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THE EAST INDIAN MONOPOLY AND THE TRANSITION FROM LIMITED ACCESS IN ENGLAND, 1600-1813

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ABSTRACT

Many markets are limited by laws and customs enforced by political and religious authorities. North, Wallis, and Weingast (2009) argue that the transition from limited access requires a series of steps like rule of law for elites and the creation of perpetually lived organizations. This paper studies how these steps were taken in England in the case of the East Indian market. The East India Company had a legal monopoly over all trade between England and modern day India and China, but its privileges and property were far from secure. The king and parliament authorized interlopers to enter the Company's market and forced the Company to make loans to retain its monopoly. A secure monopoly only emerged in the mid-eighteenth century when political stability and fiscal capacity increased. However, liberalization of the market had to wait several more decades. A fiscal and political partnership between the government and the Company kept its monopoly stable until a confluence of events in 1813 brought it to an end.

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Markets have existed for at least as long as written records exist. History shows that markets have been the primary mechanism by which human needs and wants are met and satisfied. History also shows that many important markets are limited by laws and customs enforced by political and religious authorities. The most extreme limits range from bans on trade to prohibitions on migration to grants of monopoly. The result in all cases is that favored individuals and firms earn ‘rents,’ or an excess payment over and above the amount expected in open markets. The consequences of limited markets are not as simple as introductory economics suggests, but they generally result in a significant loss in social welfare.

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

Providing a satisfactory answer to this question is extremely difficult. The approach taken by North, Wallis, and Weingast (2009) is to use history to illuminate the transition. They propose three doorstep conditions in the transition from limited to open access: the rule of law for elites (doorstep 1), the existence of perpetually lived organizations (doorstep 2), and consolidated political control of the military (doorstep 3). Rule of law for elites is achieved when law is applied equally to all elites and is enforced without bias. In such settings, elite-owned assets and organizations are protected from predation even when the ruling coalition changes. Perpetually lived organizations are those whose existence is independent of the lives of their members. Companies formed under general incorporation laws are good examples of perpetually lived organizations, but there are many other examples in the public and religious spheres.

The aim of this paper is to study how the rule of law for elites and perpetually lived organizations emerged in England in the case of the East Indian market. As in many European countries, the trade between England and the East Indies (i.e. modern day India and China) started under a monopoly. The monarchy, who controlled foreign trade, wanted to encourage investments in shipping and fortifications and generate new tax revenues. Monopoly also contributed to political stability, at least in the short-run, because it provided rents to supporters of the monarch. The English East India Company is notable in the broader literature because it paved the way for Britain's colonization of India (Bowen 2005). The English Company is also notable for the longevity of its monopoly. Its trading privilege began in 1600 and was not significantly curtailed until 1813.

Despite its long history, the English East India Company's monopoly was far from secure, especially in the seventeenth and early eighteenth century. 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 king and parliament also forced the Company to lend it money or it demanded payments in order to retain its monopoly. As I argue below, political instability and fiscal incapacity were the root causes of the insecurity of the

Company's monopoly. The Company was politically connected, like most elite organizations, but these connections diminished when the government changed, as it often did in the seventeenth and early eighteenth century. Credibility was also weakened by the fiscal system which evolved slowly at this time. Warfare was also important as it made the monarchy desperate for loans, which the Company could best provide in the era before modern public finance.

What is remarkable about the East Indian monopoly is that it became more secure by the mid to late eighteenth century. Previously the Company's trading privileges were renegotiated according to the dictates of politics and finance. But after 1750 the monopoly was renegotiated only when the terms of the previous charter expired. Thus an important step was taken towards the rule of law for elites. The achievement of political stability under the Whig Oligarchy and the greater capability of Britain's fiscal and financial system were some of the key factors behind this step.

However, Britain had not yet reached the second doorstep condition, existence of perpetually lived organizations. The government still required the Company to renew its monopoly trading privileges after a term of 10 or 20 years. In the background of these negotiations there was always a threat that the government would revoke the Company's monopoly. In the charter acts of 1781 and 1793 the Company's strong political connections to the King's government and the governing party in the House of Commons helped to maintain its monopoly. The government was also keen to preserve the monopoly because it entered into a 'profit sharing' arrangement with the Company with the aim of extracting revenues from Indian territories.

A huge step was taken in the 1813 charter act where the Company lost its monopoly over trade with India. From that point forward, any private trader could enter the Indian market. The opening of access was due to several long term factors like the growing strength of the free trade lobby and the expansion of the fiscal system as a result of the Napoleonic wars. The assassination of the Prime Minister in 1812 also played a role. In the election that followed the Company's connections to the governing party in the Commons were much weaker than in previous years.

This paper contributes to a broader understanding of the transition from limited to open access. It complements studies in other markets and countries.[2] The paper also contributes to a larger literature on the evolution of markets and British institutions.[3] The history of the Company suggests that market-supporting institutions evolved slowly in Britain, and did not improve as dramatically following moments of constitutional reform, like the Glorious Revolution. The emergence of political stability and the development of the fiscal system and public finance appear to be more important factors in the case of the East India Company.

I. The Origins of Monopoly in the East Indian Trade

The East India Company was founded in 1600 through a charter granted by Queen Elizabeth. Management was in the hands of a governor and a board of directors. Shareholders elected the governor and directors subject to a minimum number of shares. The Company was given a monopoly over all trade and traffic from the Cape of Good Hope to the Straits of Magellan—an area encompassing much of the world's population! It was to last 15 years, except if the

[2] See North, Wallis, Webb, and Weingast (2012) and Franke and Quintyn (2014) for some examples.
[3] North and Weingast (1989), Acemoglu, Johnson, and Robinson (2005), Pincus (2009), Cox (2011, 2012), Clark (1996), Zahedieh (2010), Sussman and Yafeh (2006), Mokyr (2009), Stasavage (2003), Broz and Grossman (2004), Quinn (2001), Wells and Wills (2000), Klerman and Mahoney (2005), and Carruthers (1999).

Company violated the provisions of the charter. In that case, the charter could be voided by the monarch with two years notice (Scott 1912, p. 92).

The East Indian trade was not unique in being organized around monopoly. Jha (2005) identifies 28 chartered companies in foreign trade from 1555 to 1640. Most of these companies were granted a monopoly over trade with a particular region like the East Indies. Why was monopoly so common? In addressing this question, the first fact to understand is that the British monarch had complete authority to regulate foreign trade, so it could chose the organizational form and market structure that suited its needs. The monarchy had several things to gain from monopoly over free trade. First, a monopoly company would generate tax revenues and its ships would be easily detected by customs officials in British ports. Detection was important because small scale traders could avoid the special customs duties for the East Indian trade by disguising their ships.

Second, following the logic of limited access orders, a monopoly entailed a valuable privilege which the monarchy could allocate to supporting elites. The identity of the Company's first governor, Thomas Smythe, illustrates this logic. Smythe was connected to Queen Elizabeth because his father had improved Elizabethan customs collection.[4] Smythe strengthened his connections to the Queen in his early life. He was appointed as a trade commissioner to negotiate with the Dutch in 1596 and 1598. In the 1590s he became purveyor for the troops in Ireland. Smythe remained the Company's governor over the next two decades. He retained connections to the monarchy after James I came to the throne. Smythe was made joint receiver of the Duchy

[4] 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].

of Cornwall in 1604 and receiver for Dorset and Somerset. In that same year he was appointed special ambassador to the Tsar of Russia.

The violent trading environment of the East Indies gave further logic to a monopoly trading company in 1600. Other European companies, like the Dutch and Portuguese, used force in their dealings with local traders and each other. For example, the Portuguese were well known for extracting payments from shippers along the Indian coast in exchange for allowing them to pass unmolested. Indigenous rulers, like the Mughals in India, adopted a similar strategy adding a further violent player (Chaudhuri 1978, pp. 112-116). Thus to compete in the East Indian market the English needed a fleet of well-armed ships and forts for protection. The well-known free-rider problem meant that an open access system among English traders was less likely to yield the necessary investments in protection capital. A monopolist, on the other hand, would internalize the loss of market share.

II. The East Indian Monopoly under the Stuarts

Although the East India Company had a legal monopoly over all trade and traffic between England and the East Indies, it was clear very early that the monarchy would not always uphold the monopoly privilege. On several occasions King James I and Charles I authorized various trading groups to enter the East Indian market in direct violation of the Company's charter. James I and Charles I's actions appear to be linked with their need to reallocate rents to an evolving coalition of supporters and to their need for revenues.

The first group of 'interloper' traders was 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'. The license claimed to supersede all previous grants and allowed Michelborne to trade in the East India Company's territory.[5] It is important to note that Michelborne was not an anonymous merchant as he had strong political connections to King James I through the patronage of Thomas Sackville, the first Baron of Buckhurst. Sackville was one of James I closest advisors, serving as Lord Treasurer beginning in 1603, just one year before Michelborne was granted the license to trade in Asia.[6] After receiving the license, Michelborne sailed two ships to Asia, but he was not ultimately successful and returned to England in 1606.[7]

The next interlopers were headed by Richard Penkevell. In 1607, they were given a grant to discover the Northern passage to China, Cathay, and other parts of the East Indies (Scott 1912, p. 100). Less is known about Penkevell except that he was a Member of Parliament in the late sixteenth century.[8] After Penkevell, the Company reaffirmed its legal position by getting a new charter from King James I in 1609. In the charter, James I stated that the whole trade in Asia was conferred upon the Company forever, except if the king or his heirs deemed that the Company was not profitable to the monarchy or to the realm. In that case, the charter could be voided by the king with two years notice.

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 (Scott 1912, p. 104). The Scottish Company was headed by Sir James Cunningham, a member of the Scottish Privy Council. The Scottish Company was authorized to trade in the East Indies, the Levant,

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[5] 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]

[6] 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].

[7] D. J. B. Trim, 'Michelborne, Sir Edward (*c.*1562–1609)', *Oxford Dictionary of National Biography*.

[8] See Irene Cassidy, 'PENKEVELL, Richard' The House of Commons, online ed. [http://www.historyofparliamentonline.org/volume/1558-1603/member/penkevell-richard-1616].

Greenland, and Muscovy. It appears that James I exploited the fact that he was the King of Scotland and chose to charter the rival company under the Scottish royal seal, not the English seal. The Scottish East India Company posed a significant threat to the East India Company and the Levant Company, another chartered company operating at the time. The two bought the license from the Scottish East India Company and paid a 'valuable consideration' to its leaders and promoters (Bruce 1810, 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. Scott's (1912, pp. 125-126) analysis of the Company's early dividends shows that the trade had proven to be profitable to investors. At the same time, the King's tax revenues were stagnating making the Company an attractive target for extraction. 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 Portuguese ships (Chaudhuri 1965, p. 31). A few years later in 1624, James I offered to become an adventurer and to send out ships under the royal standard. The Company refused the offer on the grounds that 'the whole undertaking would revert to the Crown, since there could be no partnership with the King.' In 1628 there was another scheme to admit King Charles I as an adventurer for one-fifth of the stock and profits in return for taking the Company under royal protection. The Company refused once again (Scott 1912, pp. 108-112).

Charles I's failed attempt to gain ownership in the Company provided an opportunity for the interlopers. In 1635 a new syndicate obtained a license from Charles I for a trading voyage to Goa, Malabar, China, and Japan, an activity considered to be within the bounds of the Company's monopoly (Scott 1912, p. 112). One of the main promoters of the syndicate, Endymion Porter, had been in the service of Edward Villiers, the royal favorite of King James I in the 1620s. Porter's connections to the 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.[9] 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 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.[10] 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' (Scott 1912, pp. 113-114). The Courteen Association was generally unsuccessful in its trading ventures, but in the process the Association caused much damage to the Company.

The Company experienced further extractions in 1636 and 1641. In 1636, Charles I increased the customs duties on pepper by 70%. The result was that the customs duties derived from the Company's trade were yielding around £30,000 per year by the early 1640s (Foster 1904, 1929, p. xxviii). 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

[9] 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].
[10] 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].

customs. The Company had recovered around £21,000 by the late 1640s, but at this point Charles I was executed and the Monarchy was abolished. The remainder of the pepper loan was lost for the moment, and was only partly recovered in the 1660s. [11]

III. The East Indian Monopoly under the Commonwealth and Restoration

The Pepper loan of 1641 set a precedent in which the Company would make loans to the government in exchange for greater commitment to protect their monopoly privileges. The same tactic was sometimes used by interlopers when they tried to gain a legal position in the market. The loans were effective because tax revenues fell far short of the government's needs during the Commonwealth, Protectorate, and Restoration periods. However, the loans were not sufficient to settle the market because of the continual turnover in political power.

Under the Commonwealth government executive powers were held by the Council of State, which was appointed by leaders of the Rump Parliament. In 1649 a group of interlopers known as the 'Assada Adventurers' appealed to the Council of State. They asked for assistance against the Company and an application for a voyage to Asia. The Adventurers offered a loan of £4,000 to the Council to advance their cause. In the same year, the Company also appealed to the Council of State to protect its interests and offered a loan of £6,000. The Council of State recommended a merger of the two companies, which was enacted in 1650 and became known as the 'United Joint Stock' (Scott 1912, p. 120).

The United Joint Stock financed a series of voyages in the early 1650s, but it was not a success in part due to continual entry by interlopers. In 1651 an appeal to suppress interlopers was made to Oliver Cromwell, whose authority in the Council of State was increasing. Cromwell

[11] According to Foster (1904, p. 463), £10,500 more was recovered in the early 1660s from the former farmers of the Customs, leaving £31,500 unpaid.

gave a disinterested reply in writing stating that 'he has much public business and that he neither could nor would attend to private matters' (Scott 1912, p. 121). Once Cromwell rose to the position of Lord Protector in December of 1653, the Company again tried to seek his assistance. In 1655 the Company lent £50,000 to the Council of State, and two years later in 1657 the Company received a new charter. The new charter was significant in that it created a permanent joint stock company, eliminating the financing of individual voyages by investors.

The establishment of the new United East India Company moved forward in 1657, but it was not a great success. Subscriptions for capital amounted to just over £739,000, but the directors limited their calls on investors to £369,000 (Scott 1912, p. 121). The death of Oliver Cromwell is perhaps one reason. It is thought that Oliver Cromwell wished for his son Richard to be the new Protector in the event of his death. Interestingly, Richard Cromwell started to follow in the footsteps of previous English monarchs by undermining the charter. In 1658 Richard granted a license to an independent trader named Rolt. Little is known about Rolt's voyage except that the Company directed its officers in India to seize any articles and dispose of them on their own account (Bruce 1810, p. 537). In the end, Richard Cromwell was unable to build a ruling coalition in the Protectorate and was forced to step down. A new Council of State was formed and like previous governments it turned to the East India Company for a loan. The Council demanded £30,000, but the company negotiated the loan to a smaller amount of £15,000 (Scott 1912, p. 130).

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

More loans followed in Charles II's reign. The Company lent the King £120,000 in 1666 and 1667 and £150,000 in 1676 and 1678. These loans were linked with the Second Anglo Dutch War (1665-67) and Third Anglo Dutch War (1672-74), which tightened the King's finances. The loans were also linked to a suit against the Company for the King's share of prize money from 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 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.[12] The loans of the mid-1670s were also linked with an attack against the Company by a coalition of interlopers, the Levant Company, and the woolen cloth industry. Together these three groups submitted petitions and wrote pamphlets arguing that the Company's trade was not profitable to the realm. The King effectively ended this attack in 1676 by granting the East India Company a new charter confirming its trading privileges (Scott 1912, p. 178).

Over the course of the 1670s, the East India Company earned large profits and its share price rose from around 80 in 1672 to 365 in 1681 (Scott 1912, p. 139). Perhaps because of the Company's financial success a new group of interlopers emerged to challenge its monopoly. The interlopers raised £1,000,000 and submitted a proposal to Charles II for a new joint stock company. They were refused and the Company was granted a new charter. Two factors were

[12] Ottewill, Calendar of Court Minutes, 1674-76, p. xxvii-iii., 1677-79, p. 134

important in the interlopers' failure and the Company's success. First, the Company gave Charles II a gift of 10,000 guineas (around £ 10,000) and promised to offer a similar gift every New Year's Day for the rest of his reign. Second, the Company's governor, Josiah Child, was a strong political supporter of Charles II.[13] Child's support for the King became a controversial issue in the Company. Some of the directors, like Thomas Papillion, were favorable to the Whigs, an emerging political party at this time. The rivalry between Child and Papillion was so severe that Papillion's group sold their shares and left the Company. According to Scott (1912, p. 146), Papillion's group was fortunate as they sold at the peak of the market for Company shares.

IV. The East Indian Monopoly in the aftermath of the Glorious Revolution

The Glorious Revolution of 1688-89 is thought to be a watershed moment in the evolution of Britain's political institutions because it gave parliament greater authority over government and supposedly increased the security of property rights (North and Weingast 1989). While there may be some truth to this view, in the case of the East India Company the Glorious Revolution looks similar to earlier regime changes in which interlopers were emboldened by a weakening in the Company's political connections. What was different in this case is that interlopers came to be allied with a powerful political party, the Whigs. Also, in the short-term the Glorious Revolution greatly increased the King's need for loans because it led to an expensive war with France.

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[13] 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].

The opponents of the Company, including Thomas Papillion, were strongly represented in the Convention Parliament of 1688.[14] In 1690 Papillion led an interloper syndicate and raised £180,000 as a campaign fund to influence parliament. The Company responded by requesting an act of parliament ratifying their previous charters. The Papillion Syndicate then proposed a series of conditions for ratifying their charters, but no further action was taken (Scott 1912, pp. 150-52). In 1692 the Papillion Syndicate petitioned King William asking him to dissolve the Company and to incorporate a new one. William encouraged the two groups to come to an accommodation. The Company offered stock to half of the members of the Syndicate. The other half appealed to the Privy Council for regulations that would change voting rights, and effectively allow them to take-over control of the Company from the governor Josiah Child. They also proposed that in twenty one years the holdings of the Company should be wound up and a completely new subscription of capital should then be made.

It is revealing that the Company responded to these proposals by likening its monopoly to landed property and appealing to the Rule of Law. An anonymous author, clearly working in the interest of the Company, argued that restricting voting rights of shareholders in the Company is "against the laws and customs of England." They go on to argue that "the Company by the true rules of policy ought never to alter nor any man be forced to sell its stock, any more than he can be forced to buy a stock that has none; or any gentlemen that has an over-growth estate in land in any country can be forced to sell part to make way for some purchasers that pretend they will buy land in that country."[15]

[14] Perry Gauci, 'Papillon, Thomas (1623–1702)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, Jan 2008 [http://www.oxforddnb.com/view/article/21247, accessed 27 Sept 2013].
[15] Quoted in Scott (1912 p. 155).

The Company successfully defended itself against the Papillion Syndicate in 1692. A year later it also got a new charter from King William. The charter enlarged the Company's capital and imposed voting regulations, but it did not allow for the removal of Josiah Child. For the moment, it appeared the Company and its leading directors had survived the aftermath of the Glorious Revolution. The Company even took legal actions against interlopers in the following legislative session. However, it appears that the Company was too bold. Numerous petitions were submitted to the House of Commons complaining of attacks on interlopers. The Commons then resolved that "all subjects of England have equal right to trade in the East Indies, unless prohibited by act of parliament." The validity of the Company's royal charter was now in doubt. The Commons also began investigating accusations of bribery by Company officials in the spring of 1695. It was alleged and later supported by witnesses that the Company spent upwards of £200,000 to convince the King and Members of Parliament to support the Company (Scott 1912, pp. 157-160).

The Company's fortunes turned for the worse in 1697 when King William made it known that he expected a loan to help finance the Nine Years War with France. The Company offered a loan of £500,000 at 4% interest, which would have been the largest loan in its history. However, a rival syndicate went further and offered £2,000,000 at 8% interest under the condition that it would get exclusive trading rights to Asia. The interlopers were emboldened by their strong connections to the Whigs, who had recently come into favor with King William. For example, Samuel Shepheard, one of the largest interloper investors, had a strong connection to the Whig leader Charles Montagu, who served as the Chancellor of the Exchequer.[16] The end result was

[16] Paula Watson and Perry Gauci. "Shepheard, Samuel I (c.1648-1719), of St. Magnus the Martyr, and Bishopsgate Street, London," in The History of Parliament: the House of Commons 1690-1715, (Cruickshanks, Hayton, and Handley 2002).

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 exclusive rights to the East Indian trade with the proviso that the 'Old' East India Company could trade until Sept. 29, 1701 (Scott 1912, pp. 165-168).

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

Looking at this episode more generally, it is clear that party politics were one of the important factors at work. In the 1690s the Whigs and Tories were engaged in a fierce partisan struggle for control over the House of Commons and King William's government.[17] From 1690 to 1695 the Tories had a slight majority in the Commons and in the ministry, but their relationship with King William weakened. After the election of 1695 the Whigs had a majority in the Commons and by 1696 they had a majority in the ministry as well. The Whigs aggressively pushed their policies and purged the Tories whenever possible. The tables turned in 1700 as the Whigs lost influence and several of their leaders were impeached. The Tories were able to take advantage and regain a slight majority in the Commons and the ministry in 1701. The Whigs regained some influence late in December 1701 just before King William died early in 1702.

The shifts in political power mattered for the East India trade because the Company was connected to the Tories and its opponents were linked with the Whigs (Horwitz 1978). An

[17] 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* for a more general discussion of parties.

analysis of the actions of Members of Parliament (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 (2002) in the *History of Parliament* series.[18] A keyword search identified whether an MP spoke or told on a bill or made a motion favorable or unfavorable to the Company. For example, there was a motion in 1693 to address King William asking him to dissolve the East India Company. Some MPs spoke in favor of this motion and others spoke against. To organize the data I created an indicator variable for each legislative session equal to 1 if an MP acted in the Company's favor at least once and another indicator if the MP acted against the Company (EIC) at least once in a session. I also use new data identifying whether each MP in the 1690-95, 1695-98, 1698-1700, and 1701 parliaments were affiliated with the majority party, either Tory or Whig (Bogart, forthcoming). The results are shown in table 1. 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.

[18] See http://www.historyofparliamentonline.org/research/members

Table 1: 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				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				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

Notes and Sources: see text.

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

Fiscal instability was another important factor in the events following the Glorious Revolution. The Nine Years War against France brought new levels of government expenditure. To meet its fiscal needs, the government raised taxes and borrowing, including establishing the Bank of England in 1694. However, by 1697 expenditures were greatly outstripping revenues. Table 2 shows Dincecco's (2011) figures for English 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. Recall that it was in 1697 that King William made it known that he expected a loan from the East India Company. As discussed earlier the Old Company's loan offer (£500,000) was one-fourth the offer by its rival (£2,000,000). Had the government's fiscal deficit not been so large, then perhaps the Old Company's modest offer would have been accepted and its privileges would have remained intact.

Table 2: Revenues, Expenses, and Deficits 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 (2011).

V. The East Indian Monopoly from the Merger to the Accession of George III

The United East India Company was formed in 1709 from the merger of the Old and New East India Companies. Just before the merger was to be completed, Queen Anne demanded an interest free loan of £1,200,000 from the United Company. Like King William before, Anne's government was facing a fiscal crisis due to its involvement in the War of Spanish Succession. The United Company consented to the loan and in return it got confirmation of its monopoly over all trade between Britain and the East Indies. The monopoly was to last for a minimum of 18 years, at which point the government had the option to repay its £3.2 million in debts to the Company and repeal the trading privilege with 3 years notice.

After 1709 the Company would get its monopoly renewed again in 1712, 1730, 1744, 1781, and 1793 by so-called charter acts. The first two charter acts had many similarities to 1698 and 1709 when the Company was forced to make a loan in the midst of a fiscal crisis and/or threats from interlopers. The last two charter acts in 1781 and 1793 followed a long period and were based on different considerations. As we shall see there was a transition from instability and crisis in the early eighteenth century to a period of stability by the mid-eighteenth century. The transition was linked with the evolution of Britain's political, fiscal, and financial system.

The charter act in 1712 was a relatively minor event, but it extended the guarantee for the Company's monopoly over East Indian trade until at least 1733 when the government had the option to open the trade with three years notice and upon repayment of its debts to the Company. In 1730 merchants from London, Bristol, and Liverpool submitted a petition to the House of Commons proposing a new company that would control the whole trade and grant licenses to traders for a fee. In return the merchant group offered to redeem the government's debt to the Company at a lower interest rate. They proposed to make 5 payments totaling £3,200,000 between 1730 and 1735. The petition for a rival company failed in the Commons by a vote of 223 to 138 (Sutherland 1962, p. 29). In the same session, the Company got an act of parliament extending its monopoly trading rights to at least 1769. In return the Company had to make a £200,000 payment to King George II and they had to accept a lower interest rate on the £3.2 million debt owed to them by the government.[19]

The events of 1730 reveal much about the political dynamics of Britain's social order at this time. After the Hanoverian succession of 1715, the Company became more connected to the Whig party, which held a majority in the Commons for many decades in the early to mid-eighteenth century (Sutherland 1962, p. 23). One indication of the Whig connection is provided by the political affiliation of the Company's current or former directors who held seats in the House of Commons.[20] In the 1722 to 1727 parliament the Company had 8 or 9 directors in the Commons and 67% of them can be classified as Whigs. The overall percentage of Whigs in the

[19] G. B. House of Commons, Public Income and Expenditure p. 532 and Desai (1984 p. 122).

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

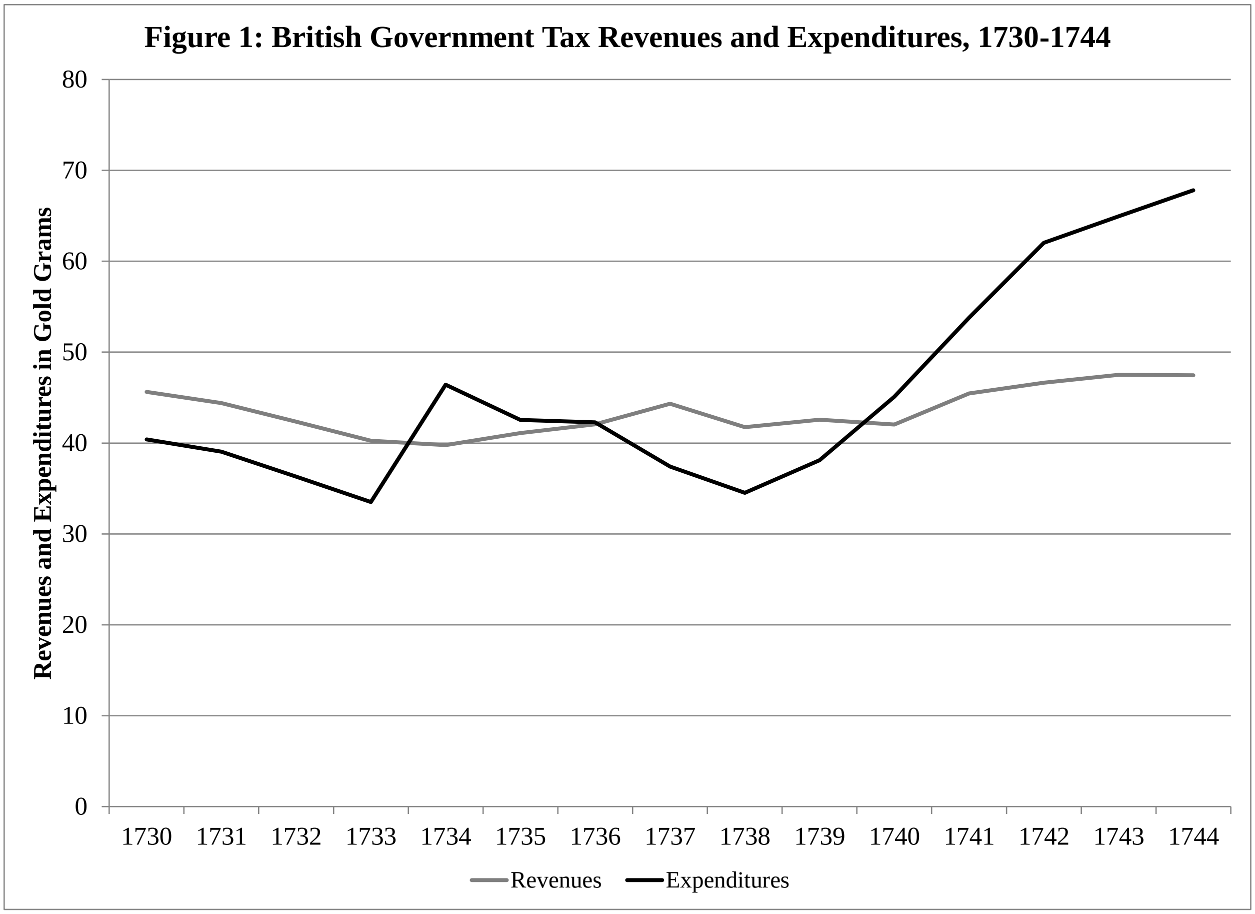
1722 to 1727 parliament is 56% and thus the Company directors were more likely to be Whig than the average MP.[21] The Company's connections to the majority party weakened however in the next parliament. Its representation in the Commons contracted to between 5 and 8 directors in the 1727 to 1734 parliament, and only 28% of them can be classified as Whigs when nearly 50% of MPs in the Commons were Whigs. Thus the Company's connections to the majority Whigs were weakest at the moment it was attacked by interlopers. Moreover the interlopers of 1730 were supported by several Tory MPs and a new coalition, called the Opposition Whigs. The leading proponent of the interloper petition in the Commons was John Barnard, who was a leading opposition Whig MP from London and a strong supporter of popular politics in the City (Sutherland 1962, p. 29).

The Opposition Whigs defected from the so-called ministerial Whigs and their leader Robert Walpole, because they thought Walpole was too corrupt and was undermining the sovereignty of parliament. The close connection between the ministerial Whigs and the so-called Monied companies, like the East India Company, was a prime example and a favorite target of the Opposition Whigs. Walpole was keenly aware of the anti-monopoly sentiment, and the threat that it posed to his coalition's rule. On this basis, it is likely that Walpole's support for the East India Company was tenuous in 1730. Perhaps for this reason, the Company made efforts to move closer to the majority Whigs in the years that followed. In the 1734 to 1741 parliament the Company had 7 to 8 directors in the Commons and on average 75% where affiliated with the Whigs. In the 1741 to 1747 parliament the Company had between 4 and 7 directors and 83% were affiliated with the Whigs.

[21] For details on the party affiliation of MPs see Bogart (forthcoming).

Political connections helped to protect the Company's monopoly, but they could not prevent extractions, especially in times of fiscal crisis. In 1744 the Company was forced to lend £1,000,000 to King George II at 3% interest. In return, the Company got an extension of their monopoly trading privileges until at least 1783.[22] It was reminiscent of earlier loans made by the Company in the reigns of Charles II, William, and Anne. In this case, Britain had been at war with Spain between 1739 and 1742 and then became involved in a broader European conflict, the War of the Austrian Succession which lasted until 1748. The War was the most expensive that Britain had fought to that date and it brought on a fiscal crisis. One reason is the slow growth in government tax revenues in the years leading up to the War. Britain had been at peace for over 20 years and there was resistance to increasing taxes. As a result, when war came in 1739 the government's budget went quickly into deficit. Figure 1 uses Dincecco's (2011) data to show trends in government revenues and expenditures from 1730 to 1744. By 1744 the government was facing a large deficit. The government issued bonds to finance the deficit, but it may not have been enough without the £ 1,000,000 loan provided by the Company.

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



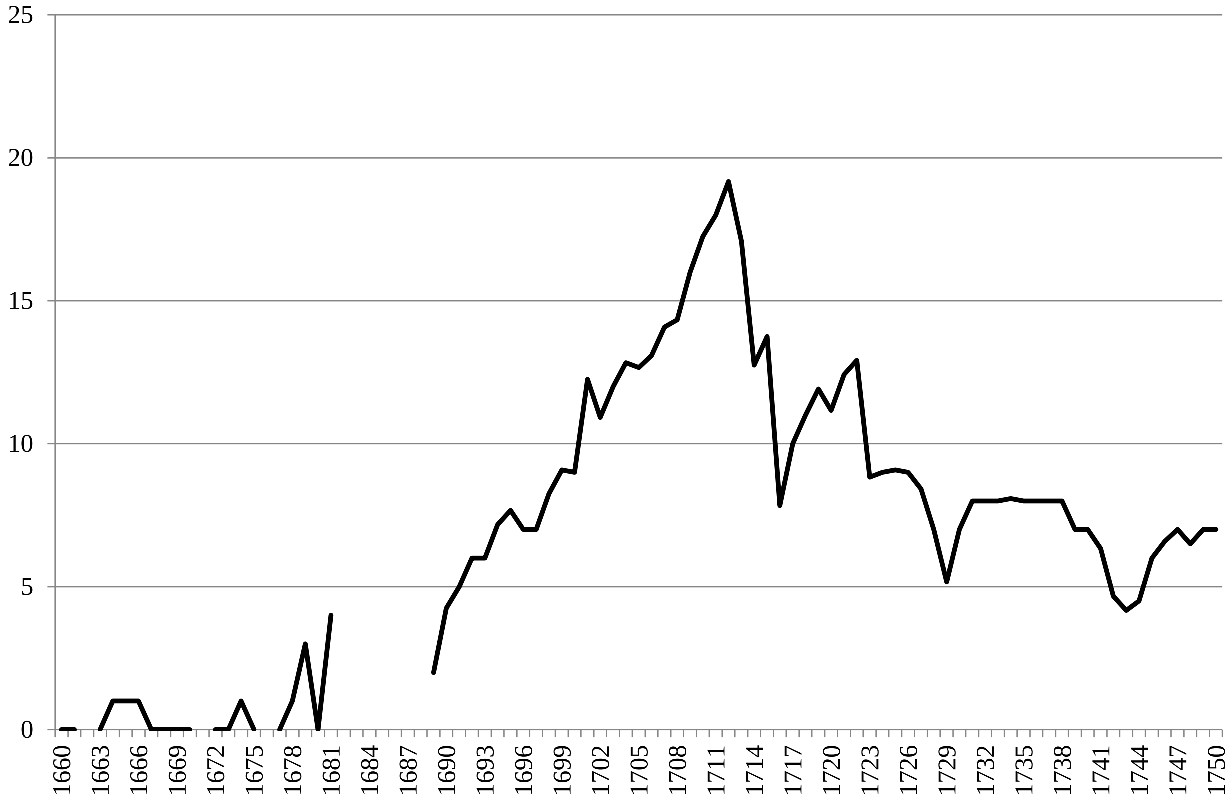
Source: Dincecco (2011).

After 1744 the Company did not face any serious challenges regarding its charter until the late 1760s and even then its monopoly trading privileges were not seriously questioned. The relative security which the Company enjoyed was related to the evolution of Britain's politics and fiscal capacity. By the 1750s party strife had largely disappeared. The Whig party had held a majority in the Commons for over 35 years. Their long-time adversaries, the Tories, continued to challenge Whig policies, but according to Colley (1985) most remained loyal to the Hanoverian regime and did not seek to destabilize the political system. The Opposition Whigs lost influence by the late 1740s and many chose to join the ministerial Whigs by the 1750s. The transition from party strife under William and Anne to the stability of Hanoverian politics in the mid-eighteenth century has been described by historians as one of the most ‘striking changes in English history.’ According to historians like Plumb (1967) and Sutherland (1962, p. 18), stability was due to the ‘good sense and absence of rancor of the English landed and commercial classes’ and to the skill and determination of Robert Walpole in consolidating and manipulating political power.

One indication of the growing stability is provided by the size of the Company’s influence in the House of Commons. As above, I identify all MPs that were directors or governors at any point in their life and then I calculate for each year the number of MPs that were currently a director or governor or had been one in the past. The annual counts are done for all years in which parliament sat from 1660 to 1750. The reader should note that it is not straightforward to interpret such trends, but I would argue they provide a measure of the Company’s demand for political influence in the Commons. As is well known corruption played a key role in the allocation of seats in the Commons. There is nothing in the literature to suggest that the cost of getting a seat dramatically changed from 1660 to 1750, and therefore changes in the counts of director/governor MPs provides a good indication for changes in the Company’s demand for influence.

The annual counts of director/governor MPs are shown in figure 2. A small number of director MPs before the Glorious Revolution is consistent with parliament playing a minor role in the Company’s affairs. The rise of Company influence in the 1690s accords with the contest between the Old and the New Company in parliament. After the merger was agreed to in 1702, and implemented in 1709, the Company still had a large influence in the Commons. The peak for director/governor MPs was 1712. The drop in director/governor MPs in the 1720s is also striking. The lower number continues up to 1750. It would appear that a new and lower ‘steady state' of political influence for the Company was reached after the mid-1720s. Notably this same period is when historians believe that political stability had been achieved.

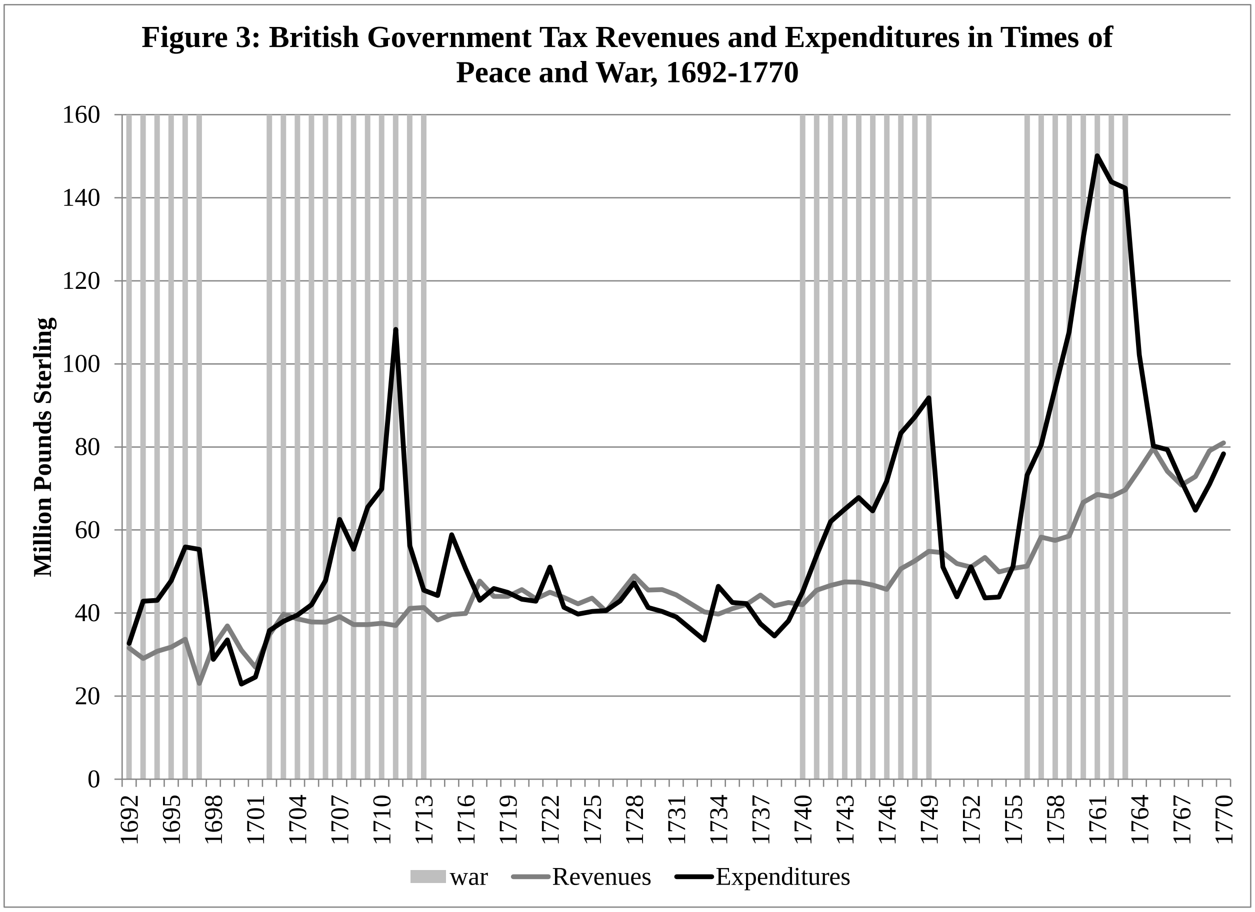
Figure 2: Number of Members of Parliament who are or had been Directors or Governors of the East India Company in each year 1660-1750



Sources: see text.

Other long-term factors at work were the growth of fiscal capacity and financial development. Fiscal crises were less common after the mid-eighteenth century, even though the frequency and scale of warfare increased. One reason is that the government's fiscal capacity was much greater. O'Brien and Hunt (1993) 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.

The growth of tax revenues helped build fiscal capacity but revenues alone were never sufficient to pay for Britain's wars. As figure 3 shows government expenditures peaked in times of war from 1692 to 1770. The East India Company was forced to lend to the Government in each of the wars up to 1750, but not during the Seven Years War from 1756 to 1763. What changed? Arguably one key development was the emergence of the Three Percent Consol, which was a redeemable, perpetual 3% annuity. As Neal (1993, p. 117) explains, there were several precedents to the Three Percent Consol from the 1720s. They allowed the Exchequer, Army, and Navy to issue bills in times of emergency and the bills could then be retired from the proceeds of selling new issues of perpetual annuities. Following the Consol and related financial innovations, the government had less need to seek emergency loans from the East India Company. Instead it could rely on conventional borrowing backed by tax levies.



Source: Dincecco, (2011).

VI. The East Indian Monopoly in its Last Decades, 1770-1813

The charter acts of 1781 and 1793 renewed the East Indian monopoly and kept it largely intact. However, in 1813 the charter act opened the trade between Britain and India. The trade to China and the rest of Asia was made completely open by another charter act in 1833. It is remarkable in light of the Company's early history that these renegotiations occurred at the expiration of the terms specified in the previous acts. The charter act of 1744, in which the Company lent £1 million to the government, stated that the Company's monopoly trading privileges were guaranteed until at least 1780. This commitment was upheld as there was no legislation changing the Company's trading privileges until 1781. In that year another charter act guaranteed the Company's monopoly for ten years until at least 1791. It too was upheld and in 1793 another charter act guaranteed the Company's monopoly until at least 1813. It was only in the latter year that major changes to the monopoly were enacted. Thus by the late eighteenth century the Company's trading privileges were renegotiated in accordance with the law as defined by the provisions of the charter acts. In this market, Britain had reached one of the first doorstep conditions, rule of law for elites. This is not to say that politics and finance no longer mattered. They were a major factor in determining how the trading privileges were renegotiated at the time of renewal, and they help explain why the trade was not significantly opened until 1813.

The late eighteenth century was also different in that the Company gained significant territorial possessions in India for the first time. Robert Clive, originally a company official and later a commander in the British Army, led a war against the Nawobs of Bengal in 1757. The end result was the Company gained political control over Bengal, including its tax revenues. The new territorial revenues were vast and led to corruption and abuse by Company officials. Thereafter discussions of the Company's trading monopoly became inter-twined with discussions of its territorial management in India, and the need for government control in Britain.[23]

The first major act to regulate the Company's management in India came in 1773. The so-called Regulating act of 1773 created a Governing Council in India with 3 of the 5 members being appointed by Parliament, and the rest by the Company. The first Governor General was Warren Hastings, who managed to introduce some reforms in India. The Regulating Act of 1773 did not alter the Company's trading monopoly, but it required the Company to pay £400,000 annually to the government (Sutherland 1962). The justification for this clause was the great expansion in Company's revenues following the acquisition of territory in Bengal. As it turns out

[23] See Bowen (2005) and Stern (2011) for an analysis of the transition to territorial rule.

the Company did not always make the annual payments due to large expenses and the weakness of trade in these years. The Company had to postpone its tax payments and even required loans from the government.

In 1778 the Secretary of Treasury, John Robinson, began preparing a bill to renegotiate the Company's charter as it was allowed to do after 1780. All options were on the table, and Robinson proposed that the Company lend £2 million to the government in order to renew its monopoly for another term of years (Sutherland 1962, p. 340). The loan was deemed necessary in part because the British government was facing a deficit problem as the costs of the War for American Independence were growing. The Company did not react to the proposal favorably. Negotiations continued and in 1779, the Prime Minister, Lord North, declared that the Company would need to lend £1.4 million to renew its monopoly. After being rebuffed by the Company, North threatened that he would terminate its charter following its expiration. However, North was forced to back off from this threat when the opposition coalition in the House of Commons, the Rockingham Whigs, rallied to support the Company. In 1781 North's government resumed its negotiations with the Company but dropped demands that the Company make a large loan to renew their monopoly. Instead it required the Company make a one-time payment of £400,000 and it required that all dividends beyond 8% had to be split ¾ to the government and ¼ to shareholders. The agreement was approved by the King and Parliament in the 1781 charter act (Sutherland 1962).

The political power of the Company appears to be one reason why the government was unable to extract more from them in 1781. Lord North's coalition in the Commons was weak and it is likely that he could not risk the Company shifting its political support to the Rockingham

Whigs. In the late eighteenth century the Company was a key player in the governing coalition, and therefore its rents could not be substantially reduced without putting the coalition at risk.

The fall of the Fox-North coalition provides an illustration of the Company's power at this time. In 1782 North's government fell in large part because of its management of the American War. In the next two years there were three short-lived governing coalitions. The third was led by Charles James Fox and North, the former Prime Minister. In 1783 Fox proposed a bill that would increase government control over the Company, including appointments to lucrative posts. The Company's directors and shareholders vigorously opposed the bill. They formed a coalition with the King and defeated the bill in the House of Lords. The failure of Fox's India bill brought down his coalition and paved the way for a new government led by William Pitt that would last for the next 18 years (Philips 1971, pp. 24-25).

Before negotiations started on the renewal of the charter in 1792, the East India Company had developed relatively strong connections with Pitt's government. According to Phillips' analysis there were 58 MPs affiliated with the Company in the 1784 parliament. Of these 65% were affiliated with Pitt's governing party, while only 26% were affiliated with the opposition (1961, pp. 309-313). The Company largely maintained these connections in the 1790 parliament. The Company had 72 MPs in the Commons, and 50% were affiliated with Pitt's governing party and 35% with the opposition. The Company clearly remained a powerful force in Britain's politics.

The government's support for monopoly over free trade was another factor working in the Company's favor in 1792. For the first time in the Company's recent history, there was a strong lobbying effort to open the trade. Liverpool merchants and Manchester manufacturers were particularly active in lobbying to open the export trade from Britain (Philips 1961, p 75).

Manchester's aim was to lower the cost of exporting cotton textiles to India, which its manufacturers now produced at a lower cost than ever before due to technological changes in cotton spinning. The Company's monopoly was seen as obstructing their exports. Liverpool had similar aims but it also wanted exports to be shipped from its port rather than London, which was the hub of the Company's activity.

The lead negotiator for the government, Henry Dundas, was open to free trade in exports, but strongly favored the continuance of the Company's monopoly on imports. According to Dundas's memorandums he believed the Company's monopoly was the best way to remit the Indian territorial surplus to England (Philips 1961, p. 73). The Company naturally opposed any relaxation of its monopoly privileges, in either exports or imports. To reach a compromise, Dundas proposed that the Company would retain its overall monopoly for another 20 years, but the Company would guarantee at least 3000 tons a year for the export of British manufactured goods. This was not a large volume in comparison to the total, but it provided something to the Liverpool and Manchester interests.

It is apparent that one of the government's aims in the negotiations of 1792 was to set up a system where it could extract more revenues from India. It followed its traditional strategy of taxing the monopolist Company. The East India Company's finances had improved in the mid-1780s and it was able to repay its debts to the government.[24] From a financial point of view, the Company looked viable. In the negotiations over the charter, Dundas offered the Company a fixed dividend of 10% to shareholders, after the Company was to pay up to £500,000 to the government. The Company consented to the deal, as did parliament, resulting in the charter act

[24] G. B. House of Commons, Public Income and Expenditure p. 534.

of 1793. According to Pitt, the bill passed with "a quietness unexampled in the annals of parliament."[25]

The charter act of 1813 resulted in the Company losing its monopoly trading privileges to India and it moved Britain one step closer to the next doorstep condition, the existence of perpetually lived organizations. What changed? While there are many potential explanations for the opening of trade in 1813 several factors stand out. The first is that pressures to liberalize increased from 1793 to 1813. In the process of negotiating the charter trading and manufacturing interests lobbied extensively. At one point, 130 petitions were sent to parliament arguing for the opening of trade (Philips 1961, p. 184). Liverpool led the lobbying campaign in the hopes of diverting trade to their port away from London. Notably London lobbied in favor of the Company's monopoly being renewed.

The second factor is that the government changed its views on the utility of an open trade to India. In 1811 Lord Melville was the head of the Board of Control, the body which regulated the Company. Melville wrote a notable memo arguing there should be a move to free trade with India. Melville justified his arguments in terms of the efficiency of competition:

> If the Company carry on their trade more expensively and with less activity and industry than private individuals, it is unjust to the country, as well as the inhabitants of British India, that the exclusive monopoly should be continued; and in such a state of things, the trade is more likely to be advantages to the country, and beneficial to the individuals in their hands, than in those of the Company: but if the latter shall conduct it with skill and enterprise, and with due and unremitting attention to economy, the extent of their capital, and the superior facilities which they must continue to possess, of providing their investment in India at the cheapest rate, will undoubtedly afford them the means of successful rivalship with all other competitors.[26]

Melville's views on opening the trade to India were shared by Lord Buckinghamshire, who succeeded Melville as the head of the Board of Control (Philips 1961, pp. 184-86).

[25] Quoted in Phillips, The East India Company, p. 78.
[26] Letter from Lord Melville to Chairman and Deputy of the East India Company, 1812 in Papers Respecting the Negotiation with His Majesty's Ministers for a Renewal of the East-India Company's Exclusive Privileges, p. 80.

Buckinghamshire was also the lead negotiator for the government on the renewal of the charter in 1812. Thus key government actors were pushing for a liberalization of the trade. The Company opposed any weakening of its trading privileges, but unlike in 1793 it was not able to move the government to its side.

The effectiveness of the lobbying campaign for free trade is certainly one factor in swaying the government. Another factor was an unexpected weakening in the Company's political connections just as the negotiations for the charter were starting. On May 12, 1812 the Prime Minister Lord Perceval was assassinated. Lord Liverpool was named as the new Prime Minister and an election was held in October 1812. In the new parliament which opened in November 1812 the Company had 86 MPs, but only 28% were affiliated with the government and 31% were affiliated with the opposition. This was much smaller than in April of 1812, where the Company had 89 MPs and 58% were affiliated with the government, while 38% were with the opposition (Philips 1961, pp. 321-25). The Company's weak numbers seem to have hurt their cause when the trading provisions of the 1813 charter bill were being debated in the Commons. In a revealing statement, a director in the Company said, "I had no idea we stood on such weak ground…from that moment I felt myself humbled."[27]

The long-term evolution of government finances was a final factor in the move to open trade in 1813. Throughout the Company's history, the government aimed to benefit financially from an East Indian monopoly. By the late eighteenth century, it levied special duties on East Indian imports and it collected a portion of the Company's monopoly profits. The latter policy is inefficient in a well-developed fiscal system because it relies on monopolizing the trade, which reduces social surplus. Over the course of the Napoleonic wars, Britain's tax revenues expanded by over 200% (Dincecco 2011) and even included an income tax for the first time. In this

[27] Quoted in Phillips, The East India Company, p. 190.

environment of greater fiscal capacity, the rationale for taxing a monopolist, instead of taxing an open market, no longer made sense. Of course, economic reasoning does not always win the day in policy making. The fact that reasoning did prevail in the early nineteenth century suggests that Britain had taken some key steps towards open access.

VII. Conclusion

Many markets in history are limited by laws and customs enforced by political authorities. One prominent theory argues that the transition out of limited access requires a series of steps like rule of law for elites and the creation of perpetually lived organizations. This paper studies how these steps were taken in Britain in the case of the East Indian market. The Company had a legal monopoly over all trade between Britain and the East Indies, but its trading privileges were far from secure. The king and parliament authorized interlopers to enter the Company's market and it forced the Company to lend in order to retain its monopoly. The root causes behind these actions were the political instability and fiscal incapacity of British institutions in the seventeenth and early eighteenth century. The Company was politically connected, like most elite organizations, but these connections diminished when the government changed. Credibility was also weakened by the fiscal system which evolved slowly to meet the needs of warfare.

A secure East Indian monopoly only emerged in the mid-eighteenth century when political stability and fiscal capacity increased. The Company's trading privileges were renegotiated only after the terms of the charter expired, and not according to the dictates of politics and finance. Thus after 1750 Britain was moving towards one of the doorstep conditions: rule of law for elites. However, the liberalization of the market had to wait several more decades. Monopoly remained stable because of the Company's strong political connections and also because the fiscal system had not yet reached full capacity. Further development of the fiscal system during the Napoleonic wars and a negative shock to the Company's connections following an assassination brought the monopoly to an end in 1813. In the ensuing decades, Britain's position in world markets, like Asia, would grow eventually leading to an industrial and colonial empire.

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