Securing the East India Monopoly: Politics, Institutional Change, and the Security of British Property Rights Revisited

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Abstract

The history of the English East India Company yields new insights on the relationship between politics, institutional change, and the security of property rights in Britain. The Company had a legal monopoly over all trade between Britain and Asia, but its privileges and property were far from secure especially in the seventeenth century. As this paper shows, fiscal extractions and government supported attacks on its trading privileges were common in the 1600s. Extractions and attacks were also costly to the Company in terms of market value and the loss of assets. Most notably, the Glorious Revolution did not increase security in the short-run as the Company was forced to share its monopoly profits with a government sanctioned rival. The eighteenth century proved to be more hospitable to the East India Company's rights because acts of parliament provided stronger legal protections than royal charters and because British politics were more stable. Greater fiscal capacity in the eighteenth century also made the Company a less attractive target for government extractions.

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The divergence of the British economy in the 1600s and 1700s is one of the most important events in world history as it led to the industrial revolution and ultimately a rise in per capita incomes. Scholars have made a number of advances in understanding the origins of divergence but there remain many areas of disagreement and confusion. One of the most contentious aspects of Britain's growth process concerns the role of politics, institutional change, and the security of property rights. One school of thought argues that at particular junctures Britain's politics and institutions changed in a way that promoted greater security of property rights. Events like the Glorious Revolution are thought to be important because they constrained the king and put pro-development groups in positions of power.[2] The 'critical juncture' view has been criticized by scholars who find little evidence for greater security of property rights following major political changes.[3] Another related school argues that property rights became more secure through an evolutionary process shaped by the common law, the Enlightenment, international trade, and war financing.[4] In this view, the security of property rights was driven by structural factors which evolved slowly and sometimes haphazardly.

The security of property rights in Britain is also of significance for general theories on institutions and development. 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.[5] The British case is taken as an important example which informs the broader literature. For

[2] See North and Weingast, 'Constitutions and Commitment,' Acemoglu, Johnson, and Robinson, 'The Rise of Europe,' Pincus, *1688*, Cox, 'Was the Glorious Revolution a Constitutional Watershed?'
[3] Clark, 'Political Foundations', Zahedieh, 'Regulation, Rent-Seeking', Sussman and Yafeh,' Institutional Reforms'.
[4] 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 Grossman, 'Paying for Privilege,' Quinn, 'The Glorious Revolution,' Wells and Wills, 'Revolution and Restoration', Klerman and Mahoney, 'The Value of Judicial Independence'.
[5] 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*.

example, the view that constraints on the executive increases the security of property and hence encourages development is based in part on interpretations of the Glorious Revolution.

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 examine what happens to the property rights of individual organizations and firms.[6] 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.[7]

This paper makes a contribution by studying the English East India Company, one of the most important firms in world history. The Company has been studied from various economic, political, and sociological perspectives but it is notable for its absence in the literature on property rights and British institutions. This history is highly relevant because the East India Company was granted monopoly trading privileges by the British king and parliament. The monopoly covered all British trade and traffic from the Cape of Good Hope to the Straights of Magellan—an area spanning a third of the globe! One of the more remarkable aspects of the monopoly was its long-life lasting more than 200 years from 1600 to 1813. Another remarkable but unappreciated fact is that Company's monopoly trading privileges and its property were far from secure for much of its early history. The king and parliament authorized groups known as interlopers to trade in East Asian 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.

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

The analysis of the East India Company's history follows in two parts. First, I estimate the frequency of government violations to the Company's monopoly trading privileges and its property from 1600 to 1760, and I also estimate the costs of violations in terms of market value and net assets. The second part examines the political and institutional factors that influenced the security of the Company's monopoly trading privileges and property. The main findings are as follows. The likelihood of the government authorizing interlopers 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.

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. 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 a large loan on it in 1744.

The events surrounding the Glorious Revolution provide some strong clues on how political and institutional factors affected security. 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.

There were several developments that increased the security of the Company in the eighteenth century. The Company came to be regulated by acts of parliament which over time provided stronger legal protections than royal charters. Greater political stability also made the Company's rights more secure by reducing the risks of violent and predatory regime changes. Lastly, greater fiscal capacity in the eighteenth century made the Company a less attractive target for government extractions.

There are two broader lessons from the history of the East India Company as it relates to politics, institutional change, and the security of property rights. The first is that insecurity of property rights can bring large private costs to the firms which are affected. This finding is evident in the large declines in the Company's market value and assets. The second lesson is that critical junctures are not always crucial for increasing the security of property rights. The history of the Company suggests its property became more secure through an evolutionary process which involved greater political stability, investment in fiscal capacity, and legal innovations.

I. Security of the East India Company's property and trading rights

The East India Company had a legal monopoly over all trade and traffic from the Cape of Good Hope to the Straights of Magellan from its founding charter in 1600 to the end of the seventeenth century. In spite of this privilege, several interlopers sought to enter the market and trade between Britain and Asia. In many cases, interlopers received approval by the monarchy or parliament through licenses and charters. Related to these events, the crown and parliament also extracted revenues from the East India Company through loans and other means. In this section, I give a brief history of what happened to the Company's trading privileges and property from 1600 to 1760. I also review the relationship between the government, the Company, and various interlopers over this same period.

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.[8] Michelborne had strong political connections through the patronage of Thomas Sackville, the first Baron of Buckhurst.[9] 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.[10] After receiving the license, Michelborne successfully sailed two ships to Asia, but was not ultimately successful and returned to England in 1606.[11] 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."[12]

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.[13] Less is known about Penkevell except that he was a Member of Parliament in the late sixteenth century.[14] 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

8 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]
9 Ibid.
10 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].
11 D. J. B. Trim, 'Michelborne, Sir Edward (*c.*1562–1609)', *Oxford Dictionary of National Biography*.
12 Scott, Constitutions and Finance, Vol II, p. 99.
13 Scott, Constitutions and Finance, Vol II, p. 100.
14 See Irene Cassidy, 'PENKEVELL, Richard' The House of Commons, online ed. [http://www.historyofparliamentonline.org/volume/1558-1603/member/penkevell-richard-1616].

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.[15]

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.[16] 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 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.[17]

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.[18] 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.[19] In 1628 there was another scheme to admit King Charles I as an

[15] Scott, Constitutions and Finance, Vol II, p. 100.
[16] Ibid., p. 104.
[17] Scott, Constitutions and Finance, Vol II p. 104, Bruce, Annals of the Honorable East India Company, pp. 193-194.
[18] Chaudhuri, The English East India Company, p. 31.
[19] Scott, Constitutions and Finance, Vol II, p. 108.

adventurer for one-fifth of the stock and profits in return for taking the company under royal protection. The Company refused once again.[20]

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.[21] 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.[22] 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.[23] 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'.[24]

[20] Scott, Constitutions and Finance, Vol II, pp. 110-12.
[21] Scott, Constitutions and Finance, Vol II., p. 112.
[22] 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].
[23] 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].
[24] Ibid. pp. 113-114.

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.[25] 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.[26] 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.[27]

The Company suffered more negative shocks in 1636 and 1641. In 1636, Charles I increased the customs duties on pepper by 70%.[28] The result was that the customs duties derived from the Company's trade were yielding around £30,000 per year by the early 1640s. [29] 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

[25] Scott, Constitutions and Finance, Vol II., pp. 113-114.
[26] Ibid., pp. 113-114.
[27] Ibid., p. 117.
[28] Ibid. p. 114.
[29] Foster, 'Introduction' in Calendar of Court Minutes, 1640-43, p. xxviii.

abolished. The remainder of the pepper loan was lost for the moment, and was only partly recovered in the 1660s. [30]

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’.[31]

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

[30] 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.
[31] Scott, Constitutions and Finance, Vol. II, p. 120.
[32] Ibid., p. 121.

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. [33] Moreover, in 1657 the new Protector of the Commonwealth government, Richard Cromwell, granted a trader named Rolt a license to send a ship to Asia. 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 [34] 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.[35] Also its recent charter from Cromwell was nullified like all other Commonwealth legislation and ordinances 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.[36]

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.[37] Second, Charles II gave the island of Bombay to the Company in 1668, and although

[33] Ibid., p. 177.
[34] Scott, Constitutions and Finance, Vol II p. 122 and Bruce, Annals of the Honorable East India Company, pp. 537.
[35] Foster, Introduction, A Calendar of Court Minutes, 1655-59, p. vi-vii, xxxii.
[36] Scott, Constitutions and Finance, Vol II., p. 131.
[37] Foster, Introduction, A Calendar of Court Minutes, 1664-67, p. xvii, 352.

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.[38] 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.[39]

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 law stated that the King and the Company must split the value of the prize. 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.[40]

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. The Levant Company had a monopoly on trade with Turkey dating back to the late sixteenth century. By the 1670s the Levant Company was losing trade as the East India Company was expanding. Its goal was to hamper the East India Company through new regulations. The woolen industry's aim was to get the East India Company to export more cloth to India and less bullion, thereby increasing

[38] Scott, Constitutions and Finance, Vol II., p. 133.
[39] 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.
[40] Ottewill, Introduction, A Calendar of Court Minutes, 1674-76, p. xxvii-iii., 1677-79, p. 134.

demand for their products.[41] The interlopers aim, as usual, was to weaken the Company so that it could capture some of the monopoly profits from 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.[42] 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 Josiah Child who was governor of the Company. Importantly Child was also a strong supporter of King Charles II.[43] 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 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 Asia. 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. 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.[44] The Company then brought a case against Thomas Sandys in the Court of the King's Bench. Sandys was accused of trading in India

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[41] Scott, Constitutions and Finance, Vol II., p. 136.
[42] Ibid., p. 139.
[43] 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].
[44] Scott, Constitutions and Finance, Vol II, p. 143.

without a license and therefore violating the Company's charter.[45] 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.[46]

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.[47] 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.[48] 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 Asian trade was likely to be utterly lost unless there was better regulation by a new joint stock company. 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.[49] 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 effectively allow them to take-over control of the Company from the governor Josiah Child. King William responded that

[45] Philip J. Stern. The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India. Oxford: Oxford University Press, 2011.
[46] Scott, Constitutions and Finance, Vol II, p. 148.
[47] O'Brien, Griffiths, and Hunt, Political Components, p. 400.
[48] Scott Constitutions and Finance, Vol II p. 160, Dowell, a History of Taxation, p. 63
[49] Scott, Constitutions and Finance, Vol II, pp. 150-52.

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. [50]

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 it 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.[51] 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 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.[52]

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.[53] In 1696 a debate ensued in the

[50] Scott, Constitutions and Finance, Vol II, pp. 153-56.
[51] Scott, Constitutions and Finance, Vol II, pp. 157-8.
[52] Scott, Constitutions and Finance, Vol II, p. 160.
[53] Scott, Constitutions and Finance, Vol II, p. 160.

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, but little else was decided.

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 Asia. 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 exclusive rights to the Asian trade with the proviso that the Old East India Company could trade until Sept. 29, 1701.[54]

Despite its recent losses, the Old East India Company was not finished. It was successful in frustrating the New Company's trading efforts in Asia. 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, 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

[54] Scott, Constitutions and Finance, Vol II, pp. 165-68.

uncertain until 1708 when both Company's 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 Company was worth £3,200,000. In 1709, shortly after the loan, the merger took effect creating the United East India Company.[55] 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.[56]

The next five decades from 1710 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 grant to King George II.[57]

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.[58] 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

[55] Scott, Constitutions and Finance, Vol II, p. 170.
[56] Russell, A Collection of Statutes concerining the Incorporation, trade, and Commerce of the East India Company.
[57] See 3 George II, c. 14; G. B. House of Commons, Public Income and Expenditure p. 532 and Desai p. 122.
[58] 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.[59]

Looking at the period from 1600 to 1760, one finds that the likelihood of an interloping group receiving government authorization to trade in Asia was much higher in the seventeenth century than in the eighteenth century. To organize the information, Panel A in table 1 lists all the instances where interlopers successfully obtained authorization to trade. 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 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. By these metrics the Company's monopoly trading privileges look to be more secure in the first half of the eighteenth century.

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

Table 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 Sir Edward 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 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 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 history of all 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 to higher customs duties to gifts from the Company. I include all these forms of extraction in table 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 King 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: 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.

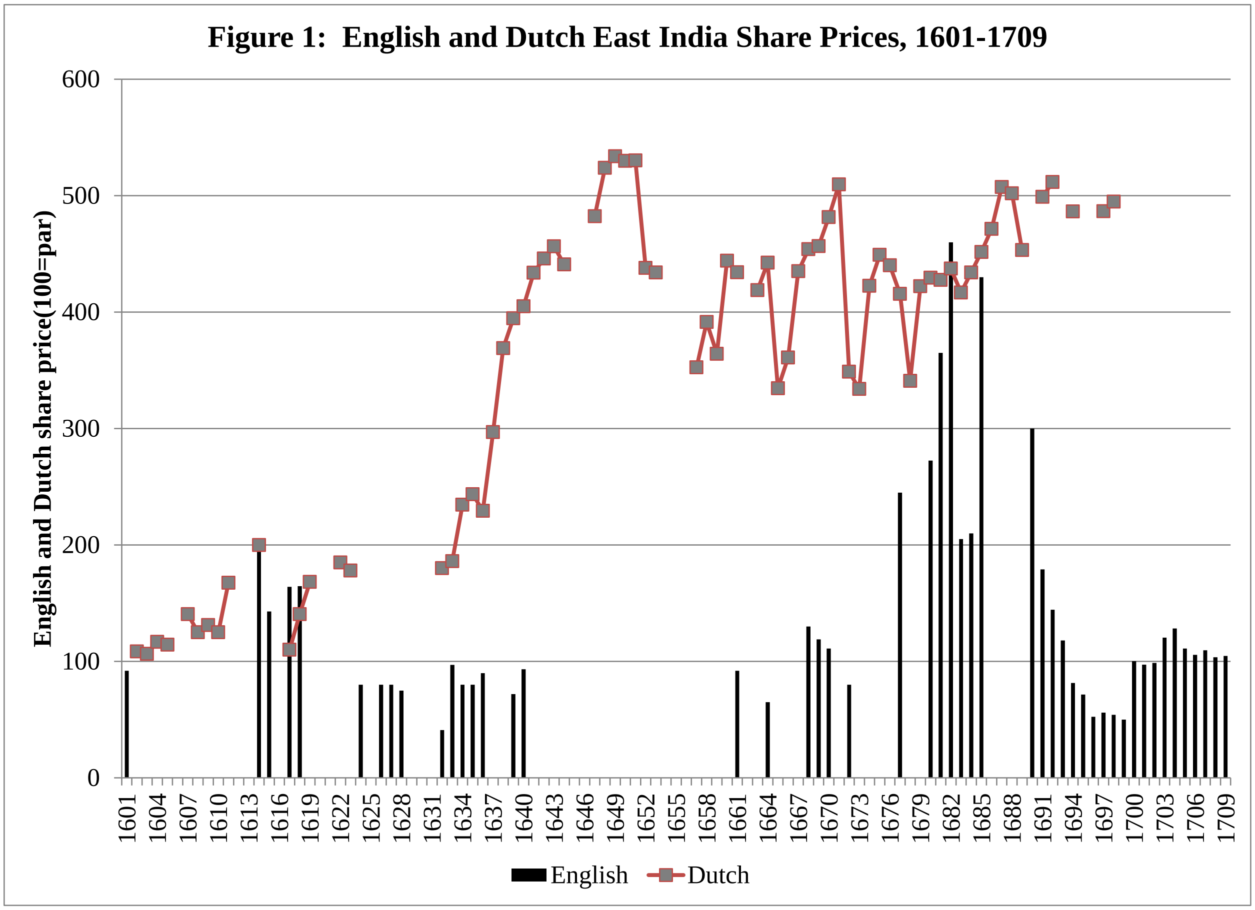
Sources: Chaudhuri, The English East India Company, p. 31; Chaudhuri, The Trading World of Asia, p. 294, Dowell, a History of Taxation, p. 37; Scott, Constitutions and Finance, Vol II, p. 114, 131, 143, 160; O'Brien, Griffiths, and Hunt, Political Components, p. 400; G. B. House of Commons, Public Income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

II. The Financial losses from Insecurity

The financial losses to the East India Company from its insecure trading privileges and property were large. One indicator is the Company's share price, which is available in various years from 1601 to 1690 and then annually afterwards (see figure 1).[60] For comparison I include the Dutch East India Company share price, which is available on a nearly annual basis from 1602 to 1698.[61] 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 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 Company's stock which is also consistent with the high degree of uncertainty during the Commonwealth period.

[60] The share prices for the Company are taken from Scott, Constitutions and Finance, Vol II, pp. 123-128, 177-179. After 1698 the prices are for the Old East India Company only.

[61] 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



Sources: see text.

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 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. 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.

The decline in English Company's net assets is another indicator of the financial losses (see panel A in table 4). 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). The increase in liabilities was the result of the Company's increase in 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.[62]

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.[63] 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.

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

Table 4: 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 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.[64] 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 government loans. The Company's borrowing rates are estimated from the nominal interest rate of East India bills published by Pressnell.[65] 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 2. 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 government loans were costly in this eight-year period.

[64] Pressnell, the Rate of Interest.'

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

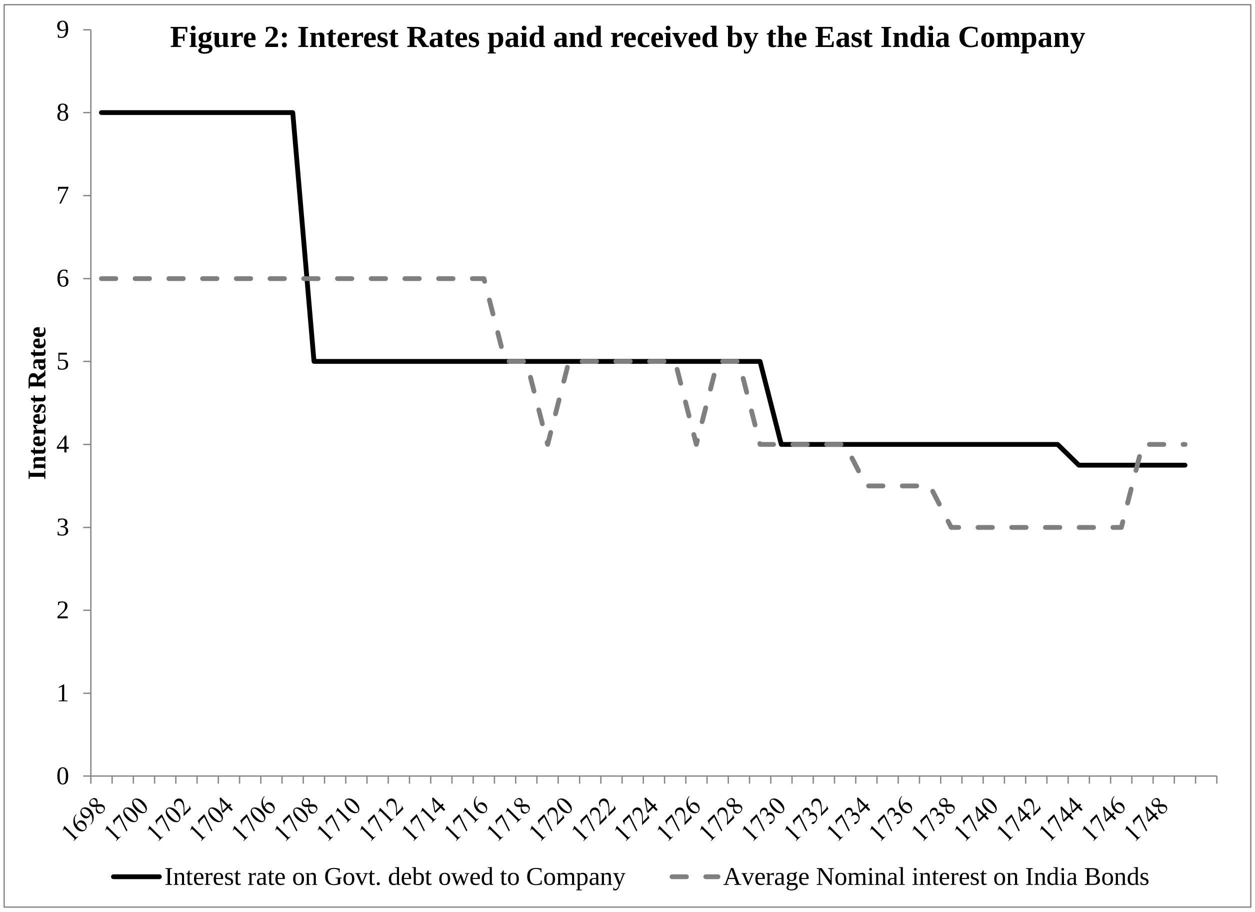


Figure 2: Interest Rates paid and received by the East India Company

Sources: see text.

Another metric for the costs of government loans is provided by the change in Company share prices following the government loan of 1744. In this particular episode there is monthly price data on the English and Dutch East India Companies.[66] 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

[66] 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.

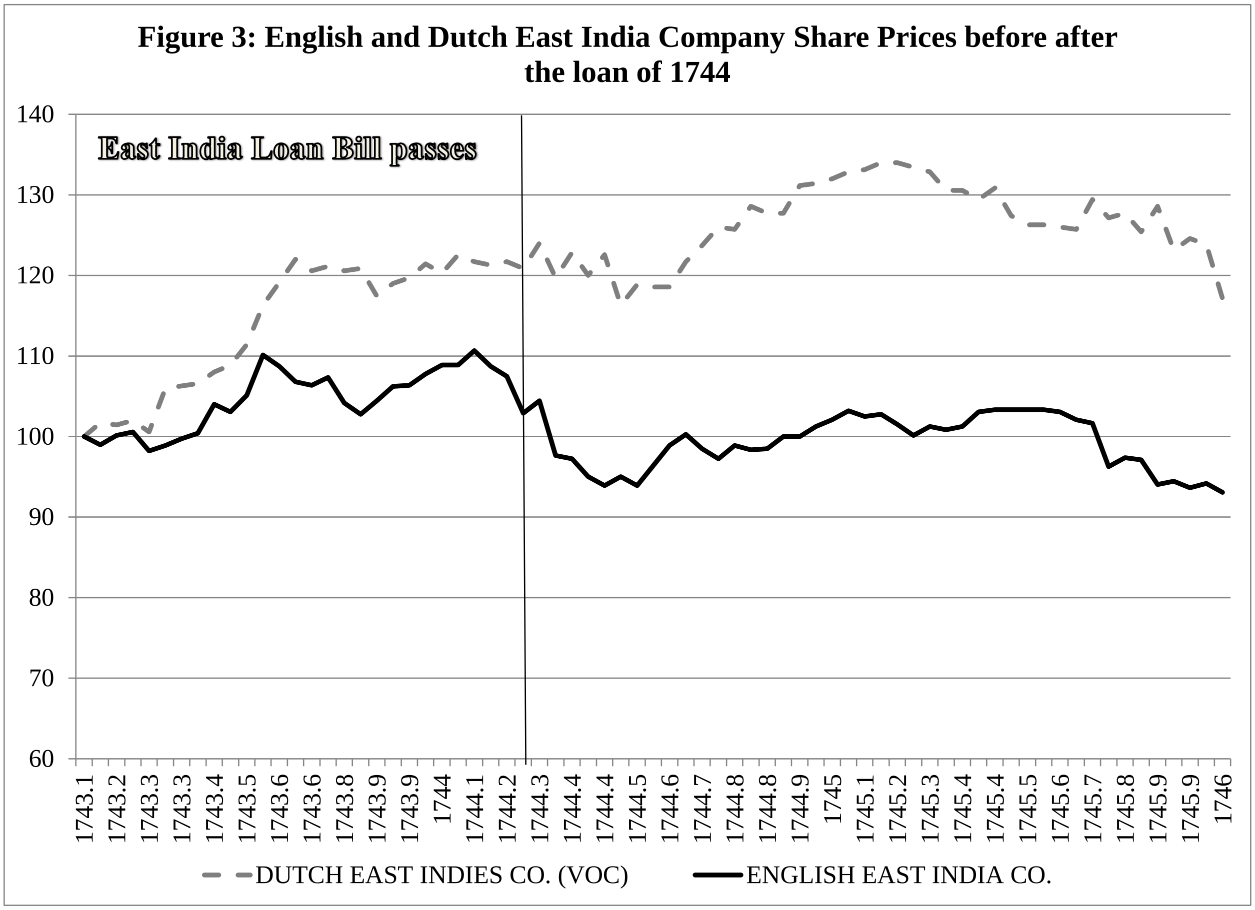


Figure 3: English and Dutch East India Company Share Prices before after the loan of 1744

Sources: see text.

III. 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 (e.g. North and Weingast 1989), 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 5 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.[67]

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

Table 5: 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.[68]

[68] Harris, *Politics Under the Late Stuarts*.

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. [69] 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.[70] 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 Parliament* series.[71] 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

[69] 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.*
[70] Horwitz, Henry, 'The East India Trade, the Politicians, and the Constitution: 1689-1702.'
[71] See Cruickshanks, Eveline, Stuart Handley, and D.W. Hayton. 2002. *The House of Commons 1690-1715* http://www.historyofparliamentonline.org/research/members

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.[72] The results are shown in table 6. 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 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.

[72] See Bogart, "Whigs and Tories: Party Representation in English and Welsh Constituencies, 1690-1740.'

Table 6: 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 7 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 7: 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.

IV. Legal, Political, and Fiscal Developments of 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 8). 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 8: 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.[73] As a side-benefit the Company was spared a number of attacks which followed previous regime changes.

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. In the last years of Anne's reign (1710-1714) the level of partisanship was high and the Queen was

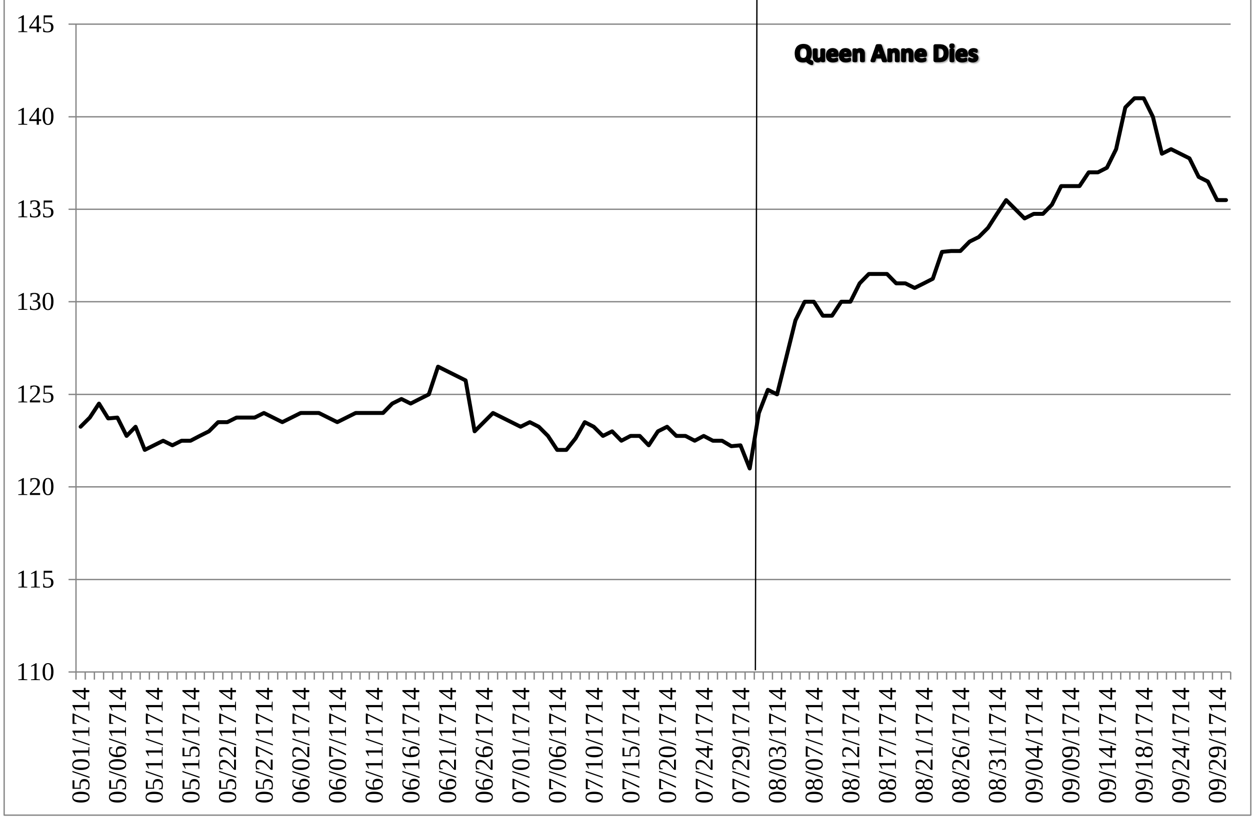
[73] See Plumb, J. H., The Growth of Political Stability.

known to favor the Tories.[74] 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.[75]

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.[76] The effects on share prices of the new and more favorable Hanoverian regime are shown in figure 4.[77] 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).

[74] See Speck, *Tory and Whig*, and Holmes, *British Politics*.
[75] Carruthers, *City of Capital*, p. 145.
[76] Sedgwick, Romney, *The House of Commons 1715-1754.*
[77] 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



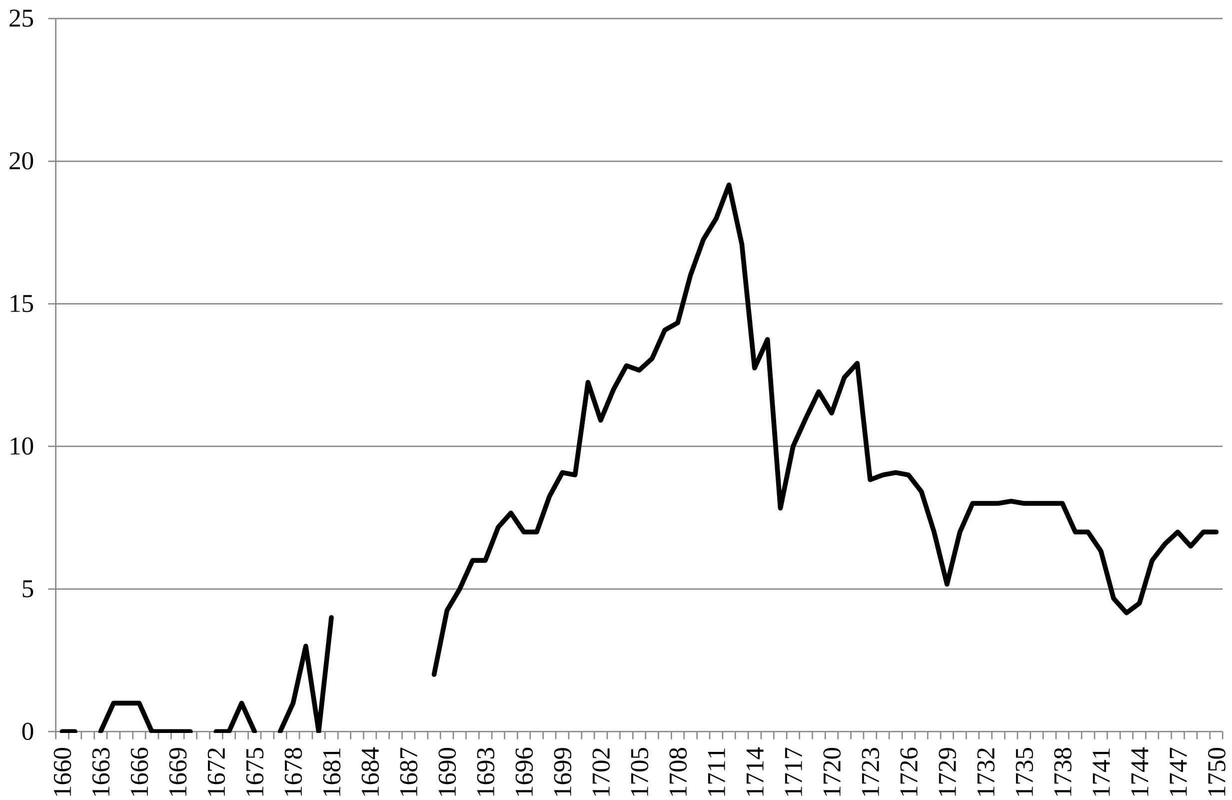
Sources: see text.

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.[78] The trends in the annual count of current and former Company directors and governors sitting in

[78] 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.

Figure 5: Number of Members of Parliament who are or had been Directors or Governors of the East India Company in each year 1660-1750

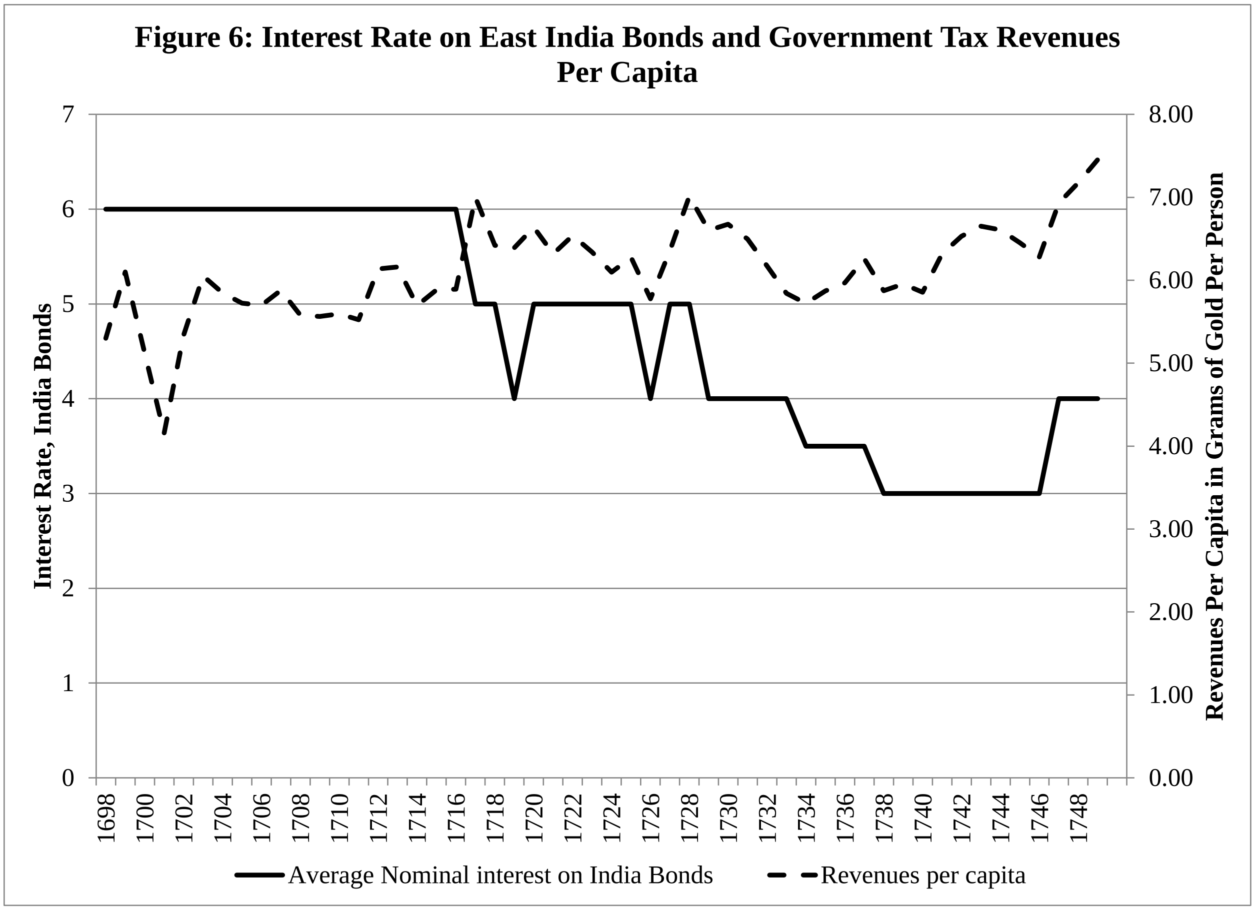


Sources: see text.

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. [79]

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.[80] 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.

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



Sources: see text.

V. Conclusion

The history of the English East India Company yields new insights on the relationship between politics, institutional change, and the security of property rights in Britain. The Company had a legal monopoly over all trade between Britain and Asia, but its privileges and property were far from secure especially in the seventeenth century. As this paper shows, fiscal extractions and government supported attacks on its trading privileges were common in the 1600s and moreover they was costly in terms of market value and the loss of assets. Most surprisingly, the Glorious Revolution did not increase security in the short-run, as the Company was forced to share its monopoly profits with a government sanctioned rival. The eighteenth century proved to be more hospitable to the East India Company's rights because acts of parliament provided stronger legal protections than royal charters and because British politics were more stable than in the seventeenth century. Greater fiscal capacity in the eighteenth century also made the Company a less attractive target for government extractions.

There are two broader lessons from the history of the East India Company as it relates to politics, institutional change, and the security of property rights. The first is that insecurity of property rights can bring large private costs to the firms which are affected. This finding is evident in the large declines in the Company's market value and assets. The second lesson is that critical junctures are not always crucial for increasing the security of property rights. The history of the Company suggests its property became more secure through an evolutionary process which involved greater political stability, investment in fiscal capacity, and legal innovations.

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