UNIT 14 MERCANTILE POLICIES AND INDIAN TRADE

Structure

14.0 OBJECTIVES

In this Unit you will study:

- how the East India Companies were structured as joint stock enterprises of many investors,
- how and why these merchant capitalist ventures known as East India Companies were given monopoly trade privileges by the governments of their respective countries,
- how there was a struggle between monopoly trade of the English East India Company and English Free Traders, leading to the withdrawal of monopoly privileges,
- the nature of the trade of the English Company and the private trade of servants of the Company in India as a collective monopoly,
- the reasons why merchant capitalist enterprises turned towards acquisition of territories and political power, and
- how the rise of industrial capitalism changed the nature of Indo-British economic relations, and consequent changes in the Company's mercantile policies.

14.1 INTRODUCTION

You already know the circumstances in which the East India Companies came into existence as a result of the long evolution of merchant capitalism in Europe (Block 2). You also know the role played by European East India Companies, particularly the English Company, in the political history of India in the last decades of the 18th and early 19th centuries (Block 3). This Unit introduces you to the structure and nature of the East India Company's trade in India and the monopoly that it enjoyed, the struggle between monopoly trade of the Company and English Free

Traders, the motives behind acquisition of territories and political power by the Company, rise of industrial capitalism in England and its effect on the Company's mercantile policies.

14.2 STRUCTURE OF THE EAST INDIA COMPANY

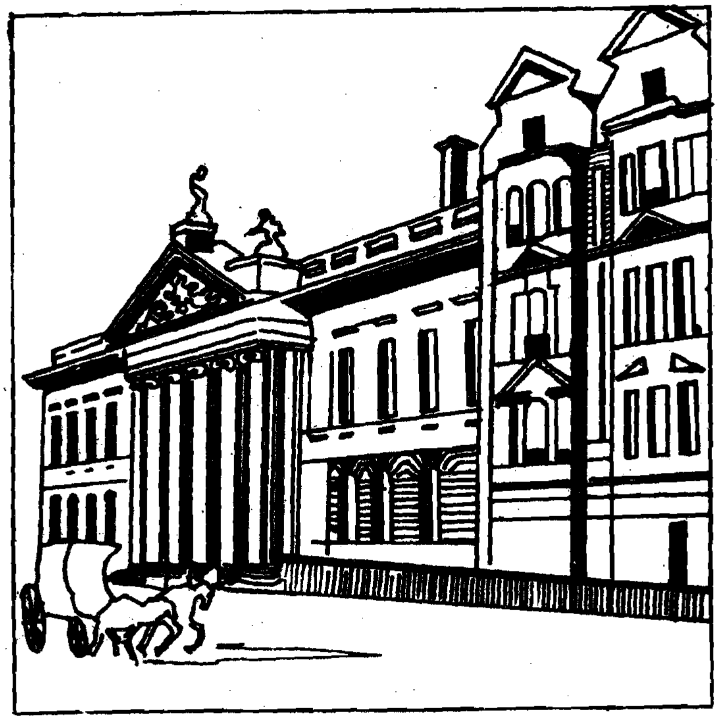
You must have observed that today business enterprise is dominated by companies which sell stocks and shares in order to raise the capital they need in business. These are joint stock companies as distinct from business owned by a single proprietor or some proprietors in partnership. The East India Companies of Europe were some of the earliest joint stock companies in the world.

What was so special about these companies and how did the joint stock form of organisation give them any advantage? To begin with, the joint stock structure, that is to say the collection of capital from a number of stock or shareholders enabled these companies to put together a much larger quantity of capital then was possible for a single proprietor or a few in partnership. Moreover, a joint stock company ensured continuity of business activities and policies over a long period, sometimes for centuries; unlike the shorter life span of business run by a single proprietor. Consider also the fact that in joint stock company there is scope for mobility of capital; in other words, the money invested in the shareholdings of one company could be taken out by the share owner (by selling his share to another) and put to other uses, including investment in another company. Thus capital was not tied up in one enterprise, but moved with greater ease to more profitable enterprises, thus ensuring the most efficient use of capital.

For all these reasons the joint stock company form of organising the business of East Indian trade was superior to and more efficient than any earlier form. Particularly for the trade with India the European countries needed this new form of organisation because of the large amount of investment required, the uncertainty of business (ship-wreck, wars etc.), and the long waiting period between investment and realisation of profit (due to the long voyage by sailing ships around the continent of Africa to India). In the early days the English merchants used to pool their money to buy or hire and equip ships to go on a voyage to India for these reasons. The logical culmination of this development was the foundation of the East India Company (1600) as a joint stock enterprise. In the beginning only a few very wealthy merchants of London were shareholders of the East India Company. But in course of the 18th century relatively smaller shareholders began to participate in and became owners of the new United Company of the Merchants of England Trading to the East Indies (founded in 1708). This new company continued to be called the East India Company as of old.

14.3 EAST INDIA COMPANY'S MONOPOLY

Another structural feature of the English East India Company was that it was granted a monopoly by the government of England. What was meant by this monopoly and why did the government grant it? 'Monopoly' in a general sense means the exclusive control of trade with India and other countries on the Indian Ocean and further east up to China. In consequence only the East India Company (to the exclusion of any other person or business firm) was legally entitled to trade with the above-said countries. This was a legal right conferred upon the East India Company by Queen Elizabeth I in the first instance and later by other monarchs. Why did the monarchs or governments do so in the 17th and 18th centuries? They gave this monopoly right to the East India Company partly because it was commonly believed, under the influence of the Mercantilist school of thought, that the state must promote trade abroad to bring home wealth from foreign trade. The risky trade with distant countries was supposed to be particularly in need of monopoly system so as to ensure to the investors profits of monopoly and thus to encourage such investment. Moreover, the relatively wealthy English merchants in the Indian trade were influential in the monarch's courts and the government.



East India House

At any rate, the upshot was that the Government in England conferred a monopoly of trade on the East India Company. This was done by granting to the Company a 'charter', i.e. a deed or a written grant of monopoly rights renewed from time to time by the government. The instrument by which such a right was conferred on the company became known in late 18th and early 19th centuries as the 'charter act', passed by the English Parliament. (The French and Dutch East Indian Companies also enjoyed monopoly rights granted by their government.)

Now, it is one thing to declare such a government grant of monopoly, and it is quite another thing to make the monopoly (i.e. the exclusion of others) effective in fact. What did the legal monopoly mean in actual practice?

14.4 MONOPOLY VERSUS FREE TRADE

From the middle of the 18th century till 1813 the East India Company, particularly its top management, called the Court of Directors, had to struggle very hard to make the Company's monopoly rights effective, i.e. to exclude others from entering the trade. This was no easy task. For one thing, the English East India Company's own employees were naturally not above the temptation to set up a private business along with their official business, i.e. the Company's business. For another, there were always merchant and adventures making their way to India and managing to set up business firms of their own: these were called 'free merchants' or 'interlopers' (i.e. intruders engaged in unauthorised business). Both kinds of activities came in the way of the Company's monopoly.

As regard the first of these,the private business of the servants or employees of the East India Company, the problem was that the self-interest of the bulk of the Company's employees including the top men in India would not allow the strict implementation of the instructions of the Company Directors to stop private trade. The scale of salary, till the beginning of the 19th century was low, and the practice of supplementing the salary with profits of private trade was, widespread. What is more, the Company servants were in the habit of passing off their own private trade commodities as part of the Company's export commodities in order to claim exemption from internal duties in Bengal. This, known as the 'abuse of the **dastak**' (i.e. permit to trade duty free), became the subject of contention and a cause of conflict, between the Bengal Nawab and the English (see Block 3). In fact the private trade interests of the Company's servants and the Company's official trade became practically inseparable in the last half of the 18th century.

As for the Free Merchants' their chief aim was to expand their business at the cost of the Company's business. Yet they were tolerated because the Company's servants found them increasingly useful to enable the Company's servants to invest their savings and ill-gotten plunder. Sending money to England was also facilitated by the Free Merchants. As the Directors of the East India Company and conscientious Governors like Lord Cornwallis began to insist on the withdrawal of the servants of the Company from private trade, the Free Merchants obtained more capital from the Company servants. They acted so to speak as agents of the Company Servants. Hence there developed a number of Agency Houses which later, in the last half of the 19th century, became known as Managing Agencies.

In the meanwhile the monopoly privilege of the EIC came under attack in England. The doctrine of Free Trade, promoted by economists like Adam Smith (Wealth of Nations, 1776), was inimical to monopolies. The capitalists excluded from Indian trade by the EIC naturally lent support to the campaign for Free Trade. Capital accumulating in England wanted freedom from restrictions on investment. Moreover, the on-going Industrial Revolution brought to the fore in the last half of the 18th century industrial capitalist interest; the purely merchandising activities of the EIC, importing goods from India to England, diminished in importance in comparison with industrial manufacturing in England. There were strong lobbies in Parliament pressing for the abolition of the Company's monopoly.

In these circumstances the Charter Act of 1813 was passed abolishing the monopoly in Indian trade; another Charter Act in 1833 abolished the remaining part of the Company's privileged monopoly, that in the China trade. Thus, after more than two hundred years, the monopoly conferred on the EIC was taken away by the government.

Check Your Progress 1

1) What are the advantages of the joint stock companies? Answer in five sentences.

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2) What do you understand by 'Monopoly of Trade'?

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3) Write in brief about the challenges that the EIC faced in respect of its monopoly over Indian trade? Answer in 100 words.

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14.5 NATURE OF THE COMPANY'S TRADE

We have been discussing above the legal monopoly created by the English government. In fact, the monopoly was entrenched upon, as we have noted. However, in certain parts of India the Company and English private traders collectively enjoyed virtually a monopolistic position. This was, for example, true of Bengal from the last decades of the 18th century. (We shall go into the details of the history in Unit-18 in this Block).

When the essence of mercantile capitalist business was buying cheap, and selling dear, reduction of competition would be inevitably the aim of business. If you were aiming to buy cheaply you would find it advantageous to have as few buyers in the market as possible; obviously that helps to buy cheaply. Likewise it helps to sell your goods dear if you have as few sellers as possible. That is what monopolistic business is about. However, real life seldom matches the text book definition of a monopolist on a single buyer in the market. Conditions approximating that situation may exist under special circumstances, for example the use of coercion or force, legislation, or even warfare to eliminate competitors. All these means were used by the English East India Company in India.

As you know already (Block 2) the European East India Company's main business was to procure certain commodities like spices, indigo, cotton cloth etc. and export them to Europe. Procurement of these goods in India initially took place under fairly competitive conditions. A 17th century English Factory had generally to compete with local or 'country merchants' and foreign traders, including other European East India Companies. In course of the 18th century the Englishmen increasingly acquired a position of advantage:

i) Other European East India Companies were marginalised; the military and political victories of the English Company over the other ones have been mentioned in Block 3.

ii) The weakness of the successor states and principalities since the decline of the Mughal Empire allowed the East India Companies to bully and bribe the local powers to grant Europeans special trade privileges.

iii) Artisans as well as peasants, e.g., weavers and indigo growers, were sometimes subjected to coercive practice from the last decades of the 18th century in order to procure goods at a cheap price or to persuade them to produce the goods for the Company. By the end of the 18th century the position acquired by the English East India Company and the servants of the Company in private trade may be described as a collective monopoly in respect of the chief commodities of export to Europe.

14.6 MERCANTILE BUSINESS AND POLITICAL POWER

We have discussed till now some of the features of mercantile capitalist activities, typified by the East India Company, but we have not touched upon one question. What motivated a company of merchants like EIC to launch on territorial expansion and what did it have to do with politics?

In the beginning of European trade with India there were only **voyages** to India by one or more ships from time to time. However, it was not easy to procure large quantities of goods in India at short notice when a 'voyage' visited an Indian port. Therefore, it became necessary to set up **Factories** in or near major sea ports or production centres. You must note that these were not factories of today where things are actually produced; the word 'factory' in 17th and 18th century English meant foreign trading stations set up by a merchant Company. The officials posted there were called 'factors' who were essentially salaried agents purchasing goods on behalf of the East India Company for export. Now the English as well as the other East India Companies wanted to protect the factories with a **fort** around it. After the decline of the Mughal empire set in, such protective fortification may have been needed in some regions and some local government tacitly or explicitly allowed acquisition of land and building of forts by East India Companies. However, the Companies began to exceed the limits of legitimate self protection and fortified and militarized their trading stations as centres of armed power challenging local governments. Fort William of Calcutta and Fort ST. George of Madras were prominent instances of this kind (see Block 3). Thus, the fort provided a nucleus allowing the foreign merchants to spread their control over the neighbouring territory. The territorial claims of the Company sometimes had a legal basis (e.g. the grant of **zamindari** rights, as in Bengal), but more often than not the real basis of the territorial claims in the last decades of the 18th century was the military strength of the Company. You already know how the European Companies operated as one of the territorial powers from the middle of the 18th century (Block 3).

The evolution of the English EIC from the **Voyage** system to **factory** system, from that to **forts** and eventually to the position of a **territorial power** helped in business; it was, not just a fit of absent mindedness and an aberration from the proper task of merchants that led to the political hegemony of the Company that became the British Indian Empire. It was useful to have military power to back up coercion on the artisans (e.g. the Bengal weavers) to produce goods at a cheap price, to bully the local merchants to make them subservient to English factors and private traders, and, of course, to eliminate other foreign merchants (particularly the French and the Dutch) from competing with the English. Moreover, a military and territorial power could extract from the regional principalities and the local nobility "Protection money", bribes etc, not to speak of plunder that warefare brought in. Finally, control over territories brought in revenue. The classic example of this was the **Dewani** of Bengal from 1765. The Company's share of the land revenue of Bengal enabled it to reduce for many years the remittance of bullion from England. Bullion was needed to buy goods in India for export by the Company and it was, of course, desirable to reduce bullion export from England by raising cash in India to pay for exports from India. Thus the territorial ambitions of the East India Company made a lot of economic sense so far as English interests were concerned.

These are some of the reasons why we see the Company playing such a salient role in Indian political history in the 18th century to emerge as the largest territorial power by the beginning of the 19th century.

14.7 RISE OF INDUSTRIAL CAPITALISM AND THE COMPANY'S MERCANTILE POLICIES

In England in 1750, about 40 to 45 per cent of national income originated in the agricultural sector; by 1851 agriculture's share diminished to 20 per cent and by 1881 it came down to about 10 per cent. The contribution of foreign trade to England's national income was 14 per cent in 1790; it increased to 36 per cent by 1880. This helps us measure the rapid pace of industrialisation in England; that country was transformed in the last half of the 18th and early 19th century. (Block 2 discusses some aspects of this transformation). As a result industrial manufacture foreign trade in manufactures became the mainstay of the English economy. In particular the growth of English cotton textile industry obviously meant an end to the demand for Indian cloth in England. On the contrary, England was now seeking markets for her cotton textiles in, among other countries, India. Moreover, to make industrial goods, England needed now more raw material than before; for example, England now, after her industrialisation, would import raw cotton from, among other countries, India. Thus the whole basis of economic relationship between England and India was different after the industrialisation of England compared to what it had been in the era of merchant capitalism.

In short, the Indian empire acquired by the merchant company had to fulfil a different role after the transformation of England into the first industrial capitalist country. The merchant company and their empire slowly veered towards a new role in the new scheme of things. In the period you are studying in this course, i.e. till 1857, only the beginnings of a new imperialism can be seen. It is seen in the decline of the export of Indian manufactured goods to England. The value of cotton cloth exported from India to England declined from pound 1.3 million to only pound 0.1 million in the years 1815 to 1832. In the same period the import of cotton cloth from England increased almost 15 times. In the previous century the mainstay of the Company's mercantile policy was to purchase cotton cloth in India for export. That procurement or purchase was naturally abandoned in the early decades of the 19th century. In the last days of the Company's trading career, in the 1820's, no cotton manufactures were exported by it to England; the only goods it exported were raw silk, salt petre or raw material for gunpowder, indigo an agricultural product, and (the only manufactured commodity) a small amount of silk cloth. As regards imports from England, the East India Company stopped it altogether from 1824, except for military stores etc. used by the Comapny itself. The trade between India and Europe passed from the hands of the Company to private traders; as you know, the Charter Act of 1813 fully opened Indian trade to the private traders.

Another great change in the Company's policies and finances took place in the first decades of the 19th century. This was the increase in non-commercial earnings of the Company, i.e. what was called the Territorial Revenue which came from the land revenue and other taxes collected from territories conquered by the Company. At the same time the commercial earning declined because, as you already know, the Company's trade diminished in these years to the vanishing point. Thus from 1820's the Company depended almost entirely on Territorial Revenue whereas up to the 1765 the only income had been from commercial profits. From 1765, the assumption by the Company of the Dewani of Bengal, territorial revenue began to increase and eventually outstrip commercial earnings. Thus the finances of the Company reflected its transformation from a merchant corporation to a territorial power.

Finally, one may note that it was the Company's deliberate policy to divert the revenue it collected to commerical purposes. This was a result of the Company being simultaneously part of the government in Bengal from 1765 **and** a merchant company. A substantial portion of the revenue of Bengal was used in the purchase of goods for export to England, the so-called 'investment'. As a Committee of the English House of Commons put it in 1783, such 'investment' was not actually employment of trading capital brought into Bengal, but merely a means of "payment of a tribute". This was a major example of what the Indian economic nationalists later called 'economic drain'. The territorial revenues also enabled the Company to raise money on credit (the so-called Territorial Debt) and to pay for military action for further territorial expansion.

Check Your Progress 2

1) List some of the economic factors that motivated the EIC to acquire territory and political power in India.

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