Social Education 77(2), pp 78–81, 98

The East India Company:
Agent of Empire in the Early Modern Capitalist Era

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The world economy and political map changed dramatically between the seventeenth and nineteenth centuries. Unprecedented trade linked the continents together and set off a European scramble to discover new resources and markets. European ships and merchants reached across the world, and their governments followed after them, inaugurating the modern eras of imperialism and colonialism.

Merchant trading companies, exemplified by the English East India Company, were the agents of empire at the dawn of early modern capitalism. The East India Company was a monopoly trading company that linked the Eastern and Western worlds.[1] While it was one of a number of similar companies, both of British origin (such as the Virginia company in North America) and of foreign origin (the Dutch East India Company being a notable competitor), the East India Company far outpaced its rivals by acquiring extraordinary wealth and power. In particular, in its pursuit of resources and goods in the Indian subcontinent, it preceded the British government as the ruler of large parts of India. Its story is an excellent point of departure for studying the relations between trade and the flag in a crucial era of world history.

The East India Company: Historical Highlights

During the sixteenth century, English merchants became increasingly interested in the possibility of capturing some of the lucrative ocean-going spice trade in the Indian Ocean,[2] which Dutch and Portuguese companies were finding very profitable. In 1600, Queen Elizabeth I granted a royal charter to the "Governor and Company of Merchants of London trading with the East Indies," soon thereafter known as the East India Company (EIC), which gave the merchants a monopoly on all trade east of the Cape of Good Hope for 15 years.

Several aspects of this arrangement are worth noting:

1. First, the EIC was a joint-stock company, owned and operated by private investors. Unlike earlier forms of business organization, the joint-stock company shielded its participants from losing everything in a business failure—that is, it offered limited liability. For the EIC this was a special privilege granted by the Crown. Limited liability is a key feature of corporate organization today, no longer a special privilege but an accepted feature of the corporate form since the late 1800s.[3] Limited liability permits the raising of much larger sums of capital because investors know they can be involved without risking everything. Over its long history the EIC both lent to and borrowed from the English (and later British) government; however, the government did not own shares nor was it formally involved in company governance until the last years. The original EIC was not what would be referred to today as a state-owned enterprise.[4]

2. Second, while the government initially neither held ownership shares nor directed the EIC's activities, it still exercised substantial indirect influence over its success. Beyond using military and foreign policies to positively alter the global trading environment, the government indirectly influenced the EIC through its regularly exercised prerogative to evaluate and renew the charter. Understanding the tension in this privilege granting-receiving relationship explains much of the history of the EIC.

3. Third, the EIC initially operated in direct competition with its Dutch counterpart, the Dutch East India Company. Contrasts between the two enterprises are instructive.[5] Under a series of favorable charters, the EIC was commercially successful over its first 100 years. During this period, if we focus just on the East Indies spice trade, the EIC ranked second in sales volume and profits behind its Dutch rival. However, the EIC did establish and greatly expand a presence in India while simultaneously increasing its global trade volume.

The Early Expansion of the EIC

The EIC was created and expanded in a mercantilist era in which the conventional wisdom was that foreign trade monopolies were an effective vehicle for building the wealth and power of the state. The essential reality of this mercantilist period was a sense of mutually beneficial interaction between merchants and the state, with little attention to consumer well being as a goal. Indeed, the import into England and re-export to Europe of spices and other goods (such as cotton and silk) from the East was a lucrative business in the seventeenth century. Spices like pepper, cloves, nutmeg, mace, cinnamon, and ginger, were used to improve the taste of food and for making medicines and had a large market in Europe. Average annual EIC imports from Asia increased 300 percent between 1660 and 1690. English merchants faced the ongoing challenge of what to trade for the spices and other goods they obtained. Woollens, England's key export at the outset of the EIC's history, had limited appeal for local traders in the East, which meant that for the conduct of trades, the Company relied heavily on silver, which represented about two-thirds of exports in 1670. Since prevailing mercantilist thought held that a country benefited from trade if its stock of gold and silver bullion increased, there was much debate within England in the seventeenth century as to effects of a persistently large silver outflow. As the company increased its presence in India and other parts of Asia, it was able to use other products, such as cotton, silk, saltpeter (used to manufacture gunpowder), and opium as a means of obtaining the spices and other goods exported to England.

The EIC's economic ascendancy led to an interesting pattern of business-government relations. The wealth acquired by the private investor-officers allowed them to gain political influence either directly (by building up business and real estate holdings at home and using their wealth to become members of parliament) or indirectly through extensive lobbying efforts. Gifts to members of the royal court, politicians, and government officials were common, and on a number of occasions the EIC lent money directly to the Treasury. The result was that over its first 100 years the Company acquired influence unknown in today's world of business-government relations. By 1670, the EIC had been granted the right to create its own money, independently acquire territory, command armies and establish forts as it prosecuted war at its discretion. During the eighteenth century, it used this power to conquer and govern large expanses of the Indian subcontinent.

Broadening Commercial and Political Success

A variety of economic factors contributed to improving the trading revenues for the EIC in the eighteenth century. In exchange for tea from China, which approached 5 million lbs. per year by 1750, the EIC offered metal goods and metals (e.g. copper), saltpeter, firearms, naval stores, calicos and other Indian cloths and of course opium. What the EIC, and more generally the British, achieved during the 18th century was an improved coordination of a dynamic global trading structure. They turned their North American and other colonies into a market for finished manufactures and a source of key staple commodities. This allowed for a lucrative re-export of commodities like tobacco, cotton, silk, indigo, and naval stores, which improved trade prospects with Northern Europe and the Middle East. Meanwhile the EIC was enhancing its control over India and expanding into new areas in East Asia. All trade grew, but proportions shifted as trade with Europe became less important relative to trade with the American colonies and Asia, and as re-exports gained relative to exports, and textiles gained relative to spices.

The Company's success was due in part to an extremely effective management system. The management hierarchy created by the EIC was a committee system with performance incentives for managers. This company design included a strategy of allowing the EIC's agents (trading officers) to engage in their own private trades. The challenge was to give agents enough latitude to expand trade without undermining the company's interests. The EIC's success in managing this conflict, and benefitting from it on an expanding international stage, has led some observers to describe the EIC as a prototype for the modern multinational corporation.[6]

The worldwide reach of the East India Company gave it some remarkable connections to American history, including the fact that it was the owner of the tea dumped into Boston Harbor during the Boston Tea Party of 1773. In the years leading up to 1773, the harmony of British rule over colonial America had been disrupted by the passage of the Sugar Act (1764), Stamp Act (1765), and the Townshend Acts (1767). While the colonial opposition caused the British to relent, partially, in terms of the number of taxes retained and how they were enforced, the tax on tea remained. Then, in 1773, the British government, at the behest of the EIC, passed the Tea Act. This allowed the EIC to ship tea directly to the colonies and sell the tea exclusively through its designated agents, a change expected to undermine the fortunes of American shippers and merchants.[7] The previous pattern was for much of the tea consumed in America to be brought from England in American ships after American merchants had purchased the tea in England; the acquired tea was then distributed through a variety of (colonial) middlemen until the final point of sale was achieved between a colonial merchant and colonial consumer. Moreover, it was logical to assume that the EIC would be able to extend this new privilege to other products. The uproar among American colonists was motivated in part by a fear of lost business activity under their control.[8] The uproar illustrated how governments could incur large, and often unanticipated, political costs by taking a single action supporting a favored business interest.

The most dramatic changes in the company's fortunes during the eighteenth century occurred in India. In the various Indian domains and principalities, the company operated by permission of the rulers, but had to compete with other similar European trading companies—in particular, in the eighteenth century, the French East India Company, which also operated its own

East India Company Timeline

1600 Queen Elizabeth I signs the Charter creating The Company of Merchants of London trading to the East Indies. The charter grants the East India Company (EIC) a monopoly on all trade east of the Cape of Good Hope. The first EIC voyage from London embarks the following year.

1607 EIC establishes its first trading post in India, in Surat on the west coast, and by 1614 has obtained a trade charter from the Mughal Emperor Jahangir that grants trade concessions and protection to resident English merchants.

1657 Reorganization of the EIC is based on reforms initiated by the Cromwell administration. The new charter establishes the EIC as a permanent joint stock company; investors are now investing in the Company rather than individual voyages.

1664 The first purchase of Chinese tea (100 lbs.) is made. Over the next 20 years the EIC established a factory in Taiwan and gained additional permissions to trade in Chinese ports in order to expand its imports of silk, tea, and porcelain.

1667 Weavers, dyers, and other workers in related fields riot and attack the London headquarters of the EIC. The protest is due to the rising imports of Indian cloth that threaten their industries. Expanding global trade may raise national production and income, but this event is a reminder that not everyone benefits.

1695 English pirates raid a Mughal fleet on its way to Mecca. The incident is famous because of the size of both the treasure stolen and the bounty offered for the pirate captain by the Privy Council and the EIC. While in hindsight it may seem ironic that the English were both "legally" and illegally separating Indians from their wealth, at the time these incidents were troublesome for the EIC as they led to retributions resulting in the closing of trading posts and prison time for EIC officers.

1708 Formation of United Company of Merchants of England Trading to the East Indies which is the merger of the original EIC and its chief domestic rival. Rivals became possible after a Deregulating Act of 1694 that allowed any English firm to trade with India, thus ending, for a short period, the monopoly privilege held by the EIC since 1600.

1729 An opium prohibition in China begins after decades of increasing opium use. Lacking a sufficiently diverse mix of goods to interest the Chinese, the EIC needs something to trade besides silver in exchange for the tea, silks, and other items imported from China. Opium fills this void and the EIC uses its control over India to locate production and distribution centers there, and maintain a monopoly over the opium trade with China. Because the trade is illegal, the EIC sells the opium to intermediaries rather than transport it to China in company ships.

1757 The Battle of Plassey signifies a turning point in the EIC's control over India. The Mughal Empire had weakened, and wars had broken out between different districts of India. The battle marks the recapture of Calcutta by the EIC army and the extension of greater control over Bengal and other districts, resulting in higher land taxes, reduced agricultural output, and famines, which in turn increase both the incidence of poverty among Indians and the land holdings of the EIC. It is in this period that the EIC completes the shift from being a merchant trading venture to a ruling entity.

1773 In the Regulating Act of 1773, the British Parliament imposes several reforms to clarify questions of authority and sovereignty between the EIC and the Crown. This Act makes clear that the EIC cannot acquire sovereignty "in its own right" but only "on behalf of the Crown."

1784 The East India Company Act created a Board of Commissioners for the Affairs of India to supervise the East India Company's administration of its territories in India.

1813 With the Charter Act of 1813, the EIC has its charter renewed for another 20 years but loses the broad monopoly it had held for two centuries—except for trade in tea with India and the trade with China.

1833 The pain worsens with the Government of India Act of 1833 in which the equivalent of a mercantile lobotomy is performed. The EIC loses its remaining trade monopolies and is divested of all commercial functions. Another 20-year charter is given, but only for political and administrative activities. In effect, the EIC is relegated to colonial governance under British government supervision.

1848 Long-standing EIC efforts to establish tea plantations in India come to fruition. The Company had sponsored what were in effect "covert" actions to get tea plants out of China. The first major success is to establish tea production in the Darjeeling region near the Himalayas. China's virtual monopoly on tea is broken and India will eventually become the dominant world producer of tea.

1857 A mutiny of Indian troops under EIC control leads to a broader rebellion across central and northern India that lasts about one year. In resolving this crisis, the British government finishes its takeover of the Company with the Government of India Act of 1858. The EIC loses its remaining administrative powers, its Indian possessions, and its armed forces; a dissolution plan for the Company to be terminated in 1874 is part of the Act of 1858.

1874 After the Act of 1858, the EIC's only role is to continue managing the tea trade on behalf of the British Government; on June 1, 1874, the East India Company ceases to exist.

armed forces and sought to ally with different Indian rulers or to win over the rulers favoring the British East India Company. The eighteenth century was a period of political instability in the Indian sub-continent, as the great Mogul Empire disintegrated, resulting in competition by aspirants to the succession of the Mogul throne, as well as attempts by competing rulers to expand their states. The British and French companies used their armed forces to protect and advance their interests, which allowed them to become tipping factors in disputes between Indian rulers. At other times, they simply used force to expand their domains of influence and installed allied Indian rulers willing to promote their interests. The British East Indian Company eventually emerged victorious from the various armed conflicts. It became the ruler of Bengal in 1757 and with further expansion, by the end of the eighteenth century, it was, in effect, a shadow British Empire.

The Decline and Fall of a Mercantile Empire

As the Company amassed wealth and power, it came under increased scrutiny. Its monopoly rights protected it against competition. In the latter part of the 18th century, however, as the ideas of Adam Smith and his contemporaries began to gain adherents, the mercantilist worldview began to crack in favor of a belief in free markets and free trade—a concept that the British eventually championed.

The extraordinary wealth that many East India Company officials acquired in India was conspicuous and led to accusations of corruption, extortion, and plunder. As the success of the company attracted scrutiny, members of the British parliament looked for opportunities to extract resources from and manipulate the Company. The period of the American Revolution was a financially troubled time for the Company, as its losses of revenue from the American trade were exacerbated by challenges to its rule in India, which resulted in an expensive war in southern India. By then, the company's revenues and role in British international trade were large enough for British politicians to view them as a national interest; threats to the company's operations caused parliamentary alarm and prompted political intervention. The company was able to resist the challenges in India, and even acquired new territories there before the end of the century, but by that time it had come under extensive British government regulation. As the financial difficulties of empire were becoming overwhelming for the EIC, the British government expressed increasing worry about the political problems of the company's shadow empire; legislation sought to resolve these concerns.

The main theme of subsequent relations between the British government and the East India Company was the government's attempt to downsize the company and to open the resources of India and the East Indian trade to other enterprises. The Company continued for a while to maintain extensive Asian operations, acquiring lands that included what would later become Singapore, and parts of the Malay Peninsula. However, the EIC was buffeted by two prevailing winds. One was the belief in economic freedom and free trade that Adam Smith helped to usher in. Competing domestic parties (other British commercial groups interested in Asian trade) were successfully launching anti-monopoly campaigns. A second force undermining the status and power of the EIC was the evolution of British imperial governance. Simply put, the merchant trading company governance model had become incompatible with the continuing operation and expansion of the British Empire. The change began with the Regulating Act (also known as the East India Company Act) of 1773 that separated the EIC's political and commercial functions and asserted the sovereignty of the British Crown over the East India Company's governmental functions in India. The East India Company Act of 1784 placed the administration of the Company's territories in India directly in the hands of the British government, by creating a Board of Commissioners for the Affairs of India and paving the way for centralized British imperial rule in India. The battle between the British government and the EIC over who governed in India and other nearby territories was underway.

As a result of these changes, the EIC's role in the spectacular growth of British foreign trade in the nineteenth century was quite limited. A Charter Act of 1813 renewed the company's charter for 20 years, but ended the broad monopoly it had held for two centuries, except for trade in tea with India and the trade with China, to which the Company was a major supplier of opium (a form of commerce that later brought on the Opium Wars). In 1833, after repeated financial difficulties, the EIC lost its monopoly charter, and was divested of its commercial functions. It continued to function as a contractor to the British government under a new 20-year charter for political and administrative activities. Its activities after 1833 were not insignificant; for example, it played an important role in developing the Indian production of tea, which had previously been a virtual monopoly by China. However, after a major mutiny of Indian troops under EIC control in 1857, the British government took over the Company completely with the Government of India Act of 1858, which provided for the Company to be dissolved.[9] In the EIC's final years, it functioned as a state-owned enterprise whose only role was to continue managing the Indian tea trade on behalf of the British government, and on June 1, 1874, it ceased to exist.

Conclusion

It is hard to imagine a better case study of the complex dynamics between the privilege-seeking and privilege-granting behaviors of business and government than can be found in the East India Company's history. Two related historical themes appear to be borne out by the experience of the EIC. One is that increasing corporate efforts to acquire and exert political influence generate substantial benefits—but only to a point. Beyond that point, the politically powerful corporation can actually find its power to be a handicap. In the case of the EIC, when its acquired powers practically transformed it into a nation-state, the distraction of these additional political responsibilities undermined its commercial focus and flexibility and ultimately contributed to its decline. The pursuit of power and privilege is often transformative in affecting business performance. By the 1830s, after repeated financial difficulties, the EIC began a decline that saw it lose its monopoly charter, suffer relegation to a de-facto foreign policy agency, and become a state-owned enterprise as the British government took over the company before ending it. This brings out a second and related historical theme: as business-government relations become more intertwined, government incurs greater costs, and political rather than economic considerations become the principal determinants of the company's future.

Notes

1. K.N. Chaudhuri, *The English East India Company: The Study of an Early Joint-Stock Company 1600-1640* (New York: A.M. Kelley, 1965) and "The East India Company: The Company that Ruled the Waves," *The Economist* (December 17, 2011).
2. C.G.A. Clay, *Economic Expansion and Social Change: England 1500-1700, Industry, Trade and Government* (London: Cambridge University Press, 1984).
3. The U.S. Supreme Court recognized the corporation as a separate entity, clearing the way for limited liability, beginning with its ruling in *Trustees of Dartmouth College v. Woodward*, 17 U.S. (4 Wheat.) 518, 634-38 (1819). By 1900, limited liability was a standard feature of the U.S. corporation. For a concise review of the evolution of the corporate form of organization and its legal environment in the nineteenth century see Gary Walton and Hugh Rockoff, *History of the American Economy* (Mason, Ohio: South-Western, 2010), 171–72.
4. A state-owned enterprise (SOE) is a public corporation owned and operated by the government. Three aspects of SOEs are: (a) Government is the principal stockholder, or if a minority stockholder, can still exercise broad policy control over management, production, employment, and other key areas; (b) A SOE is engaged in the production of goods and/or services for sale to the public; (c) As a matter of policy, revenues should bear some relation to costs.

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pany these new advances. Rather than approach STEM education from a narrow, disciplinary perspective, teachers should collaborate to promote student understanding of the complex and multidisciplinary nature of scientific innovation. This not only promotes "trans-disciplinary thinking," but also allows for the "infusion of creativity in traditional 'analytic' curriculum like STEM disciplines."[23]

Notes

1. Brad Maguth, "In Defense of the Social Studies: Social Studies Programs in STEM Education," *Social Studies Research and Practice* 7, no. 2 (2012): 84.
2. Theme 8: Science, Technology, and Society, *National Curriculum Standards for Social Studies: A Framework for Teaching, Learning, and Assessment* (Silver Spring, Md.: NCSS, 2010), www.socialstudies.org/standards/strands.
3. Ronald Sandler, "Nanotechnology: The Social and Ethical Issues," (Washington, D.C., Woodrow Wilson International Center for Scholars, 2009), www.nanotechproject.org/process/assets/files/7060/nano_pen16_final.pdf, 11.
4. The NSF Nanosystems Engineering Research Center (NERC) for Advanced Self-Powered Systems of Integrated Sensors and Technologies (ASSIST), http://assist.ncsu.edu/, funded by the National Science Foundation, is part of a larger, concerted effort to fulfill the promise of nanotechnology—the United States National Nanotechnology Initiative (NNI).
5. National Nanotechnology Initiative, "Frequently Asked Questions," (NNI, Washington, D.C.), www.nano.gov/nanotech-101/nanotechnology-facts. For a more detailed definition of nanotechnology see: NNI's "What It Is and How It Works" www.nano.gov/nanotech-101/what;
6. "What's so Special about Nanoscience?" http://nano.gov/nanotech-101/special.
7. National Nanotechnology Initiative, "Benefits and Application," (NNI, Washington, DC), http://www.nano.gov/you/nanotechnology-benefits.
8. *ASSIST: NSF Nanosystems Engineering Research Center for Advanced Self-Powered Systems of Integrated Sensors and Technologies*, (Raleigh, N.C.: North Carolina State University),
9. For a more detailed discussion see Sandler, 2009, and Stephen W. Nicholas, Betina Jean-Louis, Benjamin Ortiz, Mary Northridge, Katherine Shoemaker, Roger Vaughan, Michaela Rome, Geoffrey Canada, Vincent Hutchinson, "Addressing the Childhood Asthma Crisis in Harlem: The Harlem Children's Zone Asthma Initiative," *American Journal of Public Health*, 95, no. 2 (February 2005), 245–249. There is some disagreement about the best approach to reducing childhood asthma, particularly in impoverished urban areas. Some are critical of the monitoring approach, favoring instead placing direct limits on exhaust emissions and the location of bus depots, etc.
10. Sandler, 2009, describes these as "form of life" issues, 43-48.
11. Shedra Amy Snipes, "'I Wore My Protective Equipment, but I'm Still Sick': Pesticide Protection and Health among Farmworkers," seminar presentation (December 13, 2012, Raleigh, N.C.).
12. Sandler, 5, 8.
13. UNESCO, "The Ethics and Politics of Nanotechnology" (Paris, France, UNESCO, 2006), http://unesdoc.unesco.org/images/0014/001459/145951e.pdf, 3, 4.
14. Punya Mishra, Danah Henriksen, and the Deep-Play Research Group, "Rethinking Technology and Creativity in the 21st Century: On Being In-Disciplined," *TechTrends* 56, no. 6 (November/December 2012), 20.
15. For a discussion of authentic intellectual work see Geoffrey Scheurman and Fred W. Newman, "Authentic Intellectual Work in Social Studies: Putting Performance before Pedagogy," *Social Education* 62, no. 1 (January 1998). Authentic intellectual work must meet three criteria: student construction of content knowledge, disciplined inquiry, and real world relevance.
16. UNESCO, 3.
17. M. Gail Jones, *Nanoscale Science: Activities for Grades 6-12*, (Arlington, Va.: National Science Teachers Association, 2007). See also her chapter in the same text focused on ethical issues related to nanotechnology.
18. David Ewing Duncan, "So Long, Lance. Next, 21st-Century Doping," *The New York Times* (January 19, 2013).
19. M. Gail Jones, Bethany Broadwell, Michael Falvo, James Minogue, and Tom Oppewal, "It's a Small World After All: Exploring Nanotechnology in our Clothes," *Science and Children* 43, no. 2 (October 2005), 44-46.
20. Sandler, 21
21. *Nanoethics on the World Wide Web: Helping Faculty Enhance Graduate Education.* Case studies http://depts.washington.edu/ntethics/casestudies/index.shtml
22. Mark Hofer and Kathy Swan, "Digital Docs in a Box," (William and Mary, University of Kentucky, and the Library of Congress, n.d.), http://digitaldocsinabox.org/.
23. Mishra, et al, p. 19

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Note that without (a) the entity would be a private enterprise and without (b) and (c) this would not be a SOE, but just a public agency like a fire or police department.

5. The Dutch East India Company (Vereenigde Oost-Indische Compagnie, or VOC) was formed (1602) at roughly the same time as the EIC and was also a joint-stock company. The differing fortunes of the British and Dutch efforts are instructive. At the time of the formation of both enterprises, there was a formal stock market in the Netherlands but not in England. Another difference was in the monopoly charters of the two companies. The unregulated EIC sought only to maximize profits for its owners. The VOC charter, in contrast, had a mix of incentives with stockholders benefiting from share appreciation and dividends. Managers, who were also shareowners, were paid based on the company's turnover (sales). The fact that the VOC was more successful than the EIC in the East Indies spice trade in these early decades brings up some subtle aspects in business-government relations. The Dutch government, by steering the VOC toward maximizing sales, was ironically encouraging more competitive behavior; this brings up the enduring question of whether government can steer private business toward a superior outcome. (See Douglas A. Irwin, "Mercantilism as Strategic Trade Policy: The Anglo-Dutch Rivalry for the East India Trade," *Journal of Political Economy* 99 [1991]: 1296–1314).

   It is also interesting to note that although the VOC had more government steering, it operated within a more sophisticated market environment, as evidenced by an active share market and other financial market institutions that did not initially exist in England to aid in the growth of the EIC. Whether a firm has more or less government direction is one variable; the market character of the institutional environment in which a firm operates is also an important determinant of success.
6. Ann M. Carlos and Stephen Nicholas "'Giants of an Earlier Capitalism': The Chartered Trading Companies as Modern Multinationals," *Business History Review* 62 (1988): 398-419.
7. Louis M. Hacker, *The Triumph of American Capitalism* (New York: Columbia University Press, 1940), 163–4.
8. This earlier American fear of lost business activity is similar to what is happening in India today as the Indian government has decided to let Wal-Mart stake out a presence in the country. See, Rama Lakshmi, "Indian Economic Reforms Open the Door to Foreign Retailers," *Washington Post* (September 15, 2012): A6.
9. Anthony Webster, *The Twilight of the East India Company* (Woodbridge, UK: The Boydell Press, 2009).

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