

- LECTURE -

The History of Capitalism:

Making Money, Making Empires: The Case of the East India Company

By Professor Huw Bowen

11 September 2014

* * *

Taking a long view of the history of capitalism, it seems evident that three inter-connected developments that occurred in England during the early decades of the 17th century exerted profound influence on the evolving global economy by facilitating the projection of much greater levels of European power and resource into the wider world.

First, those decades witnessed the quickening pace of European expansion in the form of very aggressive plantation settlement, and the establishment of colonies in North America in particular, as well as the emergence of much more systematic commercial activity in the Indian Ocean basin. In the century before this opening up of the Indian Ocean to European traders there had been episodic, haphazard European attempts to trade with the Indies but what happened from 1600 onwards was a much more concerted and organised attempt to open up regular routine sea-borne commercial interaction between Europe and Asia.

Second, we find the emergence of joint-stock companies to facilitate that process of aggressive colonialism and aggressive commercialism, because now, instead of single-voyage investment when individuals would plunge their capital into the purchase and funding of a ship to sail out to Indonesia and back, or to North America and back, there was now a different form of organisation emerging which focused on the pooling of capital to enable long distance trade to take place over several years. The whole length of a voyage to the East Indies and back could take three years or more; the voyage out, searching for commodities, the return, the sale and so on, meant that capital was locked in and tied up in a venture for longer periods of time and it was necessary to pool resources to enable that to happen. And that type of investment was also necessary for the very expensive infrastructure that was necessary to support such a trade; the building of ships, construction of dockyards, and of course in Asia the construction of factories, settlements where trade took place; In short there had to be a lot of start-up capital investment to enable Europeans to trade in the East.

One of the effects of this process was a separation between the ownership and management of capital for the first time. Individuals entrusted their savings, their capital, to other people to manage on their behalf, and that really represents the emergence of forms of enterprises that we are familiar with today. These joint stock companies developed specialised bureaucratic

structures to manage trade and money, which took the conduct of overseas trade beyond the single merchant or partnership and ensured that commercial activity was now conducted on a much larger scale than ever before. At the same time, this process of pooling capital resources also led to the emergence of transferable shares which could be traded on a stock market by investors seeking profitable use for their savings.

Third, linking those two together, in the early 17th century was the creation of exclusive trading privileges in the form of monopolies granted by monarchs or other sovereign powers. In return for payment, companies or groups of merchants could purchase commercial rights which would enable them to represent the crown in a particular sphere of overseas activity. What this did in effect was privatise national overseas activity, because companies such as the East India Company could now act with *de facto* national authority which enabled them to protect themselves, use armed force in support of trade, and negotiate treaties. A formidable portfolio of powers was bound up with the chartered rights bestowed upon monopoly companies, and this served to shape the development of long-distance overseas trade.

So, three important developments occurred simultaneously at the beginning of the 17th century and it was against that background that the English East India Company emerged, having been awarded a charter by Elizabeth I on the last day of 1600 when it was granted sole right to conduct English trade east of the Cape of Good Hope. English trade with the whole vast area of the Indian Ocean world was now in the hands of this company of investors, which included the great and the good of the City of London and the elite of the South East of England. Of course, it must be stressed that the East India Company was by no means the first such company, neither was it conspicuously successful in its first few decades, and indeed it had a very bumpy ride indeed until the early 18th century. But by 1815 - leaping forward 200 years—it was by far the most powerful commercial organisation in the world and its private armed forces had conquered much of the Indian subcontinent.

Over the long run, the history of the Company witnesses the emergence, transformation, and then consolidation of commercial power which was eventually translated into powerful armed force. At the same time that was happening the company was embedding itself at the very heart of the English/British state and the City of London where, together with the much younger and far less mature Bank of England, it formed part of the monied interest whose influence on policymaking and decision-making was all-pervasive.

This is painting of East India House, the company's headquarters in Leadenhall Street, 1817. Today nothing remains. Built on that site now is a rather different monument to capitalism, the new Lloyd's building. The site lies perhaps 400 yards away from the Bank of England, a couple of hundred yards away from the Royal Exchange. The passer-by would have been left little

doubt in 1817 that this was the heartbeat of something rather special, the Asiatic commercial empire of Britain, and the building itself gives architectural expression to exchanges with the East. It housed men like Charles Lamb, Thomas Love Peacock, and John Stuart Mill, who were some of the clerks or ‘writers’ who wrote the dispatches and treatises, that shaped the development of the British Empire in India.

On the face of it, the company that had grown up by 1817 was still fundamentally all about trade, and a famous painting of the China fleet by Nicholas Pocock demonstrates that when contemporaries thought about the Company they often invoked images of maritime East Indian trade; and here we see East India Company vessels, the famous 1,200 ton East Indiamen carrying tea, porcelain, and luxury commodities from Canton back to London. Many Britons clung to that type image of the East India Company as a commercial enterprise, and indeed in 1805 the political economist David Macpherson described it as the ‘greatest commercial organisation in history’.

But of course, in parallel, since the middle of the 18th century other developments had been taking place and the imperial gene that lay at the heart of the company had been defining new patterns of activity and behaviour. A painting by Francis Hayman from the 1760s depicts Clive of India taking control of Bengal, the richest province of India, following the Battle of Plassey in 1757. Clive, a private company employee, is seen as operating beneath the Union flag and the new Nawab or Governor of Bengal, Mir Jafar, is bending in supplication as he acknowledges the new supremacy of the British. In fact Plassey really wasn’t much of a battle at all, and has been described aptly as a ‘business transaction’ because of the amount of negotiation and double-dealing that took place, and indeed Clive himself benefited personally to the tune of £234,000 in the form of ‘presents’ he received from the new nawab and his associates. As a result, Clive came to be seen as one of the archetypal ‘nabobs’ who were much reviled in British society because of their acquisition of ill-gotten gains while in Company service.

The Plassey ‘revolution’ highlighted two important developments: the beginning transformation of the East India Company from a commercial enterprise into an imperial agency and, secondly, the role of the individual who saw the prospect of making money pretty quickly in India. But the real success for the Company came in 1765 at the signing of the Treaty of Allahabad when Clive received from the Mughal Emperor Shah Alam II the most important document in Anglo-Indian history, the *Diwani*. This granted the East India Company the right to collect the territorial revenues of Bengal, which meant that all land rents, customs duties, and stamp duties were passed over from the sovereign power to a private trading company, which Clive amounted to about £2 million a year. Not only did this mean that the Company now commanded very considerable financial resources in India, but it exerted de facto sovereign power over extensive territories and millions of Indians. This situation gave rise in Britain to a

very detailed, longwinded, and ultimately inconclusive legal argument about whether a private company could actually take on sovereignty on its own behalf or whether it could only act on behalf of the Crown, and much hinged on whether Shah Alam was willingly granted Clive the *Diwani* as a gift or whether it was being coerced from him as a result of war. In fact British sovereignty over India was not declared formally until 1813 which meant that for an extensive period of time the Company was in effect governing much of India in the name of Britain and acting as a sovereign power.

Clearly, then, at one level there was a process of official expansion. A Company that was empowered by the state was able to exercise direct and aggressive control over foreign territory. But also what was happening of course was that individuals were seizing the opportunity to make money, which gave rise to a potent combination of corporate and private enterprise acting hand in hand to create a situation which enabled the projection of British power onto Indian states. One by-product of this is that everywhere you look in Britain you will find expressions of the money-making by individuals that took place during the Company's period of territorial expansion after 1750. My own current research is identifying estates, country houses, enterprises, and institutions that were funded by East Indian investment from returned Company employees or 'nabobs'. There are many examples to be found, not least in Wales which was considered to be a provincial backwater in the 18th century, far removed from the world of the East India Company. In fact the inventory of 'East Indian' investment in Wales is actually very considerable and a swathe of territory from Presteigne to Tenby contains country houses once owned by 'nabobs'.

Individuals on the make were able to really take advantage of the money-making opportunities offered by East India Company service in India, but the relationship between the Company and Britain went much deeper than that. First of all, the East India Company, as part of the monied interest described earlier, went a very long way to strengthening the British state in the 18th century. Critically, at a time when Britain was locked in the second 100 years' war, a global struggle for supremacy against France, the East India Company proved to be an extraordinarily important ally to the British state; it loaned it very large sums of money on a regular basis, and its troops and ships acted as a sort of supplementary tactical reserve that could be thrown in against the French as and when necessary. So, for example, in 1796 when the British were struggling in the West Indies it was East India Company ships that were used as transports to take thousands of British troops into the Caribbean theatre of war, and I think we have to see the East India Company as a very senior partner in the military complex that Britain became in the 18th century.

The East India Company also strengthened the British economy at a critical moment in its development and some of you will be aware there has been very heated controversy about

whether simultaneously it led to the de-industrialisation of Asia. In some quarters it was once thought that the wealth plundered at Plassey somehow sparked the British industrial revolution and textbooks from the 1920s and '30s routinely refer to what was known as the Plassey 'Plunder'. This is the loot that was returned to Britain and believed to have stimulated very significant economic activity which led to industrialisation. This notion is now considered to be hopelessly redundant because there is little evidence that wealth generated in India ever fed into the early development of British industries. But what wealth did do coming back into Britain from the East India Company and from individuals was to stimulate a lot of more general economic activity. Money was spent on consumer goods, for example, teas, textiles, luxury goods, which significantly enhanced and improved the standard of living and indeed what Britons consumed. But the East India Company and licensed private traders also exported respectable quantities of domestically produced goods, and at times this offered stimuli to key industries at optimum moments in their development. One example is provided by the copper industry, whose main place of production by 1750 was the Lower Swansea Valley. It was East India Company orders for copper that stimulated the early growth of that industry during the 1720s and thereafter large quantities of Swansea copper found their way into the Asian economies for use as coinage, drinking vessels, boiling pans, kettles and so on. This did not cause Britain's industrial revolution but what expansion in Asia critically strengthened Britain's important sectors of the economy at key moments.

So what was the East India Company? There are several answers to that question and much depends on scholarly perspective. It can certainly be described as being recognisably modern and the way in which the joint stock company was set up in 1601 looks quite logical to the modern eye: it operated with a Board of Directors, a supporting secretariat, very specialised staff, strong sense of vertical integration, and very sophisticated information processing systems.

This meant that decision-making was entirely rational, based upon full information that was acquired as systematically as possible. Of course, the fundamental difference with today was the speed of communication because to get information from India took four months. And that to a large extent explains why men like Clive had free reign because whatever they were instructed to do they could conveniently ignore, knowing that they were beyond the effective reach of London. Even so, modern day business and economic historians have argued that this represents the precursor of the modern firm, with the modern multinational being traced back to the East India Company, and this has enabled them to draw elaborate parallels with General Motors and all sorts of other companies. There is certainly something in that but this organisation was actually quite fundamentally different from the modern firm. This is because while the Company operated in pursuit of corporate goals and objectives, it also gave full rein

to private enterprise which allowed employees to trade on their own account, and this very obviously caused a conflict of interest.

The directors did this because they were realists, who needed incentives to enable men operating thousands of miles away to at least devote some of their time to corporate activity. So what happened was the East India Company which had been trying to prevent and stamp out private trade began to license their employees to trade in certain goods, the commodities that did not rival those that the company were trying to procure themselves. They paid their employees modest salaries, £10 a month, and therefore they were incentivising men such as the commanders of East Indiamen to get their ships to Asia on time in the Company interests but also in their own interest. Of course the licensing of private trade created problems. Firstly, there was the inevitable competition with corporate interests which could damage profitability for stockholders and investors; and ultimately if private traders performed too well they could undermine the very company that employed them. Secondly, of course, as seen with Clive, private activity could run counter to the interests of the state or the crown and thus cause problems for the Company. What happened therefore is that, fuelled by the hostile public response to Clive and other nabobs, the state began to exert much tighter levels of control over the Company from 1770 onwards. Lord North's Regulating Act of 1773 followed up by Pitt's India Act of 1784, and they restricted, for example, the taking of presents by Company employees and imposed considerably stricter codes of conduct.

Ironically, though, just as monopoly rights were being challenged by Adam Smith and others, it was the Company's administrative skills in India, and the attributes that they were displaying in terms of governing the Indian population, that saw it survive not as a commercial company but as an imperial agency. The Indian trade monopoly was lost in 1813, and the China monopoly in 1833 but the Company continued to function as the British government in India until the great Uprising of 1857. So the company that began as a joint-stock commercial enterprise ended its days as a very different type of institution. What we have, therefore, running through this complicated story—which I have very selectively skimmed over - is a mixture throughout of public and private interests being embodied and embedded in the East India Company. The company provided the overarching infrastructure - the ships the forts, the factories—it provided administrative support, and it provided the legitimisation for aggressive private enterprise which was taken up with great enthusiasm by successive generations of its servants. So it may be argued that the monopoly, the much maligned East India Company monopoly, was in fact a fiction, and there wasn't a monopoly at all. There might have been a monopoly on paper but in practice we see rampant and a very extensive range private of enterprise occurring across the Company's territorial and maritime empire. .

It is also possible to argue that the East India Company was a key agent in the development of Britain as the archetypal contractor state, a state in which the core functions of government are actually minimal but where the welfare of the state is dependent upon myriad contractors, large and small, selling things to the state or governing millions of square miles of territory. In recent years there has been much emphasis on Britain as a fiscal military state in the 18th century; that is, a state that was capable of raising money and men to fight wars. Far less attention has been paid to how money was spent and how resources were actually deployed around the world. The British state has always been remarkably good at getting other people to do its fighting and using other people to spend its money. It did this by working closely with contractors, who acted in the national interest but were primarily motivated by generating profits for themselves and investors. I would argue and conclude by saying that the East India Company was the senior contractor partner for the British state through the long 18th century, having been charged with representing the Crown and the City in the Indian Ocean world. It did so with such great and sustained success because it released private enterprise into areas that could not be reached or accessed either by itself or traders who were operating by themselves. It created a world of trade and a territorial empire which meant that it ended its days very far distant, literally and metaphorically, from where it had begun in 1600. The 1874 East India Company was finally wound up. By then it had long been moribund, but an Act of Parliament was passed and all the remaining investors were paid up. At that point *The Times* published an article on the East India Company reflecting on its long history and these are the final words of its lament: 'Now, when it passes away with the solemnities of parliamentary departure out of the land of the living it is just, as well as we can, to record that it - the East India Company - accomplished work such as in the whole industry of the human race no other trading company ever attempted and such as none surely is likely to attempt in years to come.'