

Beginning Eastward From London:

A Study in the Domestic Establishment of the British East India Company (1599-1660)

by Chris Godat

In 1858 the British East India Company officially ceased to exist as a trading corporation because of growing Indian discontentment which culminated in a series of rebellions. Although the Company was basically defunct since the turn of the nineteenth century, it still represented a Golden Age of English trade and its legendary status symbolized almost two hundred and fifty years of commercial dominance in the Orient. The origins of the East India Company are found in a Europe that was just beginning to use its potential as a world power. In general world history, the story of European colonization is perhaps the greatest factor in the break from the Euro-centric view of the Middle Ages to global perception of the Modern World. England followed a parallel process of modernization through the development of the East India Company. The success of the Company forced England to consider the nature of modern economics as opposed to the traditional Medieval model. The formation of the East India Company represents a major development in English economic history and shows the dependency of an early modern economic system on both the decisions of the monarch and the outcome of domestic events.

In the late sixteenth century England was only an infant in the global economic perspective. <1> Spain and Portugal had pioneered overseas ventures and in 1529 had already divided the world into two spheres of influence with the Treaty of Zaragossa. Even with the defeat of the Armada in 1588 and the inevitable waning of Iberian maritime power, it was the Dutch, rather than the English, who began to emerge as the dominant power of non-continental trade. Although there were two English attempts at eastern markets, the British Muscany Co. of the 1550's and the Levant Co. of 1581, both proved to be futile because of their lack of organization and the hostility of other powers. <2> The implications of this failure signified a system of exploitation at the expense of the English. For example, in 1599 the English suffered greatly because of a Dutch increase of the price of pepper from three to eight shillings a pound; the English were still obviously dependent on the Dutch for spices-- an obvious impact of the lack of English overseas development was the failure of the English economy to compete internationally. <3>

An Elizabethan English economist/statesman, Richard Hakluyt, felt that the only redemption for England was to establish direct contacts abroad. <4> Although the reasoning of Hakluyt seems obvious by twentieth-century hindsight, in Elizabethan England the significance of the promotion of such a novel enterprise as an overseas joint-stock company encouraged critical debate over the question of the most efficient form of economic activity. The sixteenth century ended with the Company's first voyage to voyage the Indies. However, there were still many economic issues that had to be settled in England to insure the Company's permanent survival.

English merchants managed to create the basis for the emergence of the company, but the Company's legality had to be administered by Queen Elizabeth. Although merchants had planned to begin their company in 1599, Queen Elizabeth was hesitant to grant the members the necessary charter because of negotiations with the Spanish, who did not wish to allow the English access to eastern markets. <5> Both the realization and fear of the Dutch success in the East caused Elizabeth to sign a charter for "the Governor and Company of the Merchants of London Trading into the East Indies." <6> This charter gave the Company a monopoly status for the next fifteen years, allowed the export of bullion into foreign markets, and gave official government sanction. The combination of government sanction and a stable administrative structure would work better than an emphasis solely on investment. The administration of the company consisted of twenty-four committees, each with their own director, who were responsible for dealing with the foundations of the Company such as ship building, hiring men, and organizing its voyages. Each of these companies was under the control of a single director and his deputy, who were responsible for the general trade practices of the Company. <7> This focus on details created a sense of organization and responsibility, which caused both public and royal optimism in response to the Company's practices. <8> Yet initially there still remained a debate concerning the future success of the company. Many critics were still influenced by the medieval conception that the export of bullion would drain the treasury and that new products would not find a third external market, while others were weary of the monopoly status given to the company. <9> These questions of the Company's legitimacy remained beyond 1660, yet the need of East India Company supporters to protect their organization began a development of new economic theory.

The initial success of the Company during its first twenty-eight years of existence can be attributed to basic innovating principles of economics that were applied to its founding. Despite international tensions, the failure of the previous companies in the East were based on the primitive system of organizing revenue by appealing to two or three single investors into a company. Although money could be easily attained and there were occasional large personal gains, this method of capital financing was dated compared to the new idea of the joint-stock company. This system called upon the investments of several small holders; the India Company began with 218 members who invested a minimum of £50, instead of depending on two or three large holders. <10> The advantage of having many small investors was the ability to withstand failures by gaining money from either new members or current investors.

The success of the Company was then established by the theory that a failure for a few holders ended a Company's life, while a failure for a large group could easily be amended since personal losses were generally not nearly as great. <11> Members often pooled what they could afford, which allowed any merchant with Indian trade designs a chance to participate in the Company: at the same time, a particular member could withdraw after a voyage was complete. <12> Joint-stock companies justified their existence through their support for exploration and through the fact that their profits could be drawn upon by the monarchy in times of crises. <13> Yet Philip Lawson notes that this trust in the joint-stock company was gradual and that it was not until 1614 that a true joint-stock venture occurred with overlapping voyages during a four year subscription

period. <14> In the 1630's the Company was hurt by investors who panicked by small initial losses because they did not yet understand the gradual success of long term investment. <15> Furthermore, it was not until 1657 that the company was run completely as a modern joint-stock endeavor with continual voyages that were judged by overall profit rather than the success of an individual voyage. <16> This proves that the joint-stock company's success depended on gradual acceptance, as well as the necessity for an enterprise to grow to the point of continual trade.

Closely linked to the question of the value of joint-stock companies was both the East India Company's privilege to export bullion and the Company's monopolistic status. In a developing world market without a system of standard currency exchange, the export of precious metals was the only feasible means for trade; yet the public still needed actual figures to prove that the export was necessary for the venture to work. Advocates of the East India Company, particularly Thomas Mun, emerged to defend the Company's charter. Mun came from an aristocratic background and his father was a successful merchant. Mun gained early experience with the Levant Company, trading in Turkey, before his July 1615 election as a director of the East India Company -- a position that he held until his death in 1641. <17> He felt that England could not afford to operate its joint-stock company in any other way, and attempted to establish public confidence in both the export of bullion and the monopoly status. <18> In 1621 he proved that England retained £75,000 through the European spice trade and that £100,000 of exported bullion to India would add £494,223 to the English gross national product. <19> His response to the question of bullion is found in his 1628 defense of the company: "but rather first to enlarge our trade there with by enabling us to bring in more foreign wares, which being sent out again into places of the consume, they will in due time much increase our Treasure." <20> Mun realized that Indian products need not inundate English domestic markets and that the continental demand for spices would ensure a third market. He was also aware that the Company would increase domestic jobs such as merchants, sailors, ship builders, etc., and that the foreign trade would complement domestic activity. <21> The question of monopoly upset several Englishmen who thought that it prohibited free trade agreements. <22> In the defense of 1628 Mun realized that the monopolistic status was essential for the Company's success and competitiveness. This status gave private corporations security against competitors and allowed them to focus solely on their own trade endeavors, rather than on the nuisances of domestic competition for foreign markets. <23> The effects of competing companies would undercut the ability of the East India Company as occurred during the reign of Charles I. Mun's defense marked an advance of new economic theory based on modern methods of a global market. A century later Adam Smith stated that Mun's ideas contributed to "a fundamental maxim in the political economy not of England only, but of all other commercial countries." <24> Yet the fate of the Company was still under the control of the existing monarch.

The actions of separate Stuart monarchs and the English Interregnum hindered the potential of the company. The Stuart monarchs displayed twice how their lack of economic understanding could harm the potential of the company. <25> The first instance, which was supposed to be a solution to financial difficulties within the realm, occurred in 1618 under the reign of James I, as he succumbed to his Scottish origins

when he attempted to establish a Scottish East India Company led by James Cunningham. Nationally this probably created an anti-Scottish feeling in England while the East India Company viewed this as a direct encroachment on their monopolistic status and petitioned that the new charter for the Scottish Company be immediately withdrawn. James I did so only after the Company lent him £20,000, which was never to be returned. <26> A similar negative effect of royal intervention is shown during Charles I's reign. In 1637 he undermined the East India Company's privilege of monopolistic charter by allowing the Courteens, a wealthy family who loaned the Stuart kings over £200,000, to have trading access with India. <27> The reasoning behind this allowance was based on the false assumptions that both the Company's initial export of bullion and its monopoly status caused England's economic slump of the early seventeenth century. <28> Charles I's dislike of the Company is shown vividly in the following speech: "[The East India Company has] neither planted nor settled a trade in these parts, nor made such fortifications and places of surety as might encourage any hereafter . . . neither have we received any annual benefit from thence." <29> The actions of the Courteen Association failed to bring the crown either wealth or honor and eventually resulted in piracy by the Courteen sailors because of their failure to establish any foreign markets due to the gridlock of the Dutch in the region. <30> After Charles I's reign, the charter for the Courteen Company expired. Thus the East Indian Company spent over fifteen years attempting to remedy the Indian situation.

The years of the English Civil War (1642-49) proved to be the greatest threat to the Company's success. The civil war forced the country's potential government to deal with domestic events rather than international trade. The implications of the war seemed favorable at first; the East India members supported the Parliamentary cause by using ships to fight for their cause. <31> But the Company soon understood that Parliament was not going to allow continued monopoly status in eastern trade. Part of the problem of the Company's charter lay in its origins with the monarchy; now that the Parliament proved victorious and Charles I was executed, the charter proved to be worthless. <32> Furthermore, the legacy of the Company's being under the command of the monarch caused its charter reconsideration to be viewed negatively. A two-sided debate emerged within the Company's own administration concerning the re-issuing of the charter. The first side, led by Lord Fairfax, suggested a continued allowance of the Company's charter without its previous monopoly status. The harsher opponents, however, felt that the Company was an agent of the defunct monarch and that it should be suspended altogether. This second side eventually proved to be more persuasive to Cromwell and the Company appeared to be permanently finished in 1653. Aside from its loss of legality, the organization's failure can be attributed to the harsh effects of a civil war such as the disruption of national interests for domestic problems, and the disastrous trade ventures by other English corporations such as the Courteen and Scottish East India Company.

The effects of the Republican government's disbanding of the Company proved to be detrimental to any English merchant interested in the East. The eastern economic situation now became a greedy "free-for-all" which eventually resulted in the desire of local rulers to expel English traders. <33> Cromwell quickly learned from the worsening

economic situation that further delay would only continue to harm the well-being of the realm and that he must re-establish a monopoly over eastern trade. Cromwell allowed £740,000 to go to the re-issuing of the charter on October 19, 1657. The significance of the Cromwell incident is found in the growing trust in the Company. The half-century debate on the nature of monopolistic trade practices was finally solved when the English people realized that the only sound body of commerce was the Company. The effects of competition for eastern markets undermined the trust of local rulers and did not allow the emergence of one stable company. The incident also revealed the strength of the Company; this success is easily found in its continuous trading activity despite domestic problems. <34> Finally, the incident reminded the East India Company members that although their Company could prosper, it was still dependent on the whims of the existing realm. This displays another trend of the growing global economic system of seventeenth-century Europe -- the mutual dependency between politicians and wealthy investors.

Cromwell's re-issuing of the charter was a significant point in the Company's history. Although the economic situation in the Indies was frail and needed to be revised, the Company managed to withstand such domestic threats to its existence as the whims of two Tudor monarchs, the disastrous English Civil War, and public opinion. By surviving, the Company emerged with a relatively successful record; yet its achievement must be placed in the historical context of the status of general mid-seventeenth century English economics. Despite some profits, England was in a general economic depression until the sound establishment of the Restoration. <35> The negative connotations associated with monopolies also proved to be true in the Company's formative years: Lacey Baldwin Smith provides figures which show that the crown only received one and a half pence on every shilling made by company holders. The Company did less to help the realm than the pocketbooks of select investors thus making the original aristocratic investors eventually very wealthy. <36> Yet it is true that with the English Restoration of the monarch, the East India Company also witnessed a new beginning. The trials of the first sixty years of the Company's existence now turned into the origins of a legacy of foreign trade that would not be surpassed by any other European power. The Company would encounter a war with the French in the eighteenth century, would have to deal with eventual problems with Indian natives, and would be forced to operate with constantly changing economic demands for particular goods; yet the Company represented the supremacy of the sea that pre-East India Company economists dreamed of achieving.

Notes

1 Barber, William. *British Economic Thought and India 1600-1858* (Oxford: Clarendon Press, 1975), p. 21.

2 Lawson, Philip. *The East India Company: A History* (New York: Longman Publishing Co. 1993), p.13.

3 Smith, Lacy Baldwin. *This Realm of England* (Lexington, Mass: D.C. Heath and Co. fifth edition, 1988), p. 177-78.

4 Notestein, Wallace. *The English People on the Eve of Colonization* (U.S.A.: Harper & Brothers, 1954), p. 243-45.

5 Miller, *The Indiamen*. (New Jersey: Time Life Books, 1980), p.16.

6 Barber, p. 6.

7 Lawson, p. 21-22.

8 Ibid. p. 21 -22.

9 Barber, p. 5-8.

10 Smith, p. 177.

11 Lawson, 19-20.

12 Lloyd, T.O. *The British Empire 1558-1983* (Oxford: Oxford University, 1984), p. 14.

13 Notestein, p. 251-53.

14 Lawson, p. 20-25.

15 Miller, p. 20.

16 Lawson,p.19-23.

17 "Thomas Mun from *The Dictionary of National Biography*. vol. XIII, founded by George Smith, ed. by Sir Leslie Stephen and Sir Sidney Lee, (Oxford: Oxford University Press, 1917), p. 1183-85

18 Barber, p. 6-15.

19 Mun Thomas. *A Discourse of Trade (From India with the East Indies)* (New York: Facsimilie Text Society, reprinted 1930 from 1921 edition), p. 23.

20 Mun (1628), p. 28-9.

21 Barber, p. 21-25.

22 Lawson, p. 35.

23 Innes, *England Under the Tudors* (New York: Putnam's Son, 1937), p. 421.

24 "Thomas Mun" p. 1185.

25 Lawson, p. 33.

26 Lawson, p. 33.

27 "Courteen Family", see above entry for *The Dictionary of National Biography*. vol. IV, p. 1258-60.p.

28 Lloyd, p.19.

29 Crawston and Keane *The Early Chartered Company 1296-1858* (New York: Bun & Franklin, 1896 reprinted 1968), p. 19-20.

30 Lawson, p. 34.

31 Ibid., p. 38.

32 Ibid., p. 39.

33 Ibid., p. 40.

34 Barber,p.6-10.

35 Kenyun, *Stuart England* (New York: St Martin's Press, 1978), p. 14- 15

36 Smith, p. 178.

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