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THE ENGLISH CHARTERED TRADING COMPANIES, 1688–1763

GUNS, MONEY AND LAWYERS

Michael Wagner

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The English Chartered Trading Companies, 1688–1763

This book provides a collective view of the five major English chartered trading companies that were active during the period 1688–1763: the East India Company, the Royal African Company, the Hudson's Bay Company, The Levant Company and the Russia Company. Using both archival and secondary sources, this monograph fills in some of the knowledge gaps concerning the less well-studied companies and examines the interconnections between international rivalry, the financial operations of the companies and politics that have not featured prominently in the historiography.

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Contents

Figures

Tables

Preface

This book has been a long time in the making. It was to be expected that, armed with an MBA and over twenty years of business experience, I would be attracted to some form of business history when I began to formally study history. My DPhil thesis of 2012 at the University of Oxford dealt with the Hudson's Bay, Levant and Russia companies. In the process of writing my thesis, it became obvious to me that while there was an ongoing interest in the Hudson's Bay Company amongst Canadian historians, there had been relatively little recent work on the Levant and Russia Companies. I therefore decided to write articles, drawn from my thesis, on each of these three companies. The first article that appeared was entitled, 'Misunderstood and Unappreciated: the Russia Company in the Eighteenth Century', *Russian History*, vol. 41, no. 3 (2014), 393–422. The second article to be published was entitled, 'Asleep by a Frozen Sea or a Financial Innovator? The Hudson's Bay Company, 1714–63', *Canadian Journal of History*, vol. 49, no. 2 (autumn, 2014), 179–202. The third article was entitled 'The Levant Company under Attack in Parliament, 1720–53', *Parliamentary History*, vol. 34, part 3 (2015), 295–313. My research interests then broadened to include the East India and Royal African companies. Thanks to Will Pettigrew's invitations, I was fortunate to be able to present papers at conferences in Delhi and Toronto that contained some of my new research and were published as book chapters. The first of these chapters was entitled 'The East India Company and the Shift in Anglo-Indian Commercial Relations in the 1680s', and it appeared in a volume edited by William A. Pettigrew and Mahesh Goaplan entitled *The East India Company, 1600–1857: Essays on Anglo-Indian Connection* (Delhi, 2016), 60–72. The second chapter was entitled 'Profit and Surety: the British Chartered Trading Companies and the State', and it appeared in a volume edited by William A. Pettigrew and David Chan Smith entitled *A History of Socially Responsible Business, c. 1600–1950* (London, 2017), 95–116. I also wrote a brief note for the Jewish Genealogical Society of Great Britain entitled 'Jewish Involvement in the English Overseas Trading Companies: the first Century', *Shemot*, 23 (2015), 7–9. The expansion of my research to include all of the five main English chartered trading companies that were active in the late seventeenth and early eighteenth centuries led to the idea for this monograph. With the kind permission of the publishers, I have included excerpts from my previous publications in this book. However, what I hoped to accomplish with this book was not simply to draw upon my previously published work. In addition to exposing a large body of new, unpublished research, I sought to fill a substantial gap in the historiography by illuminating connections and drawing comparisons across all five companies.

Maps

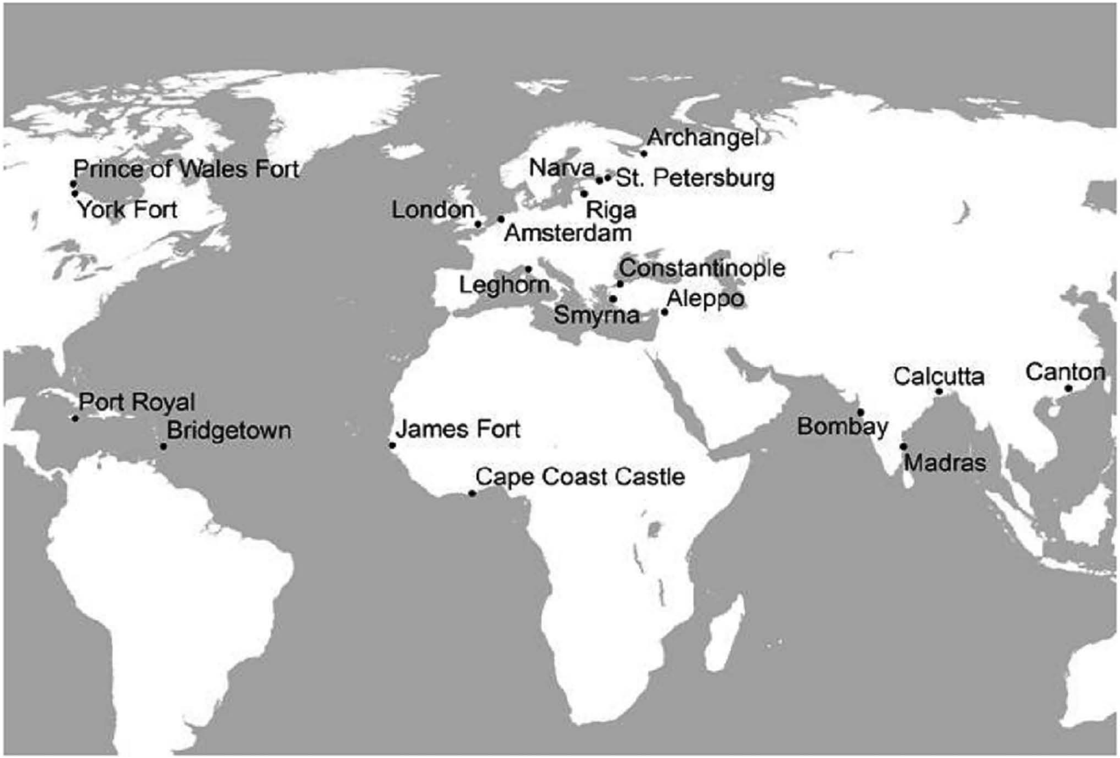

Figure FM.1 Global Scope of the Trading Companies.

Map created by Michael Wagner and Michael Athanson.

Figure FM.2 Russia Company.

Map created by Michael Wagner and Michael Athanson.

Figure FM.3 Levant Company.

Map created by Michael Wagner and Michael Athanson.

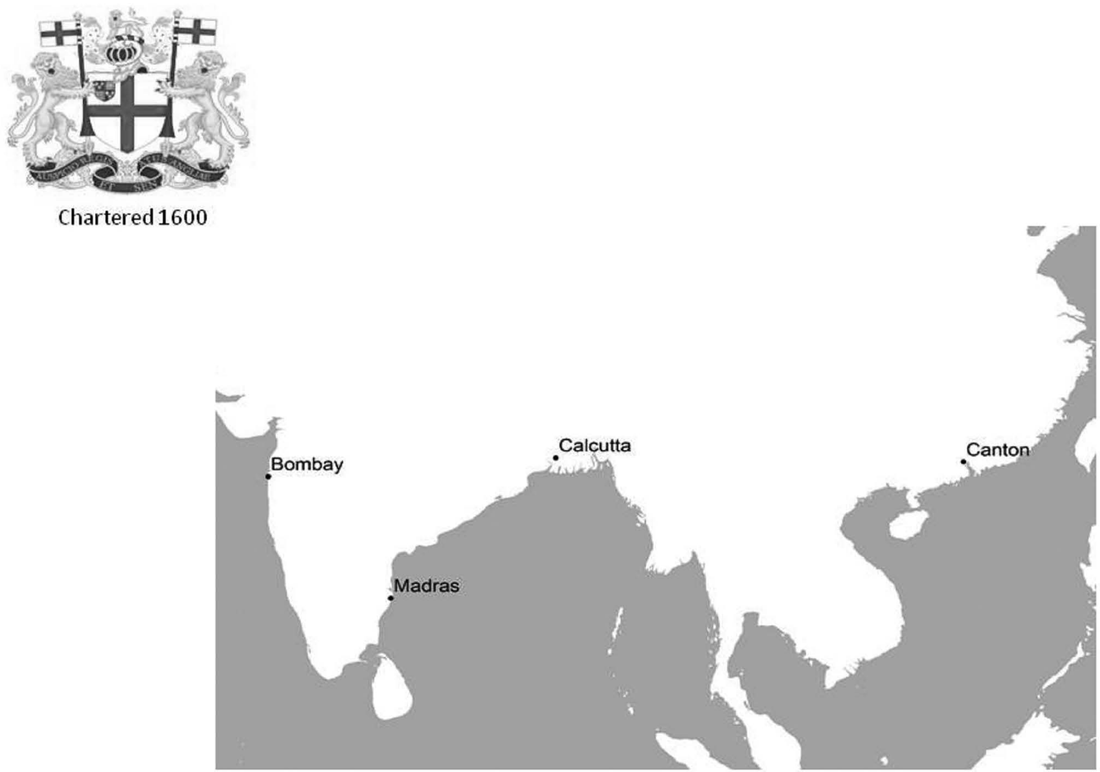

Figure FM.4 East India Company.

Map created by Michael Wagner and Michael Athanson.

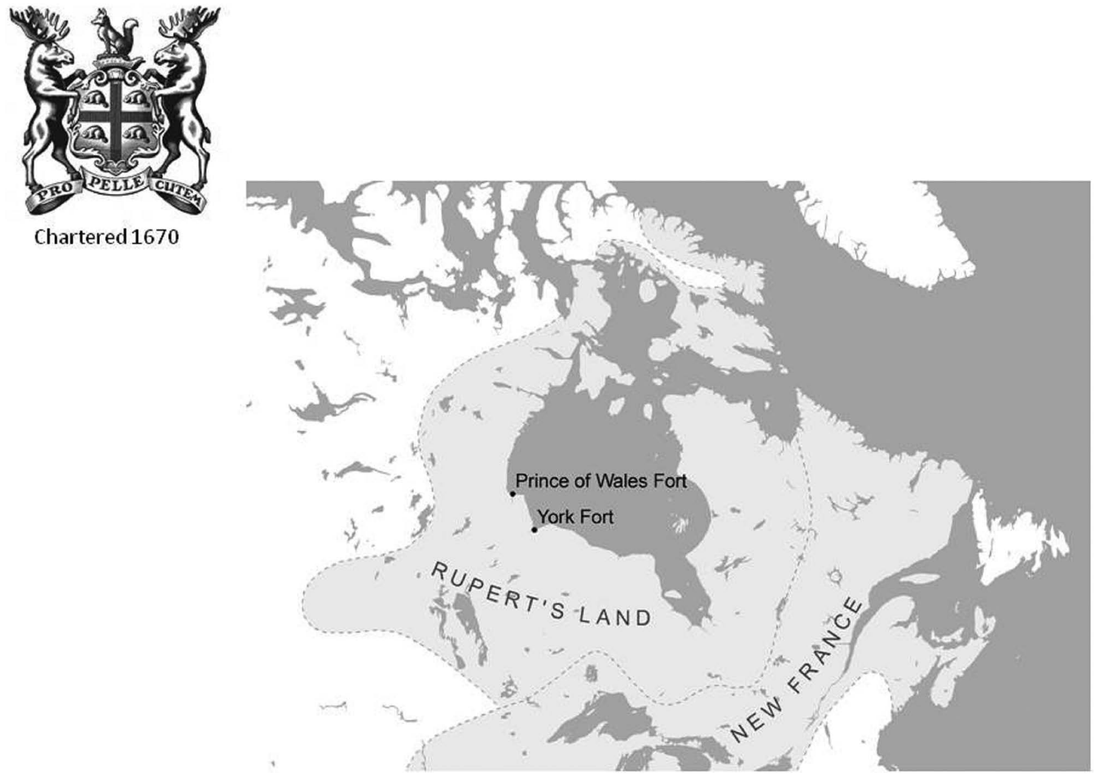

Figure FM.5 Hudson's Bay Company.

Map created by Michael Wagner and Michael Athanson.

Figure FM.6 Royal African Company.

Map created by Michael Wagner and Michael Athanson.

Acknowledgments

Thank you to Perry Gauci for his encouragement and very helpful suggestions over the years. Under Perry's influence, what started as a Canadian's natural curiosity about the Hudson's Bay Company has now blossomed into a broad interest in trade and the politics of trade. Will Pettigrew has helped me considerably by providing me, through his seminar and conferences, with an opportunity to test some of the ideas that have found their way into this book. My students at the University of Oxford's Department for Continuing Education have also played an important role in influencing my thinking about how overseas trade shaped Britain's relationship with the world. Also, thank you to my daughter, Anne, whose academic achievements have provided me with an incentive to try to keep up. Finally, without the support of my wife, Heather, this book would simply not have been possible.

Introduction

This book aims to provide a collective view of the five major English chartered trading companies that were active during the period 1688–1763: the East India Company (EIC), the Royal African Company (RAC), the Hudson's Bay Company (HBC), the Levant Company and the Russia Company.[1] These companies, which were chartered in the sixteenth and seventeenth centuries, allowed English trade to expand beyond its traditional markets and enabled access to vast new markets including India, China, Russia, Africa, the Ottoman Empire and Canada. The economic benefits of the new trade routes developed by these companies cannot be measured simply in terms of their profits. Their imports were one of the driving forces of the English consumer revolution and the companies had a broad network of economic stakeholders who depended on them for their livelihood. The thousands of jobs that were associated with the companies included: sailors, soldiers, shipbuilders, dockworkers, woollen cloth and silk weavers, hat-makers and metal workers, amongst others. Leading merchants in the companies also became important figures in the City of London and the companies made a significant contribution to the finances of the state. Despite their impressive contributions to the economy, the companies, as a group, are unappreciated.

The historiography of these companies is dominated by one salient fact; the overwhelming focus of historical enquiry has been directed towards the EIC. In the last decade, some 90% of publications concerning the companies have dealt with the EIC. There has been some but considerably less work on the other joint stock companies. Canadian historians continue to be interested in the nineteenth-century history of the HBC, especially the role that the company played in the development of western Canada. The RAC has also received some attention because of its role in the slave trade and it has been used as a case study in the early development of capital markets. The two regulated companies, the Russia Company and the Levant Company, have received even less attention.

The dominance of the EIC in the historiography has, in my view, created a distorted view of the chartered companies as a whole. The EIC was not typical. As the great economic historian of the EIC, K. N. Chaudhuri, noted ‘the East-India companies did not set the general institutional norm of long-distance trade in the seventeenth and eighteenth centuries, which was firmly based on private partnerships and individual family-owned business houses both in Asia and Europe’.[2] The EIC was not representative of merchant enterprise in general and it was not representative of chartered companies. The Russia and Levant companies were essentially associations of merchants who traded on their own account. As a business, the HBC was very small, prompting Adam Smith to liken it to a partnership in the *Wealth of Nations*. [3] For most of its corporate life the RAC was unprofitable and its forts in West Africa were more comparable to the HBC trading posts than the EIC’s factories in India.[4] Even before the EIC was given the right to collect taxes in Bengal, Bihar and Orissa, the sheer size of the company, its army and the loans it provided to the state set it apart from the other companies. As an illustration, the capital value of EIC stock in 1720 was £3,194,080 while, for the HBC, it was £103,950.[5] The RAC’s capital after its reorganization in 1712 stood at £451,350.[6] Another distinctive characteristic of the EIC was that private trade by its employees was permitted, within limits, and made a very important contribution to British trade both to and within India and China.[7]

There are very few works that attempt to examine the companies collectively. Probably the best known of these is W. R. Scott’s *The Constitution and Finance of English, Scottish, and Irish Joint-Stock Companies to 1720* (1910–12). However, as the title indicates, Scott deals only with joint stock companies. Ephraim Lipson included a survey of the companies in chapter 2 of volume II of his *The Economic History of England* (sixth edition, 1956). As with Scott, some of the material is now quite dated, and, in addition, the coverage given to certain companies is very brief. For example, Lipson deals with the HBC in three pages and the Russia Company in nine. *A Licence to Trade* (1974) by Sir Perceval Griffiths is somewhat more recent, but as it also deals with plantation and administrative companies, the coverage devoted to the trading companies, especially in the eighteenth century, is brief.

Using both archival and secondary sources, this monograph will fill in some of the knowledge gaps concerning the less well-studied companies (especially the Russia and Levant companies) and it will examine the interconnections between international rivalry, the financial operations of the companies, and politics. The intent is not to replicate or summarize the individual historiographies of the companies. In the case of the EIC that would be a daunting task indeed! Rather, I will seek to complement existing economic and political studies by illustrating how foreign rivalry created pressure for the companies to change the way they did business; how the companies responded, especially through financial innovation; and how the political fate of the companies was largely determined by their economic performance.

The Study Period

The period 1688–1763 was when the companies felt the most intense pressure from European rivals. The Glorious Revolution of 1688 and the accession of William III to the English throne triggered a series of major wars with France. The French represented the most serious military threat the companies had faced and French merchants were a growing commercial force that compounded existing commercial threats that the English companies faced from the Dutch in Russia, India, China, Africa and the Levant.[8] This combination of French and Dutch rivalries was the essential spur that forced the companies to innovate. Spain was also involved in a number of conflicts with Britain during this period and, along with its colonies, was a hugely important trading partner of the French but posed neither the military threat of the French nor the commercial threat of the Dutch.[9] After the conclusion of the Seven Years War, the competitive landscape for the companies was considerably altered. The Dutch had receded as a commercial power and the French threat was considerably diminished by Britain's military victories. In England, the parliamentary challenges to chartered companies, which were frequent in the 1740s and 1750s, had subsided by the 1760s. Therefore, 1688–1763 is a natural period within which to examine the linkages between competition, innovation and political debates concerning the companies.

The Nine Years War (1688–97) and the War of the Spanish Succession saw the companies suffer heavily from privateering activity and French naval action. The defeat of the proposed Anglo-French Commerce Bill in 1713 meant that Britain and France remained commercial rivals even during the period of the Anglo-French alliance (1716–31). The French used the period of peace with Britain, which lasted until the early 1740s, to develop their position in four of the five markets in which the English chartered companies operated. Most dramatically, French exports to the Levant, which were only 60% of English exports in the period 1716–20, grew to 170% of the English total by 1726–30.[10] The situation in the East Indies showed a similar albeit less dramatic pattern. French imports from the East Indies were only about 45% of the English total in the second half of the 1720s but French imports reached about 90% of English imports in the first half of the 1740s.[11] For the RAC, the French had been a threat to its activities in northwest Africa since the late seventeenth century. French forces based in Senegal attacked the RAC's main base in the Gambia, James Fort, on several occasions in the 1720s, thus hampering the RAC's attempts to develop its non-slave business. In Canada, the French, who already enjoyed the bulk of the Canadian fur trade, began to move north and west from their traditional fur-trading base in the early 1730s, bringing them into the hinterland of the HBC's most important trading post, Fort York. It was only in Russia where the French failed to improve their position. The Anglo-Russian Commerce Treaty of 1734 effectively blocked France's opportunity to build all but a relatively minor trade in luxury goods with Russia. With the exception of the Russian market, the French were gaining commercial momentum versus the English companies and winning the peace. Indeed, the period 1735–55, when France's trade growth outstripped Britain's, has been termed '*l'âge d'or*' of French commerce'.[12] The seriousness of the Anglo-French commercial rivalry was underscored by Stanley Engerman and Patrick O'Brien, who noted that,

> French mercantilism competed with British, economically and geopolitically. While the outcome of this rivalry, as seen after the Seven Years War, seemed easy in retrospect to predict, during the eighteenth century the writings of British and French economic pamphleteers and statesmen had expressed considerable uncertainty as to the eventual resolution.[13]

The Seven Years War was a watershed for both British imperial ambitions and the two chartered companies whose operating territories would eventually be incorporated within the empire. Most significantly, Clive's victories during the third Carnatic War, including Plassey in 1757, eliminated the French as a serious threat to British interests in India. The Battle of Buxar in 1764 and the *diwani* of 1765 then transformed the EIC's role in India, adding tax revenues from over twenty million people to the EIC's coffers. New France was conquered in 1760 and France's Canadian territory was ceded to Britain in 1763, thus ending French involvement in the North American fur trade.

For the other three companies, the Seven Years War had a less profound impact on the pre-war trajectory of their businesses. The English slave trade had almost entirely been in the hands of private traders since the 1730s and the RAC ceased to operate in 1752. At least in commercial terms, Anglo-Russian relations did not change after the Seven Years War. In fact, a new commerce treaty was signed in 1766. The British trading position continued to deteriorate in the Levant until the very end of the eighteenth century. The Levant trade was simply much more important to the French than it was to Britain. The French became the preferred western trading partner of the Ottomans in 1740 and, in the third quarter of the eighteenth century, about 10% of French exports and only 1% of English exports went to the Levant.[14] By 1763, the Levant was the only market in which the French were a serious threat to the English chartered companies.

Financial Innovation

An important consequence of the Anglo-French wars and commercial rivalry was that they accelerated the diffusion of financial innovation by the companies. There is a sizeable historiography of the English financial revolution of the late seventeenth and early eighteenth centuries.[15] This body of work details how the foundation of the Bank of England in 1694, backed by the willingness of Parliament to raise taxes, allowed the government to borrow from the public on a long-term, affordable basis. This, in turn, gave England and, after 1707, Britain, a significant advantage in funding the escalating expense of the series of long wars with France. Not only did an affordable government debt allow England/Britain to invest heavily in the Royal Navy, but it also permitted the payment of heavy subsidies for the armies of European allies.[16] Financial innovation was not, however, restricted to government finance. Just as warfare and global trade combined to produce fiscal changes, they also produced changes in monetary systems and merchant finance.[17] International rivalry forced the companies to change the way in which they operated. It was natural that the companies responded through financial innovation. They were not manufacturers and, since they dealt mainly with wholesalers, they were not marketers. The core skills of managers in the companies were shipping logistics and finance.

Because the companies had different organizational structures and faced different types of competition, their financial innovations took various forms. There were some fundamental differences between the joint stock and regulated companies. The joint stock companies had to deal with the expectations of their shareholders in terms of dividends and appreciation in the price of their stock. The joint stock companies also had the option of debt financing through bonds issued under the company seal. This became an important financial tool for the companies that allowed them to avoid the high cost of short-term borrowing from goldsmiths. As interest rates declined in the eighteenth century, debt financing became even more attractive. For the joint stock companies, the key components of financial management were those that would be considered responsibilities of a modern treasury department, notably cash flow management and corporate finance. It has been argued that the EIC and the HBC became proto-banks. Even the RAC, which experienced severe financial challenges in the eighteenth century, displayed creativity in its efforts to raise capital to rejuvenate its business.

After it was granted its initial charter in 1600, there were several incarnations of the EIC as a joint stock company. The length of the journey to India, typically a round trip of eighteen to twenty-four months, meant that the company had very large working capital requirements. At first, capital was raised and profits distributed on a per voyage basis (similar to the early organizations of the Russia and Levant companies). As the business grew and investments were made overseas, this business model became difficult to sustain. The payback period for some of the necessary investments was simply too long. Capital was then raised for a fixed number of voyages (four) and subsequently for a fixed number of years (seven). Finally, the EIC introduced the practice of a permanent joint stock in the 1660s, but even this could not satisfy its need for capital. The EIC heavily relied on financing through its bonds in the late seventeenth century. The company had to forecast its working capital needs and manage both the redemption of its outstanding bonds and the issuance of new bonds. Chaudhuri described the EIC as a 'semi-banking institution' in the early years of the eighteenth century.[18] In particular, he noted that, 'the debt management of the company brought it very close to the functions fulfilled by a public bank'.[19] The company's reliance on debt financing put it under great political pressure to expand its share capital and enable others to share in the company's good fortune through large dividend payments and a rising share price. The company was forced to increase its share capital and, in 1721, the government limited the company's ability to issue bonds to the level of its loans to the government.[20] EIC debt was then effectively backed by the security of government loans.

In Asia, the company also faced a number of challenges that drove it in the direction of becoming a semi-banking institution. The company found it difficult to market English trade goods in Asia and, instead, relied upon vast exports of silver and, to a lesser extent, gold. The company was thus under constant pressure to secure precious metals at reasonable prices in Europe and market those precious metals on the most advantageous terms in India. The challenge for the company was exacerbated by the take-off in the Chinese tea trade in the late 1740s, which produced a dramatic escalation in the demand for silver. In India, the company faced competition from its European competitors in marketing bullion and specie. The EIC operated mints in Madras and Bombay but the Dutch and the French operated their own mints in southern India. The richest prize of all, Bengal, remained under the control of the Jagat Seth Indian banking house in the first half of the eighteenth century. The EIC's long operating cycle meant that it needed to borrow money at relatively high interest rates in India to meet its working capital needs. Furthermore, the company needed to transfer funds between its centres in India.[21] This meant that the company had to foster strong working relationships with Indian merchants/bankers but this could be costly. To reduce its financing costs in India, the company attempted to replicate, at least in part, the Mughal monetary infrastructure and also sought to lessen its reliance on local bankers. An additional financial challenge for the company was created by the substantial sums earned through private trade in India that employees sought to remit to England.

The HBC's financial challenges were quite different before and after the Treaty of Utrecht in 1713. The company lost all but one of its trading posts on Hudson's Bay following French victory in the 1697 naval battle of Hudson's Bay. At that point, the company still relied on expensive short-term borrowing from goldsmiths and had to suspend dividends. After its forts were restored in 1713, the company was able to benefit from buoyant European demand for its main product, beaver fur. The company then faced the 'problem' of what to do with its growing retained earnings. Despite this, the inherent seasonality of the company's business, dictated by shipping conditions in Hudson's Bay, meant that the company continued to routinely suffer from working capital shortages each summer. The company's focus on its financial affairs in the eighteenth century led E. E. Rich to note the transformation of the HBC under the leadership of its governor Sir Bibye Lake (1712–43) into a 'successful banking and finance corporation'.[22]

The RAC faced the challenge of having to re-define itself for different groups of shareholders on a number of occasions as its business prospects changed. For example, private trade in slaves was permitted subject to the payment of duties by the private traders in 1698. In 1712, the requirement for private traders to pay duties was removed. In the 1720s, the RAC attempted a major shift in its operations away from the slave trade. In 1730, the RAC received an explicit parliamentary subsidy for its forts. All of these required re-positioning by the company and led to significant turnover in its shareholder base. Raising capital, either through debt or shares, was an almost constant problem for the company. These were not the company's only problems. Ships travelling between Africa and England were vulnerable to attack by privateers and the company's forts in Africa were susceptible to attack by Dutch, French and Portuguese competitors. The company also had a persistent bad debt problem with plantation owners in the West Indies to whom the company supplied slaves. Even more significantly, the large-scale importation of Brazilian gold into Europe by the Portuguese severely limited the European market for African gold.

A particularly important factor in the latter history of the RAC was the Bubble Act of 1720. The Act both decreased the number of new companies formed by royal charter and lessened the frequency of petitions for incorporation through Parliament.[23] Although an intention of the Bubble Act was to restrict the scope of a company's business to what was described in its charter, in practice, this proved difficult to enforce.[24] The Act also ended the ability of companies to issue unlimited amounts of share capital.[25] However, here too there was a loophole of sorts as the regulation of debt financing was more relaxed. With the exception of restrictions on borrowing by the East India Company, there was no defined policy that limited borrowing by corporations with a common seal. Thus, one of the consequences of the Act was that existing companies became valuable commodities in and of themselves, regardless of the actual state of their business, and a number of companies became, in effect, shells whose actual business bore little relation to the original aims of the company. This gave the RAC a glimmer of hope even as its core business deteriorated.

Before the Restoration of Charles II in 1660, the Russia and Levant companies experimented with different forms of organization. The Russia Company (established in 1555 as the Muscovy Company) and the Levant Company (established in 1581) both started as joint stock companies but became regulated companies in the seventeenth century. The Levant Company converted to a regulated company in the early seventeenth century.[26] Following a period of over twenty years when its merchants were expelled from Russia, the Russia Company also became a regulated company when