

COMPANY-STATE AT HOME: THE EAST INDIA COMPANY AND THE FISCAL SYSTEM IN EIGHTEENTH-CENTURY BRITAIN*

*The great facilities, too, afforded for the custody and management of the whole of this valuable class of merchandize, by the large and well-regulated establishments of the Company, were of great importance to the public service, and were evidently the cause of its being conducted with efficiency in general for the purpose of Trade, and of safety for the objects of the Revenue, notwithstanding the imperfectly organised and ill-regulated department of officers and clerks, by which we have found it to have been administered on the part of the Crown.*¹

In 1820, a series of reports were presented to the British Parliament by the Commissioners Appointed to Inquire into the Departments of the Customs and Excise. The reports included a surprising level of praise for the East India Company (EIC), and specifically its contribution to the smooth and successful customs collection on goods from the East Indies. Such claims of the Company's 'importance to the public service' are not entirely surprising: the EIC's role in colonization and in the building of the British Empire in Asia has long been appreciated. Phillip Stern recently coined the term 'company-state' as a representation of the relationship between corporation and state, and illustrated in the case of the English East India Company the role of the corporation, particularly in the form of European

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¹ House of Commons, *Sixth Report of the Commissioners Appointed to Inquire into the Departments of the Customs and Excise; and of the Proceedings of the Lords Commissioners of the Treasury thereupon*, Parliamentary Papers (hereafter P.P.), 1820 (46), 6, 43.

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trading companies, in propelling colonization and building the system of colonial governance.²

Yet, the EIC's 'efficiency in general . . . for the objects of the Revenue' reveals an important aspect of the Company's historical impact that has additional scope, and which has not been appreciated: the corporation's contribution to the building of state capacity at home.³ While understood by the Commissioners cited above, it was largely overlooked by the Company's contemporary critics and is absent from more recent scholarship.⁴ We propose the concept of the 'company-state at home', emphasizing the EIC as a source of domestic state capacity that could be 'borrowed' for the purpose of revenue collection. This borrowed capacity — arising from the Company's informational advantages, calculative capacities, management, and human capital — far exceeded that of the customs office at the time — that 'imperfectly organised and ill-regulated department of officers and clerks'.⁵ Our analysis sheds important new light on the process through which the British fiscal state developed — the object of an enormous literature that up to now has not recognized the role of the Company.⁶ More generally, our analysis

² Philip J. Stern, *The Company-State: Corporate Sovereignty and the Early Modern Foundations of the British Empire in India* (Oxford, 2011), 3–11; see also Andrew Phillips and J. C. Sharman, *Outsourcing Empire: How Company-States Made the Modern World* (Princeton, 2020).

³ *Sixth Report of the Commissioners . . . Customs and Excise*, 43. This contribution occurred alongside the Company's impact on domestic British society, discussed in Margot Finn and Kate Smith (eds.), *The East India Company at Home, 1757–1857* (London, 2018).

⁴ This literature may also have been influenced by depictions of the Company as a rent-seeking monopolist that undermined social welfare. Most prominent among the Company's critics was Adam Smith, whose suspicion of monopolies coloured his thinking about joint-stock corporations in general. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (A Penn State Electronics Classics Series Publication, 2005); Philip J. Stern, 'Companies: Monopoly, Sovereignty, and the East Indies', in Philip J. Stern and Carl Wennerlind (eds.), *Mercantilism Reimagined: Political Economy in Early Modern Britain and its Empire* (Oxford, 2014), 177.

⁵ *Sixth Report of the Commissioners . . . Customs and Excise*, 43.

⁶ On the general process of state development, see Patrick K. O'Brien, 'The Political Economy of Taxation, 1660–1815', *Economic History Review*, 41 (1988); John Brewer, *The Sinews of Power: War, Money and the English State, 1688–1783* (London,

(cont. on p. 3)

illustrates a pathway to state capacity through corporate partnership that remains highly relevant today, observed around the world.⁷

In proposing this model, we fill an important lacuna in the historical scholarship on state development.⁸ The social science literature has devoted an enormous amount of attention to this process in recent years, from the historical study of emerging modern states to the strengthening of states in contemporary developing economies.⁹ Drawing on these literatures, we call attention to a previously unappreciated source of a state's capacity to extract revenue: borrowed capacity from a corporation — chartered by the Crown under the authority of the state.

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1989); John Brewer, 'Servants of the Public-Servants of the Crown: Officialdom of Eighteenth-Century English Central Government', in John Brewer and Eckhart Hellmuth (eds.), *Rethinking Leviathan: The Eighteenth-Century State in Britain and Germany* (Oxford, 1999), 127–47. For the role of actors beyond the central state, see Keith Wrightson, *English Society, 1580–1680* (London, 1982); Mark Goldie, 'The Unacknowledged Republic: Officeholding in Early Modern England', in Tim Harris (ed.), *The Politics of the Excluded, c.1500–1850* (London, 2001); Michael J. Braddick, *State Formation in Early Modern England, c.1550–1700* (Cambridge, 2000); Steve Hindle, *The State and Social Change in Early Modern England, 1550–1640* (New York, 2000); Joan R. Kent, 'The Centre and the Localities: State Formation and Parish Government in England, Circa 1640–1740', *Historical Journal*, 38 (1995). None of these works describes the role of the EIC we study here.

⁷ Corporations historically have been relied on to carry out a range of the state's fundamental services: from censuses (IBM in Germany); to military and security (the Wagner Group in Russia and private AI firms in China); to education (in the USA). Götz Aly and Karl Heinz Roth, *The Nazi Census: Identification and Control in the Third Reich* (Philadelphia, 2004); Kimberly Marten, 'Russia's Use of Semi-State Security Forces: The Case of the Wagner Group', *Post-Soviet Affairs*, 35 (2019); Martin Beraja, David Y. Yang, and Noam Yuchtman, 'Data-Intensive Innovation and the State: Evidence from AI Firms in China', *Review of Economic Studies*, 90 (2023); Patricia Burch, *Hidden Markets: The New Education Privatization* (London, 2009).

⁸ Braddick, *State Formation in Early Modern England*; Steve Hindle, *The State and Social Change in Early Modern England, 1550–1640* (New York, 2000); Kent, 'Centre and the Localities'; Mark Ormrod, Margaret Bonney, and Richard Bonney (eds.), *Crises, Revolutions and Self-Sustained Growth: Essays in European Fiscal History, 1130–1830* (Stamford, UK, 1999); Richard Bonney (ed.), *The Rise of the Fiscal State in Europe, c.1200–1815* (Oxford, 1999).

⁹ Recent scholarship includes Timothy Besley and Torsten Persson, *Pillars of Prosperity: The Political Economics of Development Clusters* (Princeton, 2011); Daron Acemoglu and James A. Robinson, *The Narrow Corridor: States, Societies, and the Fate of Liberty* (New York, 2019); David Stasavage, *The Decline and Rise of Democracy: A Global History from Antiquity to Today* (Princeton, 2020).

The privileges granted in a corporate charter (among them monopoly trading rights) were part of a *quid pro quo* in which the state (including the Crown) expected returns. Economic historians contributing to the literature on state capacity have overlooked this important topic, having largely abandoned the study of corporations in recent decades in the pursuit of large sample sizes for quantitative analyses. Similarly, business historians have engaged in rich historical studies of corporations, but the contribution to domestic state capacity has not been among their concerns.¹⁰

This article shows that the Company supplanted (and superseded) the *administrative capacity* of the state, thus helping the state overcome the particular challenge of developing state capacity and raising revenues when such capacity was lacking — the state needed assistance to escape a ‘low fiscal capacity trap’.¹¹ The state’s administrative capacity — its ability to aggregate information, organize, monitor, and incentivize personnel, and thus to accomplish complex tasks required for revenue extraction — has been identified by social scientists as a prerequisite for the expansion of the fiscal state.¹² Yet, this begs the

¹⁰ Rather, attention among business historians has been paid to the internal function of the corporation and to its role in fostering globalization. See for instance, Ann M. Carlos and Stephen Nicholas, “‘Giants of an Earlier Capitalism’: The Chartered Companies as Modern Multinationals”, *Business History Review*, 62 (1988); Geoffrey G. Jones, *Merchants to Multinationals: British Trading Companies in the Nineteenth and Twentieth Centuries* (Oxford, 2000).

¹¹ The challenge in building state capacity from a low fiscal base — building state capacity requires revenue, but raising revenue requires capacity — has been described as a ‘fiscal capacity trap’. See, for example, Jonathan L. Weigel and Elie Kabue Ngindu, ‘The Taxman Cometh: Pathways Out of a Low-Capacity Trap in the Democratic Republic of the Congo’, *Economica*, 90 (2023); James C. Scott, *Against the Grain: A Deep History of the Earliest States* (New Haven, CT, 2017).

¹² Theories of organizational capacity emphasizing the aggregation of information include Luis Garicano, ‘Hierarchies and the Organization of Knowledge in Production’, *Journal of Political Economy*, 108 (2000); Erik Snowberg and Michael M. Ting, ‘An Organizational Theory of State Capacity’, unpubd MS (2023); Brewer, *Sinews of Power*; Mark Dincecco, ‘Fiscal Centralization, Limited Government, and Public Revenues in Europe, 1650–1913’, *Journal of Economic History*, 69 (2009); Davide Cantoni, Cathrin Mohr, and Matthias Weigand, ‘The Rise of Fiscal Capacity: Administration and State Consolidation in the Holy Roman Empire’, *Econometrica*, 92 (2024); Mark Dincecco and Gabriel Katz, ‘State Capacity and Long-Run Economic Performance’, *Economic Journal*, 126 (2016).

question of where administrative capacity comes from in the context of the pre-modern state and how obstacles to the development of administrative capacity could be overcome.

As the English state's fiscal needs expanded to support wars in the late seventeenth and early eighteenth centuries, the administrative challenge was in part met through institutional reforms.¹³ Yet, the collection of customs revenues reflects a very different source of administrative capacity. Customs revenues expanded massively, from £687,000 in 1689 to nearly £2.9 million in 1780 — all within an institutional framework that was largely unchanged.¹⁴ Around 30 per cent of this revenue was contributed — and collected — by the EIC; crucial to the expansion of customs revenue, we argue, was the fact that the state relied on a corporation with a large and expanding administrative capacity to collect revenue from Asian trade on behalf of the state.¹⁵

We thus present a case in which a corporation compensates for the state's inadequate administrative capacity, enhancing the state's budding fiscal capacity. In the case of seventeenth- and eighteenth-century Britain large corporations such as the EIC (and the Bank of England) were key sites of administrative capacity. The EIC developed a system of management practices and human resource policies to manage an extraordinarily complex multinational enterprise.¹⁶

We document that in addition to the administration of the import and sale of its goods, the Company in parallel administered its own customs taxation. This included weighing and measuring its cargo (and maintaining accurate accounts thereof), monitoring its warehouses to prevent smuggling, and managing its sales accounts, which in turn allowed the calculation of

¹³ Brewer, *Sinews of Power*, 76–90.

¹⁴ Neither the land tax collection nor customs collection underwent large-scale administrative reforms after the Glorious Revolution. See J. V. Beckett, 'Land Tax or Excise: The Levying of Taxation in Seventeenth- and Eighteenth-Century England', *English Historical Review*, 100 (1985). It was only in the 1780s that the state first carried out an administrative reform of the system of customs collection.

¹⁵ Authors' calculation based on data reported in Ernesto Dal Bó *et al.*, 'Dissecting the Sinews of Power: International Trade and the Rise of Britain's Fiscal-Military State, 1689–1823', forthcoming in *Journal of Economic History* (total customs revenue of £2.88 million), and British Library, London, India Office Records (hereafter IOR), IOR/H/MISC/61, fo. 109 (EIC customs contribution of £825,934).

¹⁶ IOR/D/30, fo. 45; IOR/H/Misc./67, fos. 51–61; IOR/D/92, fos. 180–81.

customs duties. In fact, the Company was, *de facto*, in charge of its own customs calculations and the collection on goods from Asia, with customs officers having only a monitoring role. While the Company's administrative capacity enabled these functions, the need to calculate and collect customs naturally imposed additional tasks on Company employees.¹⁷

In exchange for bearing the cost of taxing itself, the EIC received special privileges. Most basically, the Company never relinquished possession of its cargoes, which allowed it to prepare its goods for sale and market its goods to buyers. It was able to unload cargo immediately, thus avoiding risks of piracy and spoilage. It unloaded its cargoes in its own warehouses, thus ensuring quality standards could be maintained and reducing the risk of theft and smuggling. Finally, the Company only paid its customs duties *after* sales, eliminating the need to borrow and transferring the costs of price variation to the state.

What sustained this special arrangement, which naturally raised the spectre of evasion and corruption in revenue collection and, more generally, the possible capture of state administration by the Company? In part, it was necessity, due to the state's limitations: the volume and variety of the EIC's imports would have overwhelmed the standard Customs procedures. In part, it was the opportunity to rely on the administrative capacity of a Company that was seen by the state to have collected taxes 'without risk or expense'.¹⁸ The (perceived) absence of risk was due, first, to the intertwined and multifaceted relationship between the Company and state. Members of the House of Commons, Lords, and the Crown were all financially invested in the Company.¹⁹ There existed both formal and informal personal relationships between the government and MPs on the one hand and Company directors on the other.²⁰ Capital also flowed between the Company and the state in *both directions*: the

¹⁷ IOR/B/49/ fos. 634–5; IOR/B/49, fos. 675–6.

¹⁸ *First Report of the Commissioners of Inquiry into the Excise Establishment, and into the Management and Collection of the Excise Revenue throughout the United Kingdom. Tea Permits and Surveys*, P.P, 1833 (21), 1, 49.

¹⁹ See the list of shareholders, for example: IOR/L/A/G/1/6/; IOR/L/A/G/1/10/1; IOR/Mss Eur. D 774.

²⁰ The lists of EIC directors show that many of them were at the same time also MPs. See IOR/H/764; British Library, London (hereafter BL), Add. MS 38871.

Company paid taxes and was a source of debt financing for the state; the state provided emergency liquidity to the Company in times of financial distress (for instance, in 1772–3).²¹ Second, risk was mitigated, although not eliminated, by the aligned economic interests of Company and state implicit in the mercantilist policies of the age; in particular, both Company and state had an interest in the expanding Asian trade. The expectation of *shared* wealth from that trade is explicit in the Company's original charter, issued by Queen Elizabeth in 1600. The charter extended 'a privilege for fifteen years granted by Her Majesty to certain adventurers for the discovery of the trade for the East Indies'.²² However, the charter would be revoked if it 'shall not appear profitable to the crown and realm'.²³

Philip Stern argued that 'new perspectives on mercantilism, particularly one of its most salient features: the relationship between the 'state' and the 'merchant' could be gleaned from studying the EIC.²⁴ Our work takes on this task: we argue that aligned interests between the EIC and the state not only applied to empire-building abroad (the 'Company-State'), but also applied to the development of the imperial metropole itself (the 'Company-State at Home').²⁵ We show that state development was a multi-directional process, driven in part by the expansion of overseas trade, working through the agency of the EIC.

In what follows, in Part I, we set the scene, providing an overview of Britain's dependence on overseas trade for government revenues and describing the system of trade taxation applied generally to British merchants. In Part II, we describe the distinct system of taxation that was applied to the collection of taxes from the East Indies trade conducted by the EIC. Part III delves into the managerial and personnel policies of the EIC that were

²¹ Huw Bowen, *The Business of Empire: The East India Company and Imperial Britain, 1756–1833* (Cambridge, 2006), 29–31.

²² 'East Indies: December 1600', in W. Noel Sainsbury (ed.), *Cal. State Papers Colonial, East Indies, China and Japan*, Vol. 2, 1513–1616 (London, 1864), 113–118, available online at <<https://www.british-history.ac.uk/cal-state-papers/colonial/east-indies-china-japan/vol2/pp113-118>> (accessed 7 Mar. 2025).

²³ *Ibid.*

²⁴ Stern, 'Companies', in Stern and Wennerlind (eds.), *Mercantilism Reimagined*, 178.

²⁵ *Ibid.*, 191.

the source of its administrative capacity and efficient collection of customs revenues. Part IV illustrates the partial alignment, as well as the potential misalignment, between the EIC and the government: in particular, the ability of the EIC to shape policy. Part V concludes the paper with a broader discussion of the implications of our analysis for our understanding of the development of emerging states. In contrast to depictions of the corporation as an antagonist to the state and the public interest, we highlight the *salutary* effects of business corporations in an environment with limited state capacity. Indeed, corporations' capacities were precisely the rationale for chartering them. This has contemporary resonance in states trying to escape a 'low fiscal capacity trap', from Afghanistan to the Democratic Republic of the Congo.²⁶

I

THE TAXATION OF OVERSEAS TRADE

Britain developed its fiscal military state between the seventeenth and nineteenth centuries, expanding its spending, debt, and tax collection many times over. Britain was unique among the European powers of the seventeenth and eighteenth centuries in deriving substantial amounts of tax revenue from trade as its fiscal capacity developed.²⁷ Indeed, Ernesto Dal Bó *et al.* used

²⁶ Astrid R. N. Haas and Priya Manwaring, 'Private vs. Public Collection in Enhancing Local Tax Revenues', IGC International Growth Centre, 2017, at <<https://www.theigc.org/sites/default/files/2017/11/Tax-collection-29.11.17.pdf>> (accessed 7 Mar. 2025); Luis Fernando, 'Privatization of Tax Administration', in Richard Miller Bird and Milka Casanegra de Jantscher (eds.), *Improving Tax Administration in Developing Countries* (Washington, DC, 1992); Jonathan L. Weigel, 'The Participation Dividend of Taxation: How Citizens in Congo Engage More with the State When It Tries to Tax Them', *Quarterly Journal of Economics*, 135 (2020); Pablo Balán *et al.*, 'Local Elites as State Capacity: How City Chiefs Use Local Information to Increase Tax Compliance in the Democratic Republic of the Congo', *American Economic Review*, 112 (2022); Raúl Sánchez de la Sierra, 'On the Origins of the State: Stationary Bandits and Taxation in Eastern Congo', *Journal of Political Economy*, 128 (2020); Joshua Blumenstock *et al.*, 'Building State Capacity in Fragile States: Evidence from Afghanistan', 28 Jan. 2025, at <<https://cepr.org/voxeu/columns/building-state-capacity-fragile-states-evidence-afghanistan>> (accessed 7 Mar. 2025).

²⁷ Peter Mathias and Patrick O'Brien, 'Taxation in Britain and France, 1715–1810: A Comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments', *Journal of European Economic History*, 3 (1976).

records from the Board of Customs and Excise to calculate the share of revenue (customs and excise) collected on traded goods vis à vis domestically produced goods and found that taxes on trade increased over the eighteenth century to account for the *majority* of revenue from indirect taxation by 1800.²⁸

To be able to collect revenue from trade, the British state needed to have a system of tariffs and an administrative apparatus capable of implementing it. This was a large undertaking since the system of customs duties calculation in the period 1660–1787 was — as we illustrate below — extremely complicated. In addition, trade volumes were rapidly expanding — the value of imports to England and Wales alone increased from £4.7 million in 1700–10 to over £21 million in 1790–1800.²⁹ Thus, the task of collecting custom duties was not an easy one, and was growing more difficult as the British imperial economy expanded. Moreover, as early modern shipping depended on weather, large numbers of ships came to port all at once, further straining the capacity of customs collection.³⁰ This problem was particularly felt in the heavily congested port of London, which was the destination of the majority of ships and where almost 70 per cent of gross customs revenue was collected in the mid-eighteenth century.³¹

Scholarship has largely presented corruption by customs officers as the key problem for customs revenue collection; customs administration has been portrayed as corrupt and inefficient, at least in comparison with excise collection.³² Yet,

²⁸ Dal Bó *et al.* 'Dissecting the Sinews of Power'. Collection of excise revenue on traded (as opposed to domestically produced) goods followed a process similar to the collection of customs, albeit on fewer goods. We refer to revenue collection on traded goods throughout as 'customs'.

²⁹ Elizabeth Boody Schumpeter, *English Overseas Statistics* (Oxford, 1960), 16.

³⁰ 'The East India Docks: Historical Development', in Hermione Hobhouse (ed.), *Survey of London: Vols. 43 and 44, Poplar, Blackwall and Isle of Dogs* (London, 1994), 575–80, available at <<https://www.british-history.ac.uk/survey-london/vols43-4>> (accessed 7 Mar. 25).

³¹ Julian Hoppit, *Britain's Political Economies: Parliament and Economic Life, 1660–1800* (Cambridge, 2017), 285.

³² Brewer, *Sinews of Power*, 82–3; William J. Ashworth, *Customs and Excise: Trade, Production, and Consumption in England, 1640–1845* (Oxford, 2003). We do not dismiss concerns about corruption but note that there existed additional challenges associated with customs collection.

it was particularly the old-fashioned and convoluted system of trade taxation and administration that undermined the efficiency of customs collection. This system was strained by the accretion of tax rates on traded goods, the result of bills that assigned specific revenues to the repayment of newly issued war debts.³³

These rates varied over time and were subject to various exemptions. Writing in 1724, Henry Crouch, a customs official and author of a guidebook on customs collection, described the system of customs duties as follows:

Therefore, as they [customs rates] are so numerous and many of them often made with an Eye only to some particular Purpose, without regard to the Circumstances and Regulations prescribed in former Acts, it must naturally happen, that they will sometimes very much clash and interfere, so that in many Cases it is very difficult to fix a particular Point: and as the Repeals, Expirations and Revivals of several Acts are so frequent, that it is often difficult to know whether a Law is in force, or not; it is no wonder that they are no better understood by too many, whose Business it is to execute them, and much less by most others.³⁴

The system of customs as applied during most of the eighteenth century was founded on three Acts passed in the first years after the Restoration of Charles II.³⁵ Further customs duties were introduced particularly in the reigns of William and Mary and Queen Anne and the number of customs duties rose steadily. Revenue from trade rose as well: between 1692 and 1780, the share of total revenue to the Exchequer coming from customs

³³ A benefit of this system of 'earmarked' tax revenues was the transparency it provided to lenders regarding the source of funds for repayment. See, for example, Anne L. Murphy, 'Demanding "Credible Commitment": Public Reactions to the Failures of the Early Financial Revolution', *Economic History Review*, 66 (2013), 184.

³⁴ Henry Crouch, *A Complete View of the British Customs* (London, 1724), viii. It was only with the 1787 Consolidation Act that the system of customs collection and administration linking specific customs duties to spending uses was abandoned, thus allowing for the consolidation of customs rates.

³⁵ These were the Subsidy Act of 1640, a subsidy granted to the King of tonnage and poundage payable on merchandize exported and imported (12 Charles II, c. 4), the Act for the encouraging and increasing of shipping and navigation (12 Charles II, c. 18), and the Act for preventing frauds and regulating abuses in His Majesty's Customs (14 Charles II, c. 11).

and excise collected on imported goods rose from 18 per cent to 28 per cent.³⁶

The system of customs duties collection was challenging to administer because of the convoluted system of customs duty calculation. Customs duties were collected on over a thousand different types of goods.³⁷ Moreover, each customs duty was earmarked for specific Treasury uses, typically the repayment of debts incurred to fight wars. The earmarking of customs taxation to repay specific debts made it possible to successfully issue the enormous amount of debt necessary to pay for Britain's frequent warfare.³⁸ These duties proliferated over time — increasing to over 50 by 1787 — each of which applied different rates to different sets of goods. Because the imposition of new duties did not repeal the older ones, a thicket of overlapping duties emerged. In practice, by the late eighteenth century, up to nine duties were imposed on some imported products.³⁹

In addition to the many (and varying) rates applied to each good, calculation of customs duties was made yet more complex by several additional considerations. To begin, taxation varied according to whether a good was rated or unrated. Goods that were taxed *ad valorem* were either 'rated', that is valued according to set rates established in the Act of Parliament that introduced the new customs duty; or, if a rate was not established by Act, a share of the value of the good was to be paid as duty. The value of these 'unrated' goods was to be declared by the merchant himself under oath.⁴⁰ Other goods paid customs duties

³⁶ Excise and customs revenue collected on imported goods comes from Dal Bó *et al.*, 'Dissecting the Sinews of Power', table A.3. Data on total (net) revenue to the Exchequer comes from Brian R. Mitchell, *British Historical Statistics* (Cambridge, 1988), Public Finance, table I.

³⁷ In the 1780s customs duties were charged on some 1,400 different types of goods. This is in contrast to excise, which applied to only tens of goods.

³⁸ Most of the Public Bills that focused on raising funds issued during the reigns of William and Mary, William III, and Anne earmarked revenue that was to be used for repayment. See, for example, 9 & 10 William III, c. 44, 'An Act for raising a Sum not exceeding Two Millions upon a Fund for Payment of Annuities after the Rate of Eight Pounds per Centum per Annum and for settling the Trade to the East Indies'.

³⁹ Samuel Baldwin, *A Survey of the British Customs* (London, 1770).

⁴⁰ The only exception to the system applied to the East India Company, which paid a share of the price at which unrated goods were sold at the Company's sale. As observers at the time realized, these oaths may have been no more than 'cheap talk' — the Lord's name taken in vain (we thank a referee for raising this possibility).

according to weight instead of value, among which were wines and spirits. Customs duties were even more complicated to calculate for these goods, as the level of duties depended on the origin of the good, differed according to whether the goods were imported by a British or a foreign merchant, and varied depending on whether they came on a British or foreign ship. This created a great many combinations of customs duties to be applied even to identical goods. Finally (as with most regulations), there existed exceptions to the general rules and these also tended to change over time, further complicating the calculation of duties.

The taxation of brimstone (sulphur, used in medicines and matches, among others) provides an example of how the calculation of customs duties worked in practice. Consider the case of 20 cwt of brimstone imported by a British subject in 1770 (illustrated in the [Plate](#)).⁴¹ Customs officials were first advised to consult the correct page referring to brimstone in the section Rates Inwards. At this page they would find a reference to the particular customs duties brimstone was charged to pay — that is, in the year 1770: the Old Subsidy, 1690 Impost, New Subsidy, One Third Subsidy, Two Thirds Subsidy, and Subsidy 1747 (these six duties are reflected in the six rows in the [Plate](#)).

Referring to brimstone in the Rates Inwards the customs official would find that no specific rate of duty for the Old Subsidy was mentioned for brimstone. This meant that the general rate was ‘1s. for every 20s.’, which means 5 per cent of the rate stated

By adding these several fums together, the total Duty to be paid will appear, viz.

N ^o .		l.	s.	d.
1	_____	0	6	4
VI e	_____	4	7	6
10	_____	0	6	4
13	_____	0	2	1 $\frac{1}{2}$
15	_____	0	4	2 $\frac{3}{4}$
33	_____	0	6	8
Total	— —	5	13	2

PLATE Duties on brimstone, 1770. Source: Samuel Baldwin, *A Survey of the British Customs* (London, 1770), 55.

⁴¹ Brimstone was very popularly used as an example, appearing in most of the Books of Rates in the sections explaining calculation of total customs rates.

in 12 Charles II, c. 4. In the case of brimstone the rate was 6s. 8d. per cwt, that is £6. 13s. 4d. per 20 cwt of brimstone. Five per cent of this value is then 6s. 8d. and this is the *gross* Old Subsidy. To get the *net* Old Subsidy, there is a deduction of an allowance of 5 per cent of the gross value, according to Rule 17 of the Book of Rates — that is 4d. — and the net Old Subsidy is thus 6s. 4d (line I in the [Plate](#)). The customs official would then need to go through a similar process to calculate the charges under the additional duties (that is, the 1690 Impost, etc.). The total duty was calculated as the sum of the particular duties and for this example was £5. 13s. 2d.

The case of brimstone was relatively straightforward; the calculations became more challenging for goods subject to a wide range of additional rules. For example, additional complications arose for goods charged according to weight (that is, chargeable with Tonnage), such as wines, vinegar, perry, and cider. The rate of the duty differed, first, according to the type of wine: French wine (category 1), German, Rhenish, and Hungarian wine (category 2), and Levant and all other wine (category 3) were all charged different rates. Second, according to whether wine or vinegar was imported in casks or flasks/bottles, and whether the casks were filled or unfilled. And, third, according to its intended use: whether for direct sale, for private use, for prisage (the monarch's share), or for sale to retailers.

The number of goods to which specific rules applied — not to mention a wide range of specific exceptions, as well — was much larger: books, pictures, drugs, goods imported by aliens, etc., were all subject to special rules and exceptions. A number of specific rules applied to French goods also. Besides import duties there were also drawbacks — discounts on import duties that were paid to the merchant once the good was exported. Lastly, there were bounties, that is, revenues collected to pay directly for state objectives, such as export subsidies on British goods that were considered to be of strategic importance.⁴²

The complexity of the system of calculating customs is best demonstrated by the array of publications, such as the *Guide to the Customers and Collectors* and a number of Book[s] of Rates,

⁴² These bounties were not delivered to the Exchequer prior to their disbursement and so are not traditionally counted in customs revenues.

that were published throughout the seventeenth and eighteenth centuries. These publications served both those subject to customs duties as well as customs officials, and explained to them the practicalities of the system of customs collection. The Tudor Book of Rates served a similar purpose in the early seventeenth century; the increasing complexity of customs collection becomes apparent in those published after 1660.⁴³

A new Book of Rates usually appeared when new customs duties were introduced. Among the most significant were the 1660 *Book of Rates*, published anonymously, followed by Richard Score's *Book of Rates* in 1689, and a further edition in 1699.⁴⁴ In 1702, Carkesse's *Book of Rates* was published, followed in 1707 by another anonymous *Book of Rates*, and in 1714 by William Edgar's *Vectigalium Systema*.⁴⁵ In 1724, Henry Crouch published *A Complete View of British Customs* and a new edition of this book appeared in 1731.⁴⁶ In 1757, Henry Saxby published his *British Customs*, and in 1770 Samuel Baldwin published *A Survey of the British Customs*.⁴⁷ This list reflects the frequent changes to customs rates, and it is not exhaustive as anonymous and shorter treatises on customs appeared at this time as well.

The complexity of customs calculation was matched by the challenge of customs collection, which required processing, weighing, and measuring imported goods. The customs collection system was described in merchant manuals and Parliamentary reports in detail.⁴⁸ When merchant ships arrived

⁴³ For a comprehensive view of the Tudor Book of Rates, see T. S. Willan (ed.), *A Tudor Book of Rates* (Manchester, 1962).

⁴⁴ Richard Score, *A Guide to the Customers and Collectors Clerks; or, A New Index to the Book of Rates . . . and Variations from the Said Book of Rates May Be Found* (London, 1699).

⁴⁵ Charles Carkesse, *The Act of Tonnage and Poundage, and Rates of Merchandize* (London, 1702); Anon., *A Continuation of the Customers and Collectors Clerks Guide: Being a Supplement to the New Index of the Book of Rates* (London, 1707); William Edgar, *Vectigalium Systema: or, A Complete View of that Part of the Revenue of Great Britain, Commonly Called Customs* (London, 1714).

⁴⁶ Crouch, *Complete View of British Customs*.

⁴⁷ Henry Saxby, *The British Customs: Containing an Historical and Practical Account of Each Branch of that Revenue* (London, 1757); Baldwin, *Survey of the British Customs*.

⁴⁸ A particularly detailed description comes from the 'Report of the Committee Appointed to Inquire into the Frauds and Abuses in the Customs, to the Prejudice of Trade, and Diminution of the Revenue, 1733', in William Cobbett, *Cobbett's Parliamentary History of England*, Vol. IX (London, 1811).

in British waters, a first task was to prevent smuggling on the way towards the legal quays in London.⁴⁹ This required the guarding of ships on the Thames and the presence of tidesmen on the ships. At the place of unlading ‘the Master or Purser is to make a just and true Entry upon Oath [in front of custom officers], of the Burthen, Contents, and lading of his Ship or Vessel, with the particular Marks, Numbers, Quality, and Contents of every Parcel of Goods therein’.⁵⁰

The merchants’ entry, describing the quantities and types of goods and their origins,⁵¹ was then carried to the Custom House, which would grant lading sufferance for the specific goods mentioned. This lading sufferance was sent by the Custom House to land surveyors and land waiters,⁵² who would send a written warrant to the tidesmen on board the ship to land the goods specified onto a hoy and accompany the hoy to the quay, with a note specifying the cargo on board. Once in the quay, the cargo was weighed and measured by assigned weighers. Weighing was attended by land waiters who independently took note of weights and measures and entered them into their book. The surveyor was to inspect the land waiters’ books and had the right to have the landed cargo weighed and measured again. To prevent bribery or shirking, the landing paperwork produced by different agents was to be scrutinized by the jerquer: ‘the report of the master, the entry of the importer, the book kept by the tidesman on board, and the land waiters books, as soon as they are made up, are examined and compared by the jerquer’.⁵³

⁴⁹ For brevity, we focus on the process in London. This is not to diminish the importance of the so-called ‘outports’. We describe the process for generic merchant ships arriving from overseas, whether from the North Sea, the Mediterranean, or the Atlantic.

⁵⁰ Goldsmiths Library, University of London: *Instructions for the Collectors and other Officers Employ’d in Her Majesties Customs. & c. in the Northern-Part of Great-Britain* (Edinburgh, 1707), 13. The procedure in London would have been similar to that described therein.

⁵¹ William Hunter, *Merchant’s Clerk: or, The Business at the Custom-House Made Easy* (London, 1766), 27.

⁵² These officials are sometimes called coast-surveyors and coast-waiters in documents.

⁵³ ‘Report of the Committee Appointed to Inquire into the Frauds and Abuses in the Customs’, 157.

The process of customs duties calculation and payment preceded the unloading of the cargo and was a separate process from the one attended by officers of the quays. Customs duties were calculated and paid, in cash or in bond, at the point when merchants brought the despatch of goods they intended to land to the Custom House. In the Custom House in London the duties were then calculated in the Longroom according to the bill of lading/lading sufferance by a 'Bench' officer, who would issue a warrant specifying the duties to be paid by the merchant. Six copies of the warrant were then sent to the Clerk of Rates, who calculated the specific duties the goods were liable to pay. The merchant then took the warrant and six bills supplied by the Clerk of Rates to the Receiver, to whom he paid the duties specified in the bills. The Receiver then returned one bill to the merchant and sent the other five copies to Computer, Surveyor, Controller, Surveyor-General, and Examiners to be checked.⁵⁴

This system stretched the capacity of the fiscal state to its limits, causing delays to merchants, especially in London. The expectation was that ships should be unloaded within 30 days of reporting to the Custom House; not only was a 30-day delay costly, but complaints from merchants also suggest that delays were often longer.⁵⁵ To mitigate these costs, there were several exceptions to the system affecting specific groups of merchants, primarily reflecting the types of goods and the size of ships. For example, merchants dealing in bulky goods could apply to the Customs Commission for permission to land or load their goods in 'sufferance wharf', between Battersea and Blackwall.⁵⁶ But these exceptions would have been insufficient to accommodate the challenges of EIC shipping, which included: (i) ships that were too large to dock in the legal quays; (ii) the enormous volumes and variety of goods, most of which were unrated; and (iii) the perishability and high value to weight ratios of many imported goods.⁵⁷ The EIC thus fell under a wholly different system of customs collection.

⁵⁴ Spike Sweeting, 'Capitalism, The State and Things: The Port of London, circa 1730–1800', Univ. of Warwick Ph.D. thesis, 2014, 123, unpubd; Hunter, *Merchant's Clerk*.

⁵⁵ Saxby, *British Customs*, 15; The National Archives, Kew, TNA/CUST 102/90: To the Honourable Commission of Customs, 12 Jan. 1775, fo. 61.

⁵⁶ Sweeting, 'Capitalism, The State and Things', 22.

⁵⁷ For example, saltpetre depreciated easily besides being flammable.

II

THE ENGLISH EAST INDIA COMPANY AND THE SYSTEM OF
CUSTOMS COLLECTION

In this context the EIC came to play a significant role in customs collection. There were several reasons for this. First, the EIC had already established its economic and political importance prior to the reform of the system of customs in 1660. This gave it significant influence over the conditions governing its taxation. Second, arising from its monopoly on the Asian trade, and its purchases of exotic goods in Asia, the Company traded many goods that did not appear in the Book of Rates (records that established the unit value at which imported goods were taxed), thus necessitating an alternative system of taxation under significant uncertainty. Third, the Company's organizational capacity and skilled labour allowed it to effectively administer a complex tax collection process. Fourth, greater efficacy in tax administration was not only to the benefit of the Company, but also to the benefit of the state, which depended on the EIC for over 30 per cent of all revenue from trade annually collected between 1699 and 1780.⁵⁸

The Company's system of customs collection antedated the post-Restoration customs system, with the Company paying customs duties since its early voyages in the 1610s.⁵⁹ Although records for the first half of the seventeenth century are largely lost, it is apparent that the Company calculated duties after each voyage and sale and paid them to the tax farmer once, or several times, per year. For example, among other payments recorded, the Company's Cash Journal for 1664–9 notes that the EIC was, in January 1669, to pay 'His Majesties Revenue arising by the Customes and Subsidies of Tonnage & Poundage . . . 33309 11s. 9d.'⁶⁰ Other such payments are regularly noted throughout the Journal.

⁵⁸ The estimate is based on the EIC customs data and trade revenue from: Dal Bó *et al.*, 'Dissecting the Sinews of Power'. Additionally, the EIC, together with the Bank of England, the South Sea Company, and the Exchequer, were the key agencies handling the national debt. J. H. Clapham, *The Bank of England: A History* (Cambridge, 1966), 103; P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688–1756* (London, 1967).

⁵⁹ William Milburn, *Oriental Commerce* (London, 1813), x.

⁶⁰ IOR/L/AG/1/5/1, fo. 213.

After the end of customs tax farming in 1671, the Company made analogous payments directly to the state, albeit within the constraints of the legislated customs duties. The system of customs administration in the case of the EIC's goods operated on the basis of cooperation between the Company and the Custom House. Across the seventeenth and eighteenth centuries, the EIC took command of the process as it developed its own internal system of management and monitoring of customs collection. To give the Company flexibility with the payment of customs duties and at the same time to make sure that no form of tax evasion took place, customs officers were permanently placed in the Company's warehouses working alongside the Company employees. The officers' role was to supervise the movement of goods, record prices at the Company's sale, and monitor the calculation of duties.⁶¹

Importantly, the EIC was not dependent on customs officers for the calculation of duties, as were other merchants. Instead, the Company calculated customs duties itself. The EIC's system of customs calculation and auditing was established in 1708 when the Court of Directors ordered:

the [ship's] Husband & his Assistant, to draw up an Accompt of the Customs, due on all Goods imported . . . And that the Said Accompt be settled within two Months, after the Delivery of each Ship, That the respective Warehousekeepers, and all other Company's officers, concerned, be directed by the said Committee [of Accompts], to return to said Officers, an Accompt of the Goods by them received from each Ship, as soon as possible, the same can be ascertained.⁶²

That is, the EIC would itself keep a record of its accounts upon arrival of its ships, in particular the amounts expected to be paid to the Custom House.⁶³ After the Company's sale, these amounts were adjusted and final payments made. Company accounts make clear that calculations of amounts are the Company's own, rather than those of the Custom House.⁶⁴ The Company's active role in the determination of its customs

⁶¹ Margaret Makepeace, *The East India Company's London Workers: Management of the Warehouse Labourers, 1800–1858* (Woodbridge, 2010), 28–9.

⁶² IOR/B/49/ fos. 634–5.

⁶³ See Commercial Journals, for example: IOR/L/AG/1/5/1, fo. 583; IOR/L/A/G/1/6/1, fo. 107.

⁶⁴ IOR/L/A/G/1/6/13, fo. 175; IOR/H/MISC/30, fos. 29–32.

duties placed it in a cooperative and consultative, rather than subordinate, position vis à vis customs officers — quite different in comparison with other merchants, who were at the mercy of customs officials.

This system of cooperation between the EIC and customs officials not only involved a direct and active role of the Company in the administration of customs calculation, but also differed from the customs process applied to other merchants in two fundamental ways — to the enormous advantage of the Company. First, the unloading and processing of goods was immediate, reducing risk and costs. And, second, the timing of payment was deferred, allowing the Company to pay only after sales were realized.

The system of unloading EIC ships began in a manner similar to all others: until the opening of the East India Docks in 1806, the Company's East Indiamen — the largest British merchant ships — 'traditionally lightened their loads at Long Reach, near Gravesend, before sailing along the Thames to deep moorings at Blackwall'.⁶⁵ Here the process diverged from that applied to other merchant ships. Goods were unloaded for weighing and measuring *immediately*, which was a significant time (and thus cost) saving for the Company. Afterwards, EIC goods were transported to the *Company's warehouses*, where the warehouse keepers were directed to certify the quantities of all goods imported to crosscheck the entries made by the customs officials. The EIC was thus able to monitor the customs officials. This system was codified in 1708 when the Court of Directors ordered that the warehouse keepers were to take 'the quantities and species of the severall Goods they receive from the Waterside with the lengths and breadths of all Muslins and Callicoos and the weight of all wrought Silks and weighable Goods so soon as the Custom house Officers have examined the same'.⁶⁶

The Company was aware of the advantages of this system and the need to protect it. When the customs officers temporarily deviated from their usual arrangement, Thomas Woolley, Secretary of the EIC, complained that:

⁶⁵ 'The East India Docks: Historical Development', in Hobhouse (ed.) *Survey of London*, 575.

⁶⁶ IOR/B/49, fos. 675–6.

The great quantities and varieties of goods they import and the measuring all the piece goods and weighing the weighable goods to ascertain their contents makes it impossible for them to adjust the customs under two, three and often four or five months' time and longer after the goods are in the warehouses.⁶⁷

Such a delay in processing goods for customs negatively impacted the quality of goods, which was extremely costly, both to the Company, and also to the state — since 'spoilt' goods were allowed a discount on duties, thus reducing revenues collected.

Other instances of aligned interests between state and Company included the Company's monitoring to prevent the smuggling of imported goods and also its control of private trade by Company employees.⁶⁸ Among the main tasks of the Assistant Elder at the Bengal Warehouse was 'to see that the samples, whether of Silk or piece Goods are impartially drawn, by, or in presence of a Custom house Locker' and also 'search the Laborers on their leaving of the Warehouse, and to see that they are likewise searched by a King's locker to prevent embezzlement'.⁶⁹ Reduced smuggling was in the interest of the Company and also of the state: the former because contraband goods were a source of competition, and the latter because they evaded customs duties. The EIC was also given the right to protect its monopoly through control over the private trade of its merchants. The EIC administered the transport, warehousing, sale, and customs collection on items brought to Britain as part of the official private trade of EIC employees. This allowed the Company to closely monitor the private trade — and the state indirectly benefited from the collection of customs revenues by the Company.

The second major difference was in the system of customs payment applied to the EIC. Whereas small-scale merchants

⁶⁷ IOR/D/92, fos. 295–6v: 'Letter sent in 1711 from Thomas Woolley, Secretary of the EIC, to Robert Earl of Oxford and Earl Mortimer Lord High Treasurer of Great Britain'.

⁶⁸ While the EIC officially possessed a monopoly on trade with the East Indies, its merchants were allowed to trade on their own private accounts. In addition to the (legal) private trade, there were efforts to smuggle in goods by private merchants, which both the Company and the state attempted to prevent.

⁶⁹ BL, Mss Eur E.: 'The Duty of an Assistant Elder at the Bengal Warehouse', 1820, fo. 283.

had to pay immediately upon entering their landing warrant, the EIC instead gave a security (that is, a bond), and paid customs duties only *after* the sale. In practice this meant that the Company was ‘allowed two six months [that is, twelve months] for payment on their goods imported’.⁷⁰ This allowance significantly reduced the amount of liquidity the Company needed for running its business and meant that the state shared the risk and financial repercussions of goods not being sold.⁷¹

The Company also bore substantial financial costs in administering and managing the customs process. While many of these costs cannot be observed in the historical record, the *Reports* of the Commissioners of Accounts provide estimates of the fees paid *by the Company* to the customs officers employed in warehousing in the year 1784–5. In that year, payments from the EIC to customs and excise officers totalled over £4,000.⁷² The *Reports* estimate that the Company paid around 60 per cent of the overall remuneration of the higher-ranking customs officers (for example, the Surveyor, Inspector of the Delivery of all Unrated East India Goods, *inter alia*, see [Table](#)). For the lower ranking officers, this share may have been even higher.

In spite of the complications that the system of customs collection generated, there were only two serious attempts at reforming the system over the eighteenth century — the 1733 scheme of Robert Walpole and the 1787 Consolidation Act of William Pitt the Younger. The persistence of the long-established system of customs begs the question of why it was not reformed to function more like the excise. In fact, the first major effort to reform customs, the 1733 scheme of Robert Walpole, was precisely aimed at replacing customs duties with excise. Yet, this led to an immediate and widespread backlash by the public: excise officers had the right to inspect private premises, and

⁷⁰ IOR/D/92, fos. 295–6^v.

⁷¹ The EIC experienced several liquidity crises throughout its history, most notably in 1772, which reflected its precarious level of working capital. Bowen, *Business of Empire*, 30–31; Milburn, *Oriental Commerce*.

⁷² *Fourteenth Report of the Commissioners Appointed to Examine, Take, and State the Public Accounts of the Kingdom* (London, 1785), 26. The total number of officers receiving payment that year was not recorded. In the early nineteenth century, over 500 customs and excise officers received payments. Makepeace, *East India Company's London Workers*, 28.

TABLE
1784–1785*

Position in Customs House	Salary (£/annum) paid by the state	Fee/gratuity (£. s. d./annum) paid by the EIC
Surveyor of the EIC warehouses	£130	£464. 1s. 9d.
Assistant Surveyor of the EIC warehouses	£130	£336. 3s. 10d.
Inspector, Assistant and Clerk of the Delivery of unrated East India Goods	£210	£464. 1s. 9d.
Warehouse Keeper of Prohibited East India Goods	£100	£43. 3s.
Controller to the Warehouse Keeper of Prohibited East India Goods	£50	£92. 13s. 6d.
Computer of the Duties of 15 per Cent on Muslins and White Calicoes	£100	£108. 10s.
Senior Landing Surveyor	£230	£31. 4s.
Total payments by source	£950	£1,539. 17s. 10d.

* Source: Based on *Fourteenth Report of the Commissioners Appointed to Examine, Take, and State the Public Accounts of the Kingdom* (London, 1785).

an expansion of the scope of the excise would have implied a substantial expansion of excise officers' ability to encroach on private property.

An expansion of the excise was also administratively infeasible: collecting excise on all imported goods would have created a need for enormous warehousing capacity and personnel. Since excise could only be paid after goods were sold, in practice a shift towards excise would have meant continuously warehousing all imported goods until they were sold. This was not perceived to be feasible in the eighteenth century.⁷³

⁷³ Smith, *Inquiry into the Nature and Causes of the Wealth of Nations*, 726–40.

The 1787 Consolidation Act introduced by William Pitt the Younger took a different approach: to reform and modernize the system of customs by introducing a single rate per good. The primary issue to be addressed by Pitt's monumental reform was the complexity of the system of Customs.⁷⁴ The special treatment of the East Indies trade is not even mentioned. Instead, as late as 1819, the Company's management of customs collection was praised by the Parliamentary Committee enquiring into the departments of Customs and Excise. In contrast, customs officers employed in the EIC's warehouses, were found to be negligent and their books to be kept 'very imperfectly'.⁷⁵

The major change in the Company's position in the collection of customs occurred not as a result of reforms to taxation, but rather as a result of the erosion of its monopoly over the East Indies trade, beginning in the 1810s. In the 1820s, officials were able to observe the consequences of opening the East Indies trade to independent merchants. Trade from the East Indies (outside of tea, for which the EIC retained its monopoly) now had to go through the same system of customs collection as goods imported from other parts of the world, imposing huge financial and time costs on merchants. The number of customs officers required increased, and the 'safety of revenue' decreased as the possibilities for undercounting and pilfering increased with the number of trade participants.⁷⁶

The important role of the Company in making the system of customs collection on goods from the East Indies run smoothly is apparent from the 1820s Treasury Commissioners Appointed to Inquire into the Departments of the Customs and Excise.

The inefficiency of this establishment [Customs], and the want of better regulations, and of a more correct practice, were, however, sensibly felt when a portion of trade . . . was opened to private individuals.⁷⁷

⁷⁴ *The Parliamentary Register; or, History of the Proceedings and Debates of the House of Commons (and Lords)* . . . during the . . . Fifteenth [–Seventeenth] Parliament of Great Britain . . . October 1780 [–1795/6], Vol. 21 (London, 1782–96).

⁷⁵ Makepeace, *East India Company's London Workers*, 28.

⁷⁶ *Sixth Report of the Commissioners Appointed . . . Customs and Excise*, 43.

⁷⁷ *Ibid.*, 43.

Without the Company managing the system of customs collection on trade from the East, the state needed to reform the system, manage and better monitor customs officers — ‘keeping them all to the strict performance of their several duties’ — and also to employ ‘proper officers’ rather than such officers that the Commissioners described as ‘being unable (probably owing to their other avocations)’ to carry out their duties effectively and consequently allowing a state in which accounts ‘fell into confusion, proved imperfect, and were of no utility’.⁷⁸ In short, as late as the nineteenth century, the state needed institutional reform to achieve the administrative capacity long possessed by the EIC.

III

THE COMPANY-STATE AT HOME: THE ADMINISTRATIVE CAPACITY OF THE STATE AND THE EIC

Scholarship on the importance of administrative capacity for the collection of revenue has previously focused on the system of excise collection.⁷⁹ Brewer praised the Excise for providing instruction to its officers, for its ‘complex system of measurement and bookkeeping’, and for being ‘organized as a rigorous hierarchy based on experience and ability, and subject to strict discipline from its central office’.⁸⁰ The system of customs collection has been studied significantly less, but extant work emphasizes its backwardness (in comparison with Excise) in terms of hiring, managing, and paying its officers.⁸¹

These observations do not touch on an additional, crucial challenge of customs collection: the need for extensive calculative agency (or calculative capacity), defined by Michel Callon and Fabian Muniesa as the ability to process information and make economic decisions.⁸² Calculative capacity depends on the

⁷⁸ *Ibid.*, 46–7.

⁷⁹ Brewer, *Sineus of Power*; O’Brien, ‘Political Economy of Taxation’, 28; Ashworth, *Customs and Excise*, 117–130.

⁸⁰ Brewer, *Sineus of Power*, 56, 78.

⁸¹ Ashworth, *Customs and Excise*, 154–64, Sweeting, ‘Capitalism, The State and Things’, 127–56.

⁸² Michel Callon and Fabian Muniesa, ‘Peripheral Vision: Economic Markets as Calculative Collective Devices’, *Organization Studies*, 26 (2005), 1229–37; Fabian Muniesa, Yuval Millo, and Michel Callon, ‘An Introduction to Market Devices’, special issue, suppl. to *Sociological Review*, 55 (2007).

capabilities of the human agents — in this case custom officers — and on the tools, routines, and rules designed by the organization to help them.⁸³ As we have shown previously, the demands made on customs officials far surpassed those on excisemen, due to the vastly greater number of goods and rates, and the expansion of overseas trade. Moreover, the tools available to customs officers were limited, consisting primarily of the Book of Rates and the tacit knowledge of their colleagues, that is, implicit skills gained through experience and embedded in individuals. Such knowledge, especially the expertise of the officials employed in the Longroom (those who calculated customs duties for merchants), was highly valued. For example, Edward Saxby, who was also an author of the 1757 Book of Rates, was paid approximately £700 per annum.⁸⁴ Another notable figure in the Custom House, Richard Frewin, was paid approximately £1,000 per annum in the 1780s.⁸⁵

These payments made to customs officers reflected both their high capacity and the scarcity of that capacity. The highly knowledgeable individuals in the Longroom may have been sufficient to manage even the complex customs calculations described above in a static environment. However, the East India trade presented administrative challenges that would have been overwhelming to the customs bureaucracy alone: in particular, the concentrated arrival of huge quantities of goods on the East Indiamen and the enormous variety of goods — especially those that were unrated and those whose importation into England was prohibited, but which were processed for re-export.⁸⁶

The collection of customs duties on goods from the East Indies was facilitated by the existence of an effective bureaucratic

⁸³ See, for example, Peter Miller, 'Accounting and Objectivity: The Invention of Calculating Selves and Calculable Spaces', in Allan Megill (ed.), *Rethinking Objectivity* (Durham, NC, 1994).

⁸⁴ BL, Add. MS 38203, fos. 334–5: Edward Saxby to Lord Liverpool, 24 Jan. 1765.

⁸⁵ BL, Add. MS 38278: Richard Frewin to Lord Liverpool, 12 July 1819.

⁸⁶ Prohibited goods, most notably Indian textiles, were largely intended for re-export to the colonies and Africa. A customs duty was imposed on these goods despite the prohibition on imports, and a re-export drawback was paid to the merchant when the goods left the port to be re-exported. In the middle of the eighteenth century such drawbacks at times *exceeded* revenue paid into the Exchequer indicating the magnitude of these financial transactions.

apparatus that the state had relied on for customs collection since the seventeenth century. This apparatus, however, was not within the state, but rather in a corporation, the EIC. What made the Company so efficient at collecting customs revenue to be of such 'great importance to the public service' as the Commissioners Appointed to Inquire into the Departments of the Customs and Excise maintained? The answer to this question in fact closely matches the virtues that Brewer observed in the Excise: calculative capacity and administrative capacity.

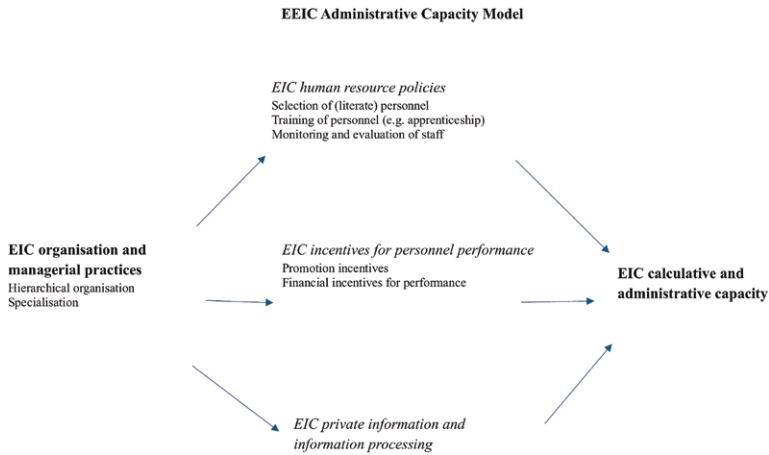
These capacities derived from two pillars of the modern corporation: management practices and human resource policies, both of which are the subject of enormous social science literatures.⁸⁷ By the seventeenth century, the Company already had a comparatively strong administration apparatus, large numbers of employees in London, and by the beginning of the eighteenth century also a well-developed and hierarchical management system that consisted of a number of committees with specifically designated tasks.⁸⁸ As we will see below, the Company ensured that its personnel were both selected and incentivized to successfully carry out these tasks. In the [Figure](#), we illustrate the links between the EIC's organizational structure and managerial practices on the one hand and its administrative and calculative capacities on the other, working through mechanisms that are well established in the economics and strategy literatures: selection, training, and monitoring of staff; incentive provision, through possibilities of promotion and financial gain; and, the EIC's advantage in information (through its account books), which was processed by skilled and specialized staff.

The structure of the Company was hierarchical, complex, and differentiated throughout its existence and as its trading activities were expanding so also was the specialization of the

⁸⁷ See Oliver E. Williamson, 'The Economics of Organization: The Transaction Cost Approach', *American Journal of Sociology*, 87 (1981); Canice Prendergast, 'The Provision of Incentives in Firms', *Journal of Economic Literature*, 37 (1999); Edward Lazear, 'Performance Pay and Productivity', *American Economic Review*, 90 (2000); Robert Gibbons and Rebecca Henderson, 'Relational Contracts and Organizational Capabilities', *Organization Science*, 23 (2012); Edward P. Lazear and Kathryn L. Shaw, 'Personnel Economics: The Economist's View of Human Resources', *Journal of Economic Perspectives*, 21 (2007).

⁸⁸ IOR/H/Misc./67, fos. 69–81.

FIGURE
THE SOURCES OF ADMINISTRATIVE CAPACITY IN THE EIC



Company's London employees. This is apparent from the fact that already by the late seventeenth century the Company's London employees were divided into several offices, most importantly the Accomptants office, and Committees, such as Private Trade or Shipping. This is not far from the Williamsonian M-form organizational structure that, it has been argued, allows complex modern firms to achieve their objectives.⁸⁹ In the eighteenth century the division into hierarchically structured committees became the primary way to organize the EIC's London tasks and its employees. By the late eighteenth century, the highest level — or, as the Company called it, first class of Committees — included Committees of Correspondence, Law Suits, Military Fund, and Treasury. Below these in the hierarchy were the Committees of Warehouses, Accounts, Buying, and House. Finally, the third class of Committees consisted of Committees of Shipping, Government Troops and Stores, Private Trade, and Preventing the Growth of Private Trade. One should note that the expansion in the number of committees in the late eighteenth century reflected the enlargement of the

⁸⁹ Oliver E. Williamson, *Corporate Control and Business Behavior: An Inquiry into the Effects of Organization Form on Enterprise Behavior* (New Jersey, 1970).

Company's activities (that is, through its Company-State function in Asia).⁹⁰ Paramount among these was the expansion of trade and the associated customs and shipping tasks. The management of trade was the focus of no less than five committees: the Committees of Treasury, Warehouses, Accounts, Private Trade, and Preventing the Growth of Private Trade.⁹¹

In the eighteenth century, the EIC in London possessed a managerial hierarchy and an administrative structure that facilitated an enormous expansion of commercial activity. Yet, corporate structure alone cannot explain the calculative capacity of the EIC in the service of customs collection, which depended on both corporate structure and personnel. In addition to specialized divisions (that is, committees), a range of tasks required substantial investment in the selection and incentives of staff.

The Company's investment in its human resources indeed shared features with the corporate behemoths of the present day. The Company's labour force — and thus its capacity both to carry out its commercial activity and also to manage aspects of the customs administration — experienced dramatic expansion over the course of the eighteenth century. While the number of full-time Company employees, or 'servants', located in London was 64 in 1711, this number increased to 328 in 1779.⁹² Yet this was only the tip of a large iceberg: an additional 989 employees worked for the Company in 1779 on a permanent basis, but with reduced hours.⁹³ By the early nineteenth century, the Company was, with over 3,000 employees, the largest employer in London.⁹⁴

Of course, a large labour force does not guarantee a labour force capable of carrying out complex commercial tasks. The Company's commercial activities relied on a set of tasks and specialized labour that were also directly conducive towards customs calculations and administration. In the first instance, the Company's trade required the minute recording of the imported goods and their characteristics in terms of weight and

⁹⁰ Stern, *Company-State Corporate Sovereignty and the Early Modern Foundations of the British Empire in India*, 3–11.

⁹¹ IOR/H/Misc./67, fos. 70–77.

⁹² IOR/D/92, fos. 180–81.

⁹³ IOR/H/Misc./67, fos. 51–61.

⁹⁴ Makepeace, *East India Company's London Workers*, 40.

measurement. This was primarily the task of ship husbands and warehouse keepers and their assistants, and required significant skill. Storage and the preparation of goods for sale were managed by the Company's warehouse workers. In 1779, each warehouse had its warehouse keeper and assistant warehouse keeper, and in larger warehouses clerks, elder porters, and porters were also employed.⁹⁵ These warehouse keepers and the warehouse employees under their direction were ideally placed to record the quantities and qualities of the traded goods, as well as goods' prices at the sale, which were necessary for customs calculations for unrated goods.⁹⁶ In the next instance, calculations of customs duties and the auditing of accounts were performed by accountants and auditors employed by the Company.

How did the Company ensure that its employees possessed the necessary skills? This depended on the selection, training, and incentives of workers. The initial step was the selection of skilled workers. Although only employees in the clerical jobs in the East India House needed to be literate to carry out their tasks, the limited evidence implies that even many of the employees in the warehouses possessed some level of literacy. Makepeace documents that in the 1830s, 95 per cent of the EIC's London labourers were able to sign their name, far higher than in the Portsmouth Dockyard, 'where only ten per cent of semi-skilled and five per cent of unskilled' labourers were able to sign their name.⁹⁷ Besides, as Makepeace points out, warehouse regulations were printed and posted in warehouses, indicating that the Company expected its labourers to be able to read. This would of course be even more important among employees who were in charge of weighing and measuring the Company's goods.⁹⁸

Beyond selection, the Company provided training and a career ladder that was aimed at developing and retaining skilled employees. Employees in clerical positions in the Accounting

⁹⁵ IOR/H/Misc./67, fos. 51–61.

⁹⁶ For example, a primary goal of warehouse keepers was to prepare goods for biannual sale and share information about the grade and quality of goods with prospective buyers at home and abroad, suggesting a significant degree of overlap between the information of interest to buyers and (because of the customs revenue implications) the state.

⁹⁷ Makepeace, *East India Company's London Workers*, 57.

⁹⁸ *Ibid.*, 58.

Department, Cashiers (Department), and the various other departments and committees routinely went through a five-year (from the late eighteenth century a three-year) apprenticeship before being promoted to a salaried position. Before being promoted to a salaried position they needed to produce a 'Certificate of their Ability, Fidelity and Diligence, from the Principal of the Office'.⁹⁹ The records of the Company also suggest that the progress of their trainee employees was monitored. For instance, an early eighteenth-century report on the employees in the Secretary's office informs that 'two youths lately admitted, Edward William and William Wood . . . as they grow up may prove useful Clerks they promise well'.¹⁰⁰ Of these two apprentices Wood was considered a 'better Writer'.¹⁰¹

Such monitoring and performance assessment was also linked with remuneration. The same document also reports on the quality of work carried out by the rest of the employees in the Secretary's office and reflects on their skills. The description of the skills of the employees is linked with their salaries, for example Jacobus Charlton, who was described as 'very diligent but slow & his Writing but ordinary' received an annual salary of £40 but John Martin who 'writes a fair hand & pretty swift and is a useful hand' received £50.¹⁰² The Company valued diligence, skills, and good performance, and manifested this also by presenting gratuities to its employees. For example, James Wiss, a silk specialist originally from Italy, whom the EIC employed in Bengal, was given a gratuity of £1,000 for his services in India.¹⁰³ Since the Company valued his work and skills after his return to Britain Wiss was offered employment in the warehouses in London and 'continued in the Company's home service for many years'.¹⁰⁴ Pay increased if an employee progressed on the career ladder, which depended on their skills, length of service,

⁹⁹ IOR/D/30, fo. 45.

¹⁰⁰ IOR/Home Misc/ 67, fo. 13. The date of the reports is not clear, 1725 is suggested.

¹⁰¹ *Ibid.*

¹⁰² *Ibid.* Another document shows that salaries could rise and fall for the same employee, reflecting their performance. See IOR/D/92, fo. 428.

¹⁰³ IOR/E/4/625, 9 Apr. 1779, fos. 133–4.

¹⁰⁴ London School of Economics Archives, W7204, East India Company: *Reports and Documents*, xvii; IOR/E/4/625, 9 Apr. 1777, 171.

and on the availability of a position. Promotion had large implications for salary, for example in 1711 the Accountant General earned over eight times more than the fifteenth-ranked officer in the Accounting Department.¹⁰⁵

The Company paid its employees based not only on their performance but also in response to changing market conditions. When price increases made the traditional apprenticeship (payment in training) uncompetitive, the Company responded by shortening the period of unpaid work from five to three years. In 1778 the Committee of Correspondence reasoned:

that every Article of Subsistence is exceedingly increased in value since the institution of that Custom, and likewise that the continuance thereof is productive of very distressing inconveniences to Individuals.¹⁰⁶

Reflecting the demand for calculative capacity, the best paid employees were to be found in the Accountant and Auditors Departments. In 1711, the Accountant General was paid £250 annually and the annual salary of the 14 other employees of the Committee of Accounts averaged £60.¹⁰⁷ The Committee of Accounts and the salaries paid to its staff grew as the complexity and volume of the Company's trade increased over the eighteenth century. In 1779, the Accountant General's annual salary was £500, and the (now 25) other employees earned an average annual salary of £115.¹⁰⁸ Even these numbers understate the amount of skilled labour employed by the Company, as it also employed auditors who are not counted here because they were paid gratuities, rather than salaries. Again, these highly skilled Company employees were well placed to possess and process the information required for tax collection.

IV

TIES BETWEEN THE CORPORATION AND THE STATE: THE EIC AND THE SHAPING OF PUBLIC POLICY

One should not think of the state's reliance on the company as merely outsourcing in an arms-length transaction. As has been

¹⁰⁵ IOR/D/92, fos. 180–81.

¹⁰⁶ IOR/D/30, fo. 45.

¹⁰⁷ IOR/D/92, fos. 180–81.

¹⁰⁸ IOR/H/Misc./67, fos. 51–61.

well documented by others, the boundaries between state and company were sometimes fuzzy, as they were tightly intertwined, not only through the fiscal relationship in customs collection, but in other fundamental ways.¹⁰⁹ Indeed, the Company and the state were symbiotic throughout the eighteenth century.

The Company was not only the source of an enormous share — nearly one third — of the state's customs revenues, but it was also leaned on by the state to finance its regular wars during the eighteenth century, with public borrowing from the EIC reaching £4,200,000 by the mid-eighteenth century.¹¹⁰ The Company, in turn, relied on the state during its liquidity crises, with the state granting financial assistance and the postponement of customs payments (for example, in 1773, Lord North's government advanced the Company £1.4 million to meet its liabilities).¹¹¹ The links between Company and state were so strong that Huw Bowen stated that 'no minister could ever afford to let the East India Company go to the wall'.¹¹² The EIC made itself indispensable, enjoying institutional advantages, along with becoming among the first firms to be 'too big to fail'.

Fuzzy boundaries between the state and the Company were also a result of overlapping personnel as well as the personal economic interest of MPs in the success of the EIC. It is challenging to fully reconstruct the network of formal and informal relationships between the EIC directors and the MPs and other high-ranking political figures. To shed some light on these, we matched the EIC director lists against directories of MPs in the three parliaments that sat during the period 1768–84. We found that, on average, 5 per cent of MPs also held the position of EIC director.¹¹³ Conversely, in the same period over 20 per cent of EIC directors acted at some time as MPs. Such figures show

¹⁰⁹ For detailed discussion, see Lucy S. Sutherland, *The East India Company in Eighteenth-Century Politics* (Oxford, 1952).

¹¹⁰ Authors' calculation as described in n. 15, above.

¹¹¹ Brewer, *Sineus of Power*, 70. In addition, the Company relied on the government for the renewal of its charter granting it a monopoly on trade between Britain and the East Indies.

¹¹² Bowen, *Business of Empire*, 31.

¹¹³ To link directors and MPs we used data on EIC directors (from manuscript BL, Add. MS 38871) and on MPs from Parliaments in 1768–84 (from *The History of Parliament, Members 1754–1790*, at <<https://www.historyofparliamentonline.org/research/members/members-1754-1790>>).

a substantial overlap between the political elite and the EIC, one that was further strengthened by informal connections. In addition to overlapping personnel between Company and state, contemporary accounts suggest a substantial EIC stock ownership among MPs. According to Huw Bowen, the number of stockholding MPs increased particularly in the 1760s, when the Company gained administrative and political power over Bengal, Bihar, and Orissa, and remained high thereafter. For instance, during the Parliaments in the period 1768–74 on average one fifth of the MPs held EIC stock, four times the number of MPs who served as directors.¹¹⁴

The interdependent relationship between Company and the state that regulated it practically implies Company influence in shaping public policy. Monopolists' political influence was among Adam Smith's main concerns regarding corporate power:

The member of parliament who supports every proposal for strengthening this monopoly, is sure to acquire not only the reputation of understanding trade, but great popularity and influence with an order of men whose numbers and wealth render them of great importance. If he opposes them, on the contrary . . . neither the most acknowledged probity, nor the highest rank, nor the greatest publick services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes from real danger, arising from the insolent outrage of furious and disappointed monopolists.¹¹⁵

It is important to note that such influence need not reflect corruption *per se*, and was not always detrimental to social welfare. Aligned interests between a company and the state can allow the benefits arising from better public policy to be shared between the regulated firm and the state. That said, the Company and state were distinct organizations, with differing objectives, and both their objectives could also diverge from those of the broader society. Thus, an obvious threat to societal and state interests arising from outsourcing customs administration to the EIC (among other entanglements) was that the Company would exert undue influence over the system of taxation, and

¹¹⁴ It is important not to overstate the influence of EIC share ownership on MPs decision-making. EIC stock ownership could be a small share of any MP's portfolio of wealth. See C. H. Philips, *The East India Company, 1784–1834* (Manchester, 1940), 307; and Bowen, *Business of Empire*, 93–4.

¹¹⁵ Smith, *Inquiry into the Nature and Causes of the Wealth of Nations*, 377.

start shaping policies to its benefit: so-called *regulatory capture*. Regulatory capture may arise when a firm possesses private information; in such an instance, regulators may overly rely on the firm's representations about its information — which gives the firm some leverage in shaping policy to its own advantage, and limits the ability of regulators to curb or extract monopolistic rents.¹¹⁶ Consequently, scholars of economics, law, politics, and public administration have devoted great effort to devising measures to limit the potential for regulatory capture.¹¹⁷ The firm's ability to exploit its private information to increase its profits represents an 'informational rent' — but note that without better alternatives, the state (and society as a whole) may still benefit from relying on the firm.

Consider the revision of the Book of Rates in the eighteenth century. The original Book of Rates was prepared in 1660 when the variety of goods Britain imported was significantly smaller than in the first decades of the eighteenth century. Even though goods were added to the Book of Rates upon the introduction of new customs duties, a large share of imported goods remained in the unrated category. By 1711, this was perceived as a significant problem from the point of view of the EIC. In letters written to the Treasury, Attorney General Sir Edward Northey, and to the Custom House, the Company stressed that the system deterred intermediary merchants by increasing their uncertainty regarding duties (and thus prices). It argued

That the Dutys upon those goods are to be ascertained upon the Sale by a Computation which is very difficult and perplexing, as well to your Petitioners, as to the Buyers . . . Do leave great part on the Company's hands by which means revenue suffers as well as your Petitioners.¹¹⁸

Note that the Company explicitly refers to the *state's* interest in implementing the desired change: 'revenue suffers'. The Company's letters found a receptive audience in the Custom House, which wrote that under the system of duties calculation, 'there has been a very great loss of Revenue of the Customs

¹¹⁶ For a review of the topic, see Ernesto Dal Bó, 'Regulatory Capture: A Review', *Oxford Review of Economic Policy*, 22 (2006).

¹¹⁷ See, for example, Daniel Carpenter and David A. Moss (eds.), *Preventing Regulatory Capture: Special Interest Influence and How to Limit It* (Cambridge, 2014).

¹¹⁸ TOR/D/92, fo. 422.

upon unrated East India Goods and other unrated Goods by the method practiced in the Custom House'.¹¹⁹ The Treasury, too, was concerned by a perceived loss of revenue. All parties were therefore keen to add more goods to the Book of Rates, and suggestions of the Company, the Custom House, and her Majesty's Attorney General to add more goods to the Book of Rates were successful.

An even more impactful case in which the Company contributed to shaping the system of customs and excise collection was the passing of the Commutation Act in 1784. Scholarship has identified the Commutation Act as a watershed moment in the history of the British tea trade, stressing the novel approach to managing public finances of Prime Minister William Pitt the Younger, as well as the significant part played by tea dealers such as Richard Twining.¹²⁰ Yet, what is missing in these accounts is the contribution of the EIC to this change in the taxation of tea.

For decades prior to the passing of the Act of Parliament, the Company was concerned about the losses it incurred from tea smuggling, which was incentivized by the high duties on legally imported tea. At this time, accounting departments of the EIC created several estimates of tea consumption in England based on the size of the population and proliferation of tea drinking. They also estimated the extent of tea smuggling using projected tea consumption and statistics on the number of foreign ships carrying tea that left China. According to these estimates some 7.7 million pounds of tea were annually smuggled to Britain in the 1770s.¹²¹ The Company's tea sales in 1780–3 were on average 6.2 million pounds annually while annual British consumption was estimated to be more than double that — despite the Company's supposed monopoly.¹²²

¹¹⁹ IOR/D/92, fo. 187.

¹²⁰ Hoh-Cheung Mui and Lorna H. Mui, 'The Commutation Act and the Tea Trade in Britain, 1784–1793', *Economic History Review*, 16 (1963).

¹²¹ IOR/H/61, fo. 103: An Account of Teas Exported from China to Europe in Foreign and English Ships. These estimates are, in fact, close to the estimates of tea smuggling made by Dermigny in 1964 and somewhat higher than the estimates made by Cole in 1958. See Louis Dermigny, *La Chine et l'Occident: le commerce à Canton au XVIII^e siècle, 1719–1833*, 3 vols. (Paris, 1964), ii, 673–4; W. A. Cole, 'Trends in Eighteenth-Century Smuggling', *Economic History Review*, 10 (1958), 405–7.

¹²² Robert Wissett, *A Compendium of East Indian Affairs*, 2 vols. (London, 1802), ii, 102.

It is clear that a reduction in the duties on tea was in the Company's interest — this would make its imports more competitive and reduce the incentive to smuggle tea into Britain. Yet, in contrast to the Company's efforts to add new goods to the Book of Rates, discussed above, the Company's arguments for reduced duties on tea were not immediately accepted by the state. In this case, the state's interests were not so neatly aligned with those of the Company: lower duties on tea would reduce smuggling and increase the quality of tea (both of which the state valued), but were estimated to significantly reduce government revenues, by upwards of £750,000.¹²³

The Company thus needed to persuade the state to adopt its preferred policies — it could not take state support for granted. It began making the political case for reduced tea duties by estimating the magnitudes of smuggling and of foreign tea shipments from China. These estimates were presented to Parliament, with further treatises published by tea dealers.¹²⁴ Smuggling directly reflected lost revenue to the state and represented a challenge to state authority as a violation of the Navigation Acts. Shipments of tea by merchants other than the EIC represented the enrichment of foreign merchants of competing states, which undermined the British mercantilist system.

It was particularly William Richardson — the Accomptant General of the EIC — who played an essential role in lobbying for the policy change. Richardson had presented a plan to change the system of tea taxation already in 1768, initially without success. He renewed his efforts in 1778, assembling some of the main tea dealers and facilitating the founding of the Association against Smuggling and Adulteration of Tea. Crucially, tea dealers and distributors acted in concert with the Company. The Court of Directors of the EIC supported the Association with £500 and the Company's solicitor and secretary, together with Richardson, and occasionally also the members of the Court of Directors, discussed the strategy the Association should take. The Association presented several

¹²³ IOR/H/MISC/61, fo. 102.

¹²⁴ Richard Twining, *Observations on the Tea and Window Act, and on the Tea Trade* (London, 1784).

memorials to the Treasury as well as to Excise making suggestions for limiting smuggling.¹²⁵

Alongside his work in the Association, Richardson resumed his efforts to alter the system of tea taxation. In 1781 he formed a plan that was to become the blueprint for the Commutation Act.¹²⁶ In particular, the plan combined a reduction in the duties on tea with an increase in the window tax, which would offset the state's lost revenues. This would make the state fiscally 'whole' but would necessarily antagonize those well-off enough to own homes with many windows. Again, the Company made a political case for lower duties on tea, estimating the annual loss of Government revenue caused by smuggling as well as the potential increase in Government revenue that would be brought about by a moderate increase in the window tax. The Company also emphasized the benefits to tea consumers that a decrease in taxation of tea would generate — lower prices on tea and improved quality from the reduction in adulteration.¹²⁷

Richardson specifically used language stressing the plight of the poor and the broader *public* benefit of a change in tea duties that was so obviously in the *private* interest of the EIC. Relying on the figures he computed, Richardson started lobbying:

Being properly introduced to the Marquis of Lansdown [Prime Minister from 1782–3], I requested his Lordship's opinion of the Plan: after the most minute investigation, he assured me, he considered it of the greatest importance to the Welfare of Great Britain and would be happy to give his formal support to the plan whenever brought into Parliament.¹²⁸

On the 17th of December 1783 the Court of Directors unanimously resolved to recommend the Plan to the First Lordship of His Majesty's Treasury and the Chancellor of His Majesty's Exchequer.¹²⁹ The removal from office of an anti-Company Prime Minister (the Duke of Portland) in December 1783 resulted in the fortuitous appointment of William Pitt the Younger, as Prime Minister. Richardson had already secured

¹²⁵ IOR/H/61, fos. 123–6.

¹²⁶ *Ibid.*, fo. 117.

¹²⁷ *Ibid.*, fos. 104–14.

¹²⁸ *Ibid.*, fo. 118.

¹²⁹ *Ibid.*

Pitt's support for the bill, which passed through Parliament quickly, coming into force on 16 September 1784.¹³⁰

The Company was not the only party that shaped the Commutation Act (24 George III, c. 38). There were considerable negotiations between the Company, Pitt, and tea dealers regarding the level of taxation, the quantity and type of tea the EIC should sell, and the retail price of tea.¹³¹ Finally, it was settled that customs and excise duties on tea would decrease from 119 per cent to 12.5 per cent *ad valorem*.¹³² Although the Commutation Act also meant more state regulation of the Company's tea trade, the effects on tea sales were immediate as EIC tea sales expanded from 5.8 million pounds per annum in 1773–83 to almost 17 million in 1786–94.¹³³ The government, too, achieved its objectives, preserving its revenue and reducing smuggling. There were losers, however: the many 'Pitt windows' — bricked up windows visible in Georgian houses across England — are evidence of the tax's burden. Indeed, Charles Dickens proclaimed that, 'neither air nor light have been free since the imposition of the window tax'.¹³⁴

V

CONCLUSION

The origins of fiscal capacity represent something of a puzzle: fiscal capacity requires revenue, while the collection of revenue requires capacity. Where does this initial capacity come from? In the case of seventeenth- and eighteenth-century Britain, we document that administrative capacity was, in part, borrowed by the state: we propose the 'Company-State at Home' model, emphasizing the role of the EIC in collecting customs revenue on behalf of the state.

While Adam Smith described 'Such exclusive companies' as 'nuisances in every respect; always more or less inconvenient to the countries in which they are established', the history of the EIC's role in Britain's fiscal development reveals the corporation

¹³⁰ Mui and Mui, 'Commutation Act and the Tea Trade in Britain', 235.

¹³¹ Hoh-Cheung Mui and Lorna H. Mui, 'William Pitt and the Enforcement of the Commutation Act, 1784–1788', *English Historical Review*, 76 (1961), 452–4.

¹³² Wissett, *Compendium of East Indian Affairs*, 80–81.

¹³³ *Ibid.*, 81.

¹³⁴ Charles Dickens, *Household Words*, vol. II (London, 1850), 461.

to have been a *partner* to the state.¹³⁵ What parliamentarians of the time appreciated (even if Smith did not) was that the emerging British imperial leviathan relied on the corporate behemoth of the EIC for revenue collection. Far from an ‘inconvenience’, the EIC was a pillar of the British fiscal state, helping it to escape from a low-capacity trap.

Indeed, it would be puzzling for the British state to have chartered corporations that acted in opposition to them; resolving this puzzle requires recognition that corporate privileges were one side of the *quid pro quo* in which states also benefited from capacities that corporations had, but states lacked. As is well understood, this was true in issuing debt (the Bank of England) and in the administration of Empire (the EIC). Our analysis suggests it was even true in the fundamental process of collecting revenue to fight wars and to build the fiscal state. The Company-State projected the Empire abroad and the Company-State at Home helped build the fiscal capacity that sustained that Empire.

More generally, the dependence of the British state on the EIC for revenue collection suggests a new perspective on the relationship between corporation and the fiscal-state. We emphasize the entangled histories of states and corporations: rather than treat them in isolation or as antagonists, they should be treated as functioning in a symbiotic relationship — at least in some domains. We suggest that the symbiotic lens through which we study the relationship between the developing fiscal state and corporations can be applied across time, space, and state objectives. Indeed, the company-state model and the notion of states’ borrowing capacity have recently been applied to the study of state-building in diverse time periods and regions. It has been proposed that the company-state model can be applied to the Roman Republic’s governance of overseas territories, the lens of borrowing capacity may help us understand the delegation of governance to feudal lords in medieval Europe, and borrowed capacity has been a component of the state’s military capacity into the modern era.¹³⁶ The reliance on the East India Company

¹³⁵ Smith, *Inquiry into the Nature and Causes of the Wealth of Nations*, 641.

¹³⁶ See the discussion in Brent D. Shaw, ‘The Company-State Model and the *societas publicanorum*’, *Historia*, 71 (2022); Erika Graham-Goering, Jim van der Meulen, and Frederik Buylaert, *Lordship and the Decentralized State in Late Medieval Europe* (Oxford, 2025); Janice E. Thomson, *Mercenaries, Pirates, and Sovereigns: State-Building and Extraterritorial Violence in Early Modern Europe* (Princeton, 1996).

that we document is notable for the sophistication of the organization — the corporation — on which the state relied for fiscal capacity.

The granting of economic rents to corporate actors in return for borrowed capacity suggests we look beyond Weberian narratives of state development. Most directly, comparisons can be made between the portfolio of state objectives met by the EIC and that of other European states and their trading companies. One can also look further afield. Private banks have long been chartered by states to support financial development.¹³⁷ Some of history's pivotal infrastructure projects (for example, the Suez Canal) relied on state partnerships with (often monopolistic) corporations.¹³⁸ Early policing was conducted by private firms as well.¹³⁹ Today, fragile and emerging states rely on private firms to provide basic state services, including national defence. In any case, we expect that state objectives will be partially met by private firms, in exchange for a privileged position, economically and politically.

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¹³⁷ Richard Sylla, 'Early American Banking: The Significance of the Corporate Form', *Business and Economic History*, 14 (1985).

¹³⁸ Hubert Bonin, *History of the Suez Canal Company, 1858–2008: Between Controversy and Utility* (Geneva, 2010).

¹³⁹ Michael Kempa, 'The "Private" Origin of Modern "Public" Policing', in Rita Abrahamsen and Anna Leander (eds.), *Routledge Handbook of Private Security Studies* (London, 2015); Robert Weiss, 'The Emergence and Transformation of Private Detective Industrial Policing in the United States, 1850–1940', *Crime and Social Justice*, 9 (1978); Douglas W. Allen and Yoram Barzel, 'The Evolution of Criminal Law and Police during the Pre-Modern Era', *Journal of Law, Economics, and Organization*, 27 (2011).

ABSTRACT

The significance of the state's fiscal system for military capacity, colonization, trade, and economic development is a long-studied topic. Much scholarship has focused on Britain and the emergence of its fiscal-military state. This article shows that fiscal capacity was not created only by government bureaucracies: the 'company-state at home' model presented here complements the narrative of the 'fiscal-military state' by showing that much fiscal revenue from trade was realized through the action of the English East India Company (EIC). Lacking the capacity to enact exhaustive laws, carry out complex calculations, or effectively manage a large bureaucracy, the English state relied on the administrative capacity of the EIC to collect customs on the East Indies trade. The institutional solution of allowing the EIC to collect revenues overcame the administrative challenge of customs revenue collection. This solution was made possible by the EIC's administrative capacities and sustained by alignment between Company and state interests. The role of the EIC in British state development suggests a symbiotic lens through which to study the relationship between the state and corporations, which can be applied across time, space, and state objectives.