 1702 and implemented in 1709 the Company still had a large influence in the Commons. The peak for Company directors and governors was in 1712 and remained high for several years.  A new and lower 'steady state' of influence was reached in the mid-1720s that lasted to 1750. The pattern suggests that the Company perceived the value of influence in the Commons to be lower in the political stability of the mid-eighteenth century.

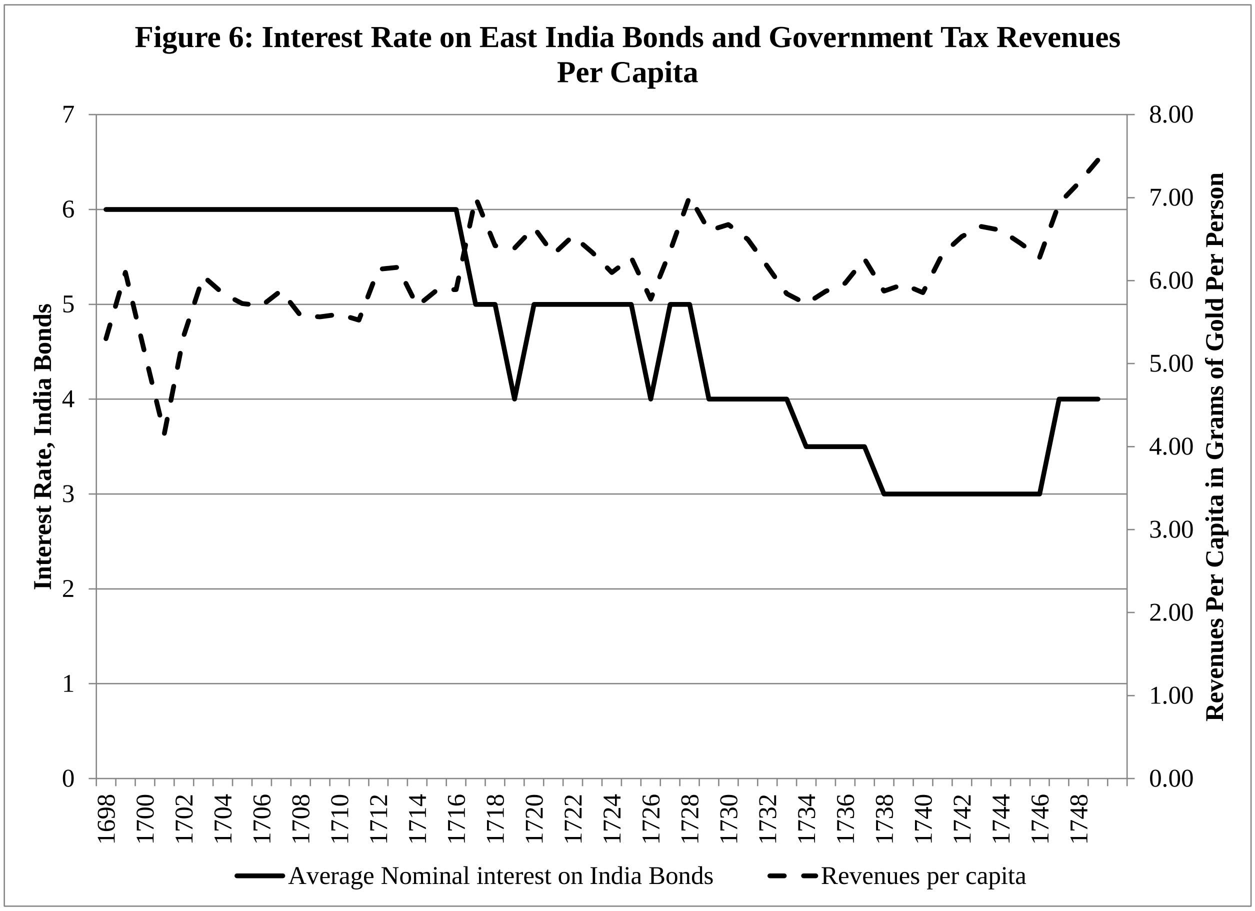


Sources: see text.

The final major development of importance in the eighteenth century was the growth of fiscal capacity. In the seventeenth and early eighteenth century the government often extracted from the Company in times of fiscal crises. As we have seen these extractions could be quite costly to the Company. Fiscal crises were less common by the mid-eighteenth century, even though the frequency and scale of warfare increased. The reason according to many historians is that the government's fiscal capacity was much greater in the eighteenth century. O'Brien and Hunt show that British central government revenues per capita increased by over 60% between 1690 and 1750. The revenue increases were achieved through a combination tax innovations, bureaucratic innovations, and political developments. [96]

As a consequence of greater fiscal capacity the government had less need to predate on the East India Company. Instead it could rely on conventional borrowing backed by tax levies. To examine the effects of greater fiscal capacity I follow the literature in studying the relationship between tax revenues per capita and the nominal interest rate the Company paid to its bondholders.[97] The patterns are shown in figure 6. There is a clear negative correlation (-0.46) between the two series suggesting that higher revenues were a factor in reducing the risks faced by the Company.

[96] O'Brien and Hunt, 'The Rise of the Fiscal State'; Gary Cox. "War, Moral Hazard and Ministerial Responsibility.
[97] See Dincecco, Political Transformations and Public Finances, for the literature on government bonds and fiscal capacity.




Sources: see text.

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