

# ECONOMIC DEVELOPMENT AND THE EVOLUTION OF GOVERNMENT IN PRE-INDUSTRIAL EUROPE\*

Meir Kohn

Department of Economics  
Dartmouth College  
Hanover, NH 03755  
email: [mkohn@dartmouth.edu](mailto:mkohn@dartmouth.edu)

November 2005

ABSTRACT: In pre-industrial Europe, government and the economy developed together, each influencing the other. The development of each was shaped by competition. Governments competed for territory, principally by means of war. Their success depended primarily on their ability to mobilize resources. So governments that could tap the resources of thriving economies had an advantage over governments that could not. Of course, whether or not an economy thrived depended to no small extent on the nature and conduct of its government. This nexus of government, war, and economy generated a sort of cycle. A period of peace allowed economies to develop and grow. This economic growth increased the resources available to governments, enabling them to embark on military adventures. War and the means used to finance it depressed economic activity and eventually starved governments of resources. This made it impossible for them to continue fighting. Peace then returned and the economy slowly recovered. This set the scene for another cycle. Economic growth and war were both self-limiting. It is this political-economic cycle much more than the demographic-economic cycle of Malthus that has been the main obstacle to sustained economic progress.

JEL Categories: N430, H100, H690, O570

\*This paper is a draft chapter of *The Origins of Western Economic Success: Commerce, Finance, and Government in Pre-Industrial Europe*. Other draft chapters may be downloaded from <http://www.dartmouth.edu/~mkohn/>

In pre-industrial Europe, government and the economy developed together, each influencing the other. The development of government, like that of the economy, was shaped by competition. Governments competed with one another for territory, principally by means of war.<sup>1</sup> And success in war depended primarily on the ability to mobilize resources. So governments that could tap the resources of thriving economies had an advantage over governments that could not. Of course, whether or not an economy thrived depended to no small extent on the nature and conduct of its government.

This nexus of government, war, and economy generated a sort of cycle. A period of peace allowed economies to develop and grow. This economic growth increased the resources available to governments, enabling them to embark on military adventures. When the costs of these adventures escalated beyond the means available—as they always did—governments resorted to increasingly harmful means to mobilize the resources they needed. War and the means used to finance it steadily depressed economic activity. This eventually starved governments of resources and made it impossible for them to continue fighting. Peace then returned and the economy slowly recovered. This set the scene for another cycle. In a sense, therefore, economic growth and war were both self-limiting. It is this political-economic cycle much more than the demographic-economic cycle of Malthus that has been the main obstacle to sustained economic progress.<sup>2</sup>

During the pre-industrial period (eleventh through sixteenth centuries), Europe went through two iterations of this political-economic cycle. From the eleventh through the thirteenth centuries relative peace contributed to rapid economic development and growth—the so-called Commercial Revolution. Flush with cash, governments embarked on a series of wars that lasted from the late thirteenth century to the middle of the fifteenth. Over this period, the European economy stagnated or regressed. However, with the return of peace in the 1450s, a vigorous economic recovery ensued. The resulting prosperity soon refilled government coffers and this inevitably provided the means for another round of wars. This began at the end of the fifteenth century and continued into the middle of the seventeenth.

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<sup>1</sup>(McNeill 1982) emphasizes the importance of war in the evolution of government.

<sup>2</sup>(De Long 2000) describes such a cycle and attributes the idea to Ernest Gellner.

The second iteration of the cycle was not, however, a mere repetition of the first. The economic development that had occurred in the meantime had changed the financing options available to governments and so the impact of war finance on the economy. At the same time, strong evolutionary pressure had been at work on systems of government themselves. Natural selection favored those systems of government that could mobilize resources without destroying their economies. Those that could do so were able to continue fighting and were thus able to defeat those that could not.

The current chapter presents an overview of these two iterations of the political-economic cycle. The five subsequent chapters examine in greater detail particular aspects of the process. Chapter 19 examines the evolution of the technology of war and how it was shaped by economic development. Chapter 20 examines the evolution of government finance. This too was shaped by economic development. Chapter 21 describes the evolution of systems of government under the pressure of war and the need to finance it. Chapter 22 discusses government intervention in the economy and how it changed over time. Chapter 23 assesses the overall impact of different forms of government on the economy.

## **THE NATURE OF GOVERNMENT**

Government in pre-industrial Europe came in two distinct forms—predatory government and associational government. The economic foundations of the two were quite different. To understand the difference it is useful to divide economic activity into three broad categories. The first category, production, involves the creation of goods. The second, trading, involves the buying and selling of goods produced by others. The third, predation, involves the taking by force of goods that others produce or trade.<sup>3</sup>

The economic basis of predatory government, as its name suggests, is predation. An individual or group takes control of a territory and exploits it for their own ends, particularly for exaction. Predatory government is imposed from above, it is involuntary, and it derives its authority from the power of the ruler. Territorial government in pre-

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<sup>3</sup>“The efforts of men are utilized in two different ways: they are directed to the production or transformation of economic goods, or else to the appropriation of goods produced by others.” Vilfredo Pareto, quoted in (Hirshleifer 2001)

industrial Europe—the government of kings, princes, and lords—was primarily predatory in nature.

The economic basis of associational government is joint action. A group engaged in any common activity—whether production, trade, or predation—will organize itself for joint action whenever it is advantageous to do so. Unlike predatory government, associational government is government from below, it is voluntary, and it derives its authority from the will of the group. We will focus on the associational government of cities, but there were numerous other examples of associational government in pre-industrial Europe. These included villages, parishes, artisan guilds, and merchant associations.<sup>4</sup>

The distinction between the predatory government of territories and the associational government of cities was not absolute. As we shall see, each came over time to take on aspects of the other.<sup>5</sup>

### **Predatory government: the territorial rulers**

The territorial rulers of pre-industrial Europe were members of a predatory class—the nobility. Typically, the nobility was descended from a group that had established dominion over a territory through invasion and conquest. In France and the Low Countries, for example, the nobility was of Frankish origin, and in the tenth century it made up perhaps ten percent of the total population.<sup>6</sup>

The profession of the nobility was violence.<sup>7</sup> Nobles engaged in violence to control their territories and to fight one another for additional territory. The fight for territory was both internal and external. Rulers faced constant internal challenges from rival noble

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<sup>4</sup>See (Reynolds 1997) for an extensive discussion of association (which she calls community) in the Middle Ages. For example: "... medieval society seems to me to have been full of groups of lay people who acted together, sometimes over long periods, and who appear to have done so—as far as the records show—at least partly on their own initiative and with a relatively small amount of formal regulation and physical coercion." p2

<sup>5</sup>Territorial government today is a mix, in varying proportions, of associational and predatory elements. The distinction between the two survives today mainly in the form of different *theories* of government—predatory or proprietary versus contractual. See, for example, (North 1981) Ch. 3 and (Grossman 2000).

<sup>6</sup>(Pirenne 1938)

<sup>7</sup>"Looking back over the centuries, or even if looking only at the present, we can clearly observe that many men have made their living, often a very good living, from their special skill in applying weapons of violence, and that their activities have had a very large part in determining what uses were made of scarce resources." (Lane 1958) p402

families vying for dynastic control, and they warred with other rulers over disputed territory. Both internal and external conflicts were typically justified by some sort of legal claim. Sometimes, the dispute could be resolved peacefully through monetary compensation or by dynastic alliance. But generally the preferred means of settling the issue was war. Nobles relished war: it was what they did. It offered both glory and a socially acceptable means of acquiring property.<sup>8</sup>

The waging of war required resources. A territorial ruler's resources came primarily from exaction from the territory he controlled. This was, of course, a major reason for acquiring additional territory: more territory meant more resources which could be used to acquire yet more territory.

As specialists in violence, rulers had another potential source of revenue—the provision of violence services to others. Rulers provided their subjects with protection from predation by others both within their territory and without (peace). They provided them with institutions for the resolution of disputes (order). And they provided protection from the competition of economic rivals, both domestic and foreign (market intervention).<sup>9</sup>

While predatory government was imposed from above by violence, less violence was required if subjects and rivals acquiesced voluntarily. That is, acquiescence lowered the cost of control and of exaction.<sup>10</sup> There were two factors that promoted acquiescence—expediency and legitimacy. Subjects might find it expedient to submit to predatory government if the benefits (including the provision of violence services) sufficiently offset the costs of exaction. Rivals—internal and external—might find it expedient not to challenge a ruler if he was powerful enough that such a challenge was unlikely to succeed. Subjects and rivals might consider a ruler legitimate if he had acquired his territory according to accepted rules or custom. Or they might consider his rule legitimate

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<sup>8</sup>(Hale 1985); (Kaeuper 1988): “For the warriors, campaigning meant a happy combination of *la gloire* and a chance for riches ... making a profit, and looking forward to it eagerly, was entirely compatible with the chivalric ethos...” p14.

<sup>9</sup>The similarity with organized crime is striking and informative: see (Gambetta 1993). “If protection rackets represent organized crime at its smoothest, then war making and state making—quintessential protection rackets with the advantage of legitimacy—qualify as our largest examples of organized crime....” (Tilly 1985) p169

<sup>10</sup>(Levi 1988) Ch. III; (Lane 1958); (Finer 1997) p29

on the basis of ideology—the will of God or the need to unite the nation.<sup>11</sup> A ruler's legitimacy could be reinforced, too, by consultation and negotiation with his subjects and rivals.

The promotion of acquiescence through legitimacy did however come at a cost. Reliance on ideology as a basis for legitimacy was a two-edged sword. While it made subjects more willing to comply with a ruler's wishes, it also imposed constraints on the ruler's behavior. Similarly, consultation and negotiation fostered cooperation, but they also allowed subjects to achieve a degree of control over the actions of the ruler. To some extent it enabled them to harness the power of the ruler to furthering their own objectives. This gave predatory government an associational element.

### **Associational government: the cities**

The purpose of associational government is joint action. It emerges whenever members of a group stand to gain significant advantage from acting together rather than individually.<sup>12</sup>

In pre-industrial Europe, the main cause for joint action—common to cities and to other types of association—was protection. Cities built walls and mobilized militias to defend them. They also appointed officers to preserve the peace within their walls. So a primary function of associational government—no less than of predatory government—was the deployment of violence.

Another important reason for joint action was solidarity—again common to cities and to other types of association. It made sense for citizens to stand together against city lords

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<sup>11</sup>Contemporary discussion of government invoked either of two competing theories of government—the ascending and the descending theories ((Ullmann 1965)). The former took what we have called an associational view. It saw the king as deriving his power from the 'community of the realm' and being accountable to it ((Reynolds 1997) Ch. 8). The descending theory saw the ruler's power as being granted to him by the supreme being, to whom alone he was accountable.

These two alternative theories correspond to the two oldest models of human social organization—the band and the family. The band is voluntary and consultative and based on cooperation and rights. The family is involuntary and authoritarian, based on obedience and obligation. Predatory government does not really fit either model, but the rationalization of predatory rule almost always relies on one or the other. The ruler passes himself off either as the leader of the band (ascending theory) or as a 'father' (descending).

<sup>12</sup>Economists describe a situation in which independent action by individuals can be improved upon by some sort of joint action as an instance of 'market failure' (a rather special understanding of the term 'market' underlies this terminology). The standard causes for such 'market failure' are the existence of economies of scale, indivisibilities, externalities, and public goods.

In situations in which joint action is preferable, political entrepreneurs can profit from creating the necessary association ((Levi 1988)).

and territorial rulers in asserting their rights and privileges and in negotiating the level and form of exaction. Solidarity was essential too in maintaining internal order, standing united against transgressors.

Territorial governments undertook few of the functions we associate today with government, such as welfare, public health, education, and investment in transportation infrastructure. It was natural, therefore, that associational government should take on these tasks. Cities provided for their poor, ensured supplies of water and of food, passed health regulations, built schools, and invested in roads, bridges, and harbors. They provided too for the spiritual health of their citizens, building churches and cathedrals.<sup>13</sup>

The particular nature of cities as centers of trading and production provided additional reasons for joint action. Cities regulated trading within their walls to the benefit of their own citizens, and they sought privileges for their citizens in trading elsewhere—both through negotiation and through violence. In manufacturing, cities enforced standards of quality to maintain their reputations as producers. With respect to trading and production, cities fulfilled many of the same functions fulfilled by merchant associations and artisan guilds. Indeed, city governments were closely related to these other forms of association and often grew out of them.<sup>14</sup>

In principle, associational government was created by members of a group and answerable to them, so that acquiescence was not an issue. However, in practice the viability of associational government was limited by the size of the group. The smaller the group, the easier it was to organize voluntary joint action. Moreover, as groups grew larger, governance increasingly becomes an issue: it becomes progressively more difficult to ensure that leaders acted in the interest of the group rather than in their own interest. It is not surprising, therefore that city government in pre-industrial Europe became increasingly problematic as cities grew in size. Elites generally took control and managed affairs to benefit themselves, often at the expense of the broader population. In this way, associational government became to some extent predatory.

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<sup>13</sup>(Reynolds 1997) Ch. 6

<sup>14</sup>See (Kohn forthcoming) Chs 4 and 16.

## **The evolution of government**

The evolution of government can to be understood to some extent as a struggle between predatory and associational forms of government. Associational government had some important economic and fiscal advantages: cities were wealthy and they were able to mobilize this wealth relatively easily. This gave them political and military power in their struggle with predatory territorial rulers. However, associational government did not scale up very well: as it grew larger, it tended to degenerate into predatory government (Athens and Rome provide instructive examples long before our period).

Predatory government did not suffer from this problem of scale, since it was, of course, predatory to begin with. Indeed, there were benefits of scale. Rulers of larger territories generally had greater resources and could field larger armies. The problem with predatory government, in evolutionary terms, was that it tended to destroy its economic base. It was much less economy-friendly than associational government.

The evolutionary struggle of forms of government in pre-industrial Europe produced a major breakthrough. Towards the end of the period there emerged associational governments at the territorial level that overcame the problem of scale. That is, these governments controlled extensive territories and populations while retaining their associational nature and without collapsing into predation. Being associational, their economic and fiscal advantages enabled them to hold their own against much larger predatory opponents. It was this innovation that enabled Europe to escape from the political-economic trap.

### **THE FIRST CYCLE: ELEVENTH THROUGH FIFTEENTH CENTURIES**

Our first iteration of the political-economic cycle opens with Europe under a feudal system of government that had its origins in the disintegration of the Roman empire.

#### **The starting point: feudal Europe**

Government in the early Roman empire, the Principate, was highly decentralized. The empire was divided into thousands of city-centered territories, each governed by appointed members of the local oligarchy. The small central government maintained the army, which was largely paid for by taxes and tribute sent to Rome from the cities.

This decentralized system underwent a fiscal and monetary collapse in the third century and was replaced by an authoritarian centralized bureaucracy. The late empire or

Dominate was governed by a hierarchy of administrator/tax farmers appointed by the central government. As a result of the monetary breakdown, most of the revenue they collected was in kind and therefore had to be disbursed locally. Partly as a consequence, the military was decentralized, with individual units assigned to the various provinces. By this time, the military consisted largely of Germanic tribes that had been recruited *en masse* as mercenaries. These tribes were paid by being assigned the rights to receive taxes from a particular territory. Military leaders in turn subdivided the territory assigned to them among their followers.

The fiscal and military fragmentation of the Dominate weakened central control and facilitated disintegration. As the center collapsed, the empire fell apart. Government was privatized: local administrators and military leaders became hereditary rulers of the territories they controlled and from which they collected revenue. Provincial governors became kings, dukes, and counts and their subordinates, lords and knights. Although in the eighth century the Carolingians temporarily succeeded in reconstituting a large part of the western empire, the process of fragmentation and privatization soon resumed.<sup>15</sup>

The system of government in Europe at the start of our period, around 1000, was the result of this process of disintegration and privatization. This system—highly decentralized and hierarchical—came to be known as feudalism.<sup>16</sup> The feudal system developed initially in the Roman ‘center’ of Western Europe—France, Germany, the Low Countries, and northern Italy. It was later imposed in more peripheral areas such as Spain, England, and southern Italy (in the latter two as a result of Norman conquests).<sup>17</sup>

The feudal system of government tied government to the holding of land.<sup>18</sup> At the top of the hierarchy was the king, who held the whole of the territory. The king controlled some of this territory directly—his domain. The rest was subdivided as fiefs among his feudal subordinates or vassals. The great vassals or magnates similarly controlled their

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<sup>15</sup>“Thus, from the end of the 9<sup>th</sup> and the beginning of the 10<sup>th</sup> century the State was reduced to an empty form. The provinces had become principalities, and the functionaries princes.... A multiplicity of local sovereignties had replaced the old administrative unity derived from the Roman Empire.” (Pirenne 1938) p150-1

<sup>16</sup>(Grantham 2003). This more recent interpretation of the origins of feudalism differs from the traditional view of medievalists who saw it as having evolved (more or less from scratch) in response to the insecurity of the early Middle Ages and the decline of the money economy.

<sup>17</sup>(Finer 1997) vol 2 Ch 6

<sup>18</sup>(Finer 1997) V. 2 Ch. 5.

own domains directly, with the remainder of their fiefs subdivided among *their* feudal subordinates. This structure of fief, domain, and further subdivision among vassals continued on down to the level of the lowliest knight with no noble vassals of his own.

The relationship between a noble and the territory he held was not one of land ownership as we understand it, but rather one of government. The feudal lord of a territory had the right to exact resources from its population and the obligation to provide them in return with protection and justice. From his own domain, a lord's right of exaction was essentially unlimited. From his noble vassals and their territories, a lord's right of exaction was limited to receiving military support. When called upon, vassals were required to appear for military service in person together with their own followers.

The king, at the top of this hierarchy, was theoretically in a special position: with no feudal superior, his only obligation was to the 'good of the realm'—which he was largely free to interpret as he wished. However, the power of the king over his vassals was constrained by the essentially contractual nature of the relationship. Each of the parties had legal rights with respect to the other. A lord had a right to obedience and to the support of his vassals. Vassals had a right in return to just rule according to custom. They also had a right to be consulted if the lord wished to deviate in any way from the terms of this implicit contract—for example, by imposing new taxes or revoking some customary right.<sup>19</sup> If one party violated the terms of the implicit contract, the other had the right to declare him 'in default' and to renounce his own obligations.<sup>20</sup>

Perhaps more important than the constraints on a ruler's power in principle were the constraints in practice. Ruler's had a very limited ability to impose their will on their vassals. The great vassals or magnates often commanded military forces and resources that rivaled or exceeded those of the king. The magnates in turn found it no less difficult to assert their will over their own vassals. The ability of vassals to defy the will of their lords was reinforced, beginning in the late tenth century, by the widespread construction of stone castles. These shifted the military advantage to the defender, who could thereby

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<sup>19</sup>(Reynolds 1997) p xlvi

<sup>20</sup>(Finer 1997) V2 Ch. 5. A vassal could declare the lord to be in default and cast off fealty through a ceremony of *diffidatio* (defiance). A lord could declare the vassal to be in default and demand surrender of his territory. Of course, in either case, such declarations were not worth much unless they were backed up with decisive force.

hold out against a superior force.<sup>21</sup> As a result, whatever the formal lines of authority, the government of western Europe disintegrated in fact into a large number of relatively small and largely independent local lordships.

### **The Church**

The authority of medieval rulers was further weakened by their struggle with another contemporary power—the Church.<sup>22</sup> The Church was another legacy of Rome—the remnants of the state religion of the Dominate. Under the empire, the Church had had its own parallel organizational structure.<sup>23</sup> With the collapse of Roman government, the organization of the Church had remained largely intact—a state religion without a state.<sup>24</sup> The Church became, essentially, a multinational enterprise, to some extent extraterritorial and self-governing, with a franchise in the business of salvation.<sup>25</sup>

As the state religion of the Roman empire, the Church had become enormously wealthy, inheriting the property of pagan temples and receiving generous additional endowments of land from the emperor. Its wealth was augmented during the early Middle Ages by innumerable bequests both of land and treasure. By 900 it controlled perhaps a third of the cultivable land in Western Europe.<sup>26</sup>

With the breakup of the Carolingian empire, the Church faced a process of disintegration and privatization similar to that of the secular government. Some of its wealth was under the direct control of the pope at Rome, but most of it was under the more or less independent control of hundreds of local bishops and monasteries.<sup>27</sup> Many of the bishops turned their benefices into hereditary property. Secular rulers took advantage either to seize Church property directly or to appropriate it indirectly by appointing their own followers as bishops.<sup>28</sup>

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<sup>21</sup>(Ertman 1997) Ch. 2

<sup>22</sup>Much of the following is based on (Southern 1970) and (Finer 1997) vol 2 Ch. 5.

<sup>23</sup>Church organization actually predated the adoption of Christianity as the state religion by Constantine. Organization was necessary to its survival underground in a highly hostile environment.

<sup>24</sup>(Hintze 1975) cites this accidental splitting of temporal and spiritual power as one of the principal differences between European and other civilizations.

<sup>25</sup>(Ekelund, Tollison et al. 1996)

<sup>26</sup>(Herlihy 1961)

<sup>27</sup>There were some 700 episcopal sees on the Continent and an even larger number of monasteries—the Cistercians alone, a little later, had over 500 abbeys ((Ekelund, Tollison et al. 1996)).

<sup>28</sup>On England, see (Britnell 1996) Ch. 3.

Faced by this internal and external predation, the Church went through a crisis in the tenth and eleventh centuries.<sup>29</sup> This culminated in the ‘Investiture Controversy’ with the German emperor.<sup>30</sup> Both sides of the conflict reached for legal justification for their positions. The emperor invoked Roman law to justify his power over the Church (this was the main reason for the revival of interest in Roman law at this time). The pope invoked Old Testament principles of the subservience of the secular ruler to God’s law—and consequently to its interpreter on earth, the pope.<sup>31</sup>

The Investiture Controversy and the legal debate to which it gave rise changed perceptions of the authority of secular rulers throughout western Europe. Before it, kings had enjoyed a quasi-sacred status—claiming authority directly from God—which placed them above ordinary nobles and even above bishops and priests. Any challenge to the king was tantamount to sacrilege. From the eleventh century, popes successfully asserted their claim as the sole channel of God’s authority on earth. This made them sovereign over the Church—and alone able to appoint bishops.<sup>32</sup> But it also made them the superior of mere secular rulers. While the popes’ claim of supreme authority was never universally accepted, it did much to weaken the authority of kings and princes and to lend support to those who rebelled against their ‘unjust’ rule.<sup>33</sup>

### **The rise of the cities**

The disintegration of territorial government and the weakened authority of territorial rulers created space for associational government. While kings struggled with nobles and popes with emperors, ordinary people everywhere and at all levels were relatively free to work together to order their own affairs. Moreover, with territorial government largely ineffectual, local initiative became the only way to get things done. Freedom of association and relative freedom from government exaction and economic interference

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<sup>29</sup>By 1200, its holdings of cultivable land had fallen to about 15% of the total ((Herlihy 1961)).

<sup>30</sup>(Spruyt 1994) describes the Investiture Controversy as a three-way conflict between the secularized episcopate (against papal centralization), the imperial power (which saw the papacy as a rival), and the papacy itself (for which centralization was the only way to reform and purify the Church). (Ch. 3)

<sup>31</sup>See (Downing 1992) Ch. 2 on the former and (Hazony 1998) on the latter.

<sup>32</sup>At the same time, internal reforms, instituted by Pope Gregory VII, greatly increased the power of the pope within the Church and the coherence of the Church as an organization.

<sup>33</sup>The Church promoted the idea that the essential attribute of the secular ruler was justice ((Strayer 1970) Ch 1): “Without justice, what is government but a great robbery?” Augustine (quoted by (Lane 1958) p427))

provided an environment that was highly conducive to economic activity. This was an important factor behind the rapid economic development of the twelfth and thirteenth centuries.

The prolonged period of economic expansion greatly increased the wealth and power of the cities.<sup>34</sup> Earlier, in the ninth and tenth centuries, widespread disruption of trade had caused cities to shrink in size, reducing them to little more than centers of government and religion. However, as trade revived they became once again bustling hubs of commerce and manufacturing. While in 1000 less than five per cent of the total population of Western Europe lived in cities, by 1300 the urban population had grown to ten to fifteen per cent of a population that had almost doubled.<sup>35</sup> In the urbanized central regions of northern Italy and the Low Countries, rates of urbanization approached thirty per cent. Over the same period, the number of cities with populations of over twenty thousand rose from perhaps forty to over a hundred; the number of cities with populations of over a hundred thousand rose from zero to five.<sup>36</sup>

The growing size and wealth of the cities meant growing military power. Cities could afford to follow the example of the nobles and protect themselves with stone fortifications.<sup>37</sup> To defend their new walls they were able to field well-armed citizen militias. A walled city defended by a determined militia was a hard nut for a territorial ruler to crack: “The armored cavalry charge was no use in city streets, and storming a defended walled town was no easy matter.”<sup>38</sup>

As their wealth and military power grew, cities were increasingly assertive in their relations with their feudal rulers (before the eleventh century, only Venice was formally independent). With the disintegration of territorial government, many cities had come under the control of local lords—secular and ecclesiastical (bishops). In some parts of Europe, cities sought the protection of territorial rulers against oppression by their local lords.<sup>39</sup> Elsewhere, they sided with their local lords against the territorial ruler. In

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<sup>34</sup>See (Kohn forthcoming) Ch 1.

<sup>35</sup>(Nicholas 1997)

<sup>36</sup>(Bairoch 1988); (Persson 1988).

<sup>37</sup>(Tracy 2000)

<sup>38</sup>(Finer 1997) p953

<sup>39</sup>In France: “The *bonnes villes* much preferred strong kings to weak ones, believing that their cherished liberties could only be secure if the monarchy were stable. Municipal fortifications, therefore,

Northern Italy and Germany, the Investiture Controversy weakened both the pope and the emperor, to the cities' advantage.<sup>40</sup> In Flanders, a dynastic struggle for the comital throne helped the cities achieve considerable independence.<sup>41</sup>

While the struggle for self-determination sometimes took the form of violent resistance, more often cities relied on their economic power to purchase their freedom. In exchange for an appropriate sum, they received recognition of their right to elect their own officials, to hold their own courts, to build walls and to raise a militia. They also obtained the right to collect taxes themselves, rather than having them collected by the king's or the lord's officials.<sup>42</sup> These rights were often spelled out in a charter granted to them by the territorial ruler. Where cities were subject to local lords the latter were often happy, in exchange for suitable payment, to be relieved of the responsibility and let cities govern themselves. Secular lords, usually living in the countryside and preoccupied with war and intrigue, generally took little interest in their cities except as sources of revenue. Ecclesiastical lords, usually themselves resident in their cities, were less permissive and attempted to retain control.<sup>43</sup> It was generally friction with the lord of the city that caused its citizens to band together in formal sworn associations or 'communes'.<sup>44</sup>

Benefits of scale in warfare caused cities to combine their forces in leagues and confederations for protection against their common enemies. The cities of northern Italy formed the Lombard League in the twelfth century during their struggle with the emperor. Cities in the Low Countries frequently joined together to assert their rights against their rulers.<sup>45</sup> In Germany, there were a number of city leagues before the formation of the great Hanseatic League in the fourteenth century. At its peak this

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never represented a defiance of state authority, but rather a localized expression of it." (Wolfe 2000) p348. In Castile, cities in perpetual conflict with neighboring nobles over jurisdiction and land rights, called on the king for protection.

<sup>40</sup>(Nicholas 1997); (Spruyt 1994) Ch. 3

<sup>41</sup>(Hunt and Murray 1999) Ch. 1

<sup>42</sup>(Nicholas 1997) Ch. 5

<sup>43</sup>(van Werveke 1971) Cities were also hotbeds of heresy: the relatively libertarian atmosphere of cities favored religious innovation. This potential threat to the Church's monopoly was another reason why bishops were unenthusiastic about municipal self-government (see (Ekelund, Tollison et al. 1996) Ch. 2 and (Reynolds 1997) Ch. 3.)

<sup>44</sup>"What townspeople wanted when they formed communes and took oaths, then, was not a new 'right of association' but better protection for themselves, individually and collectively, from oppression. Inevitably that meant asking for greater freedom to run their communities..." (Reynolds 1997) p182

<sup>45</sup>(Nicholas 1997) Ch 7

included some two hundred cities and towns in the Rhineland, in Saxony, and along the Baltic coast.<sup>46</sup>

Cities achieved differing degrees of independence in different parts of Europe. In Italy, they won formal independence: by the end of the twelfth century there were some 300 self-governing city states.<sup>47</sup> Elsewhere, cities remained formally dependent on local lords or territorial rulers, but many nonetheless achieved considerable autonomy *de facto*. In Germany territorial rule was particularly weak and cities achieved a significant degree of independence.<sup>48</sup> In the Low Countries, the cities were especially wealthy—the annual income of Ghent alone rivaled that of the Count of Flanders—and territorial rulers depended on their support even more than on that of the nobility.<sup>49</sup> In Spain, the political power of the cities derived from their important military role in the *reconquista*.<sup>50</sup> In France, because it was more agrarian and less urbanized, the cities were correspondingly weaker. In England and in Southern Italy, where the state was strongest, cities were least successful in freeing themselves from the control of their territorial rulers.<sup>51</sup>

Cities, especially the independent cities of northern Italy, generally gained control over their immediately surrounding areas and over smaller towns within them.<sup>52</sup> However, expansion of the territory under their control soon brought them into conflict with one another: between 1190 and 1250 alone, there were some 1,465 wars among neighboring city states in northern Italy.<sup>53</sup> These wars resulted in significant consolidation. The 300 independent cities of 1200—many of them quite small—had by 1450 been subsumed into five much larger city-centered territorial states.<sup>54</sup> As the victorious cities grew in territory and power, they were riven by internal conflicts among

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<sup>46</sup>(Spruyt 1994) Ch. 6

<sup>47</sup>(Epstein 1999)

<sup>48</sup>(Hocquet 1995)

<sup>49</sup>(Blockmans 1997)

<sup>50</sup>(Elliott 2002); (Thompson 1994) describes Castile as “an aggregate of barely articulated city states, held together by the coordinating power of monarchy.” p142

<sup>51</sup>On the contrast between northern and southern Italy, see (Putnam 1993). On England, see (Reynolds 1997) Ch. 6

<sup>52</sup>(Nicholas 1997) Ch 5. “Their motivation was...very similar [to that of princes]: the desire to expand the territory from which they could levy taxes or obtain soldiers, and the necessity, in a fiercely competitive and militaristic world, to deny such territories and resources to their rivals.” (Koenigberger 1995) p143

<sup>53</sup>(Finer 1997) vol 2 Ch 7

<sup>54</sup>(Epstein 2000)

rival factions vying for the increasingly valuable rewards of control. Associational government in most of these cities came increasingly to resemble predatory government.

Associational government was also asserting itself in the countryside.<sup>55</sup> In the parts of Europe where feudalism had had less of an impact—England, Scandinavia, and Switzerland—villages of free peasants retained rights of self-government and mobilized effective militias to defend themselves. Elsewhere, many villages followed the example of the cities, declared themselves communes, and succeeded in obtaining liberties and charters from their local or territorial lords. Villages founded in regions of new development, competing for new settlers, offered them extensive rights of self-government.<sup>56</sup> Like the cities, village communes often banded together for protection. Most notably, the three small mountain communities of Uri, Schwyz, and Unterwalden established a “Perpetual League” for common defense in 1291 that was to be the basis of the Swiss Confederation.<sup>57</sup>

### **The transformation of territorial government**

The Commercial Revolution greatly increased the resources available to territorial rulers. Much of their revenue came from rents and taxes on their domain lands. The expansion of trade increased the income from land significantly by boosting the demand for agricultural output and by inducing a restructuring of agriculture production.<sup>58</sup> For example, the growing assertiveness of the Capetian rulers of France in the twelfth century was fueled by rising incomes from their estates in the Seine valley which supplied grain to the growing cities of Flanders.<sup>59</sup> The expansion of trade also increased the take from market taxes and tolls: territorial rulers increasingly reasserted their rights to this source of revenue which had largely been appropriated by local lords. As we have seen, the cities too contributed to the growth in rulers’ revenue when they bought their freedom.

Economic development not only increased rulers’ resources, it also increased their ability to mobilize those resources. Revenues from land had previously been collected mostly in kind, in the form of produce or labor. With the expansion of the market,

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<sup>55</sup>(Downing 1989)

<sup>56</sup>On agricultural development and settlement of new areas, see (Kohn forthcoming) Ch 3.

<sup>57</sup>(Coddington 1961)

<sup>58</sup>See (Kohn forthcoming) Ch 3.

<sup>59</sup>(Ertman 1997) Ch 2

revenues were increasingly monetized: taxes and rents were paid in cash, obligations of service were commuted to money payments. Cash revenue could more easily be transferred from place to place and spent in whatever way the ruler wished

Rulers' ability to mobilize resources was further enhanced by their improved liquidity—their increasing ability to borrow against future revenue. Before, the only potential source of lending had been the Church, with its vast stores of treasure. Now rulers were able to turn to the cities—to wealthy individual merchants, to merchant bankers, and to financial markets.<sup>60</sup> Monetized revenues supplied the necessary security for these loans.

Increased resources and a greater ability to mobilize these resources enabled rulers to do what they wanted most—to wage war and to expand their territories.<sup>61</sup> By the end of the thirteenth century a rash of wars broke out across Europe that was to continue for over a century.

Initially, the armies fighting these wars consisted mostly of feudal levies of armored knights and infantry. However, these feudal armies generally performed poorly. Rulers, now with cash aplenty, were able to replace their feudal levies with more effective mercenaries. Ready cash and mercenary armies made it easier for rulers to sustain campaigns away from home. Armies also became larger and wars longer.<sup>62</sup> As a result of this commercialization and intensification of warfare, there was an acceleration of technological progress in armaments and tactics.

Monetization of taxes and the commercialization of war also meant that the power of a ruler was increasingly defined in territorial rather than feudal terms. What mattered now was the territory from which a ruler could collect money taxes rather than the vassals who owed him allegiance.<sup>63</sup> The ruler's authority no longer rested, as it had under the feudal system, on the personal allegiance of great vassals who each controlled sub-

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<sup>60</sup>“A country abounding with merchants and manufacturers... necessarily abounds with a set of people who have it at all times in their power to advance, if they choose to do so, a very large sum of money to the government.” (Smith 1976 [1776]), quoted by (Tilly 1990).

<sup>61</sup>“As the resources of states grow, state capacity to wage war grew correspondingly and, after the atypical peace which lasted through much of the thirteenth century, states exercised this capacity with a will.” (Kaeuper 1988) p88

<sup>62</sup>(Downing 1992) Ch. 3

<sup>63</sup>(Henshall 1992) Ch 1 argues that it was these factors, rather than any burgeoning of national feeling, that led to the change.

territories of their own. Rather, the ruler increasingly exercised direct control throughout his territory: it was his officials who collected taxes and enforced his laws, his courts that provided justice, and his coins that circulated.<sup>64</sup> Over the whole of his territory, the ruler enforced a monopoly of the legitimate use of violence.<sup>65</sup>

As wars proliferated, intensified, and lengthened and as the cost of men and arms steadily increased, expenditure inevitably ran ahead of revenue. Edward I of England, for example, flush with the proceeds from a new tax on wool, decided in 1294 to pursue his dynastic claim to the French throne by invading France. Over the next four years, the cost of his campaign exceeded £60,000 a year while his average annual revenue amounted to less than half that sum.<sup>66</sup> Rulers like Edward initially bridged the gap between revenue and expenditure by borrowing, but they soon exhausted their credit. As the wars continued, rulers became increasingly desperate to find additional sources of revenue.

Rulers were limited, however, in their ability to impose additional taxes. According to the feudal rules of the game a ruler was expected to 'live from his own'. That is, he was expected to finance himself and his government out of the revenue from his domain lands. A ruler did have the right to demand military service of his vassals, but he had no right to demand financial support. However, right or no, rulers in the tenth and eleventh centuries had often imposed taxes on their vassals and frequently on the Church as well.<sup>67</sup> Kings had been able to get away with this arbitrary exercise of power because their quasi-sacred status. However, as views of kingship changed and as the power of magnates and of cities grew, kings who imposed 'illegal' taxes increasingly found themselves faced with open rebellion.

One important example was the revolt of the great vassals of England that resulted in the Magna Carta of 1215. Embroiled in war with France, King John lost Normandy, the source of half his domain income, and inflation eroded much of the rest.<sup>68</sup> He responded

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<sup>64</sup>(Schulze 1995)

<sup>65</sup>"a state is a human community that (successfully) claims the monopoly of the legitimate use of physical force within a given territory" (Weber 1919).

<sup>66</sup>(Ormrod 1995)

<sup>67</sup>"Eleventh century kings at times imposed taxation so heavy that their leading subjects were obliged to sell or mortgage parts of their estates. The richest churches had to dispose of their treasures." (Britnell 1996) p57

<sup>68</sup>See (Ormrod and Barta 1995) on the former and (Harvey 1973) on the latter.

to the resulting financial squeeze by imposing a series of arbitrary taxes on his subjects. When he suffered a major strategic setback at Bovines in 1214, the barons were sufficiently emboldened to rise up and to demand recognition of their rights.<sup>69</sup> The most important right that John conceded, and to which he bound his heirs, was that no taxes should be imposed without the consent of 'the kingdom'. Such consent was to be sought from an assembly of the great nobles and bishops summoned for the purpose.

By the fourteenth century, the principle that the imposition of new taxes required consent was widely recognized throughout western Europe. Whenever a territorial ruler wished to impose new taxes, he summoned representatives of his subjects to give their consent.<sup>70</sup> By this time, cities were a sufficiently important potential source of financial support that their consent was sought along with that of the barons and the bishops. It was the unceasing pressure of financing war that left rulers with no choice but to seek such support.<sup>71</sup> Consequently, by the fifteenth century, almost every territory in Europe boasted some form of representative assembly.<sup>72</sup>

### **Medieval constitutional government**

The Commercial Revolution and the wars of the long fourteenth century had a significant impact on the form of government. In parts of Europe cities gained independence or near independence under various forms of associational government. Elsewhere, the power of predatory government became constrained, not only in principle, but also in practice. By the fifteenth century, Europeans had come to possess certain basic rights and liberties under a regime that has been characterized as 'medieval constitutional government'.<sup>73</sup>

The principal constraint on the power of territorial rulers was the countervailing power of others. Within their territories, they faced powerful nobles and cities. Without, they faced the rivalry of other rulers and the moral authority of the Church. The economic

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<sup>69</sup>“Whatever other personal and political factors were involved, it was the king’s continual financial exactions of one sort or another that lay at the root of the rebellion of 1215.” (Harvey 1973)p14. See also (Britnell 1996) Ch. 6 and (Ertman 1997) Ch. 4.

<sup>70</sup>(Koenigberger 1995), (Tilly 1990)

<sup>71</sup>“It was the ravenous need for money to fight the increasingly expensive wars of the fourteenth century and after in Europe that led rulers to convene assemblies of potential taxpayers and so to ‘invent’ the notion of representation.” (Finer 1997)p19

<sup>72</sup>(Koenigberger 1995)

<sup>73</sup>(Downing 1992)

and military power of nobles and cities made it impossible, or at least prohibitively expensive, for rulers to impose their will by force. At the same time, incessant warfare with other rulers left them dependent on the military and financial support of these same nobles and cities. Contemporary military technology, which gave the advantage to the defender, made it easier for nobles and cities to defy the will of their rulers and made it difficult for rulers to eliminate their external rivals through conquest. It was primarily this balance of countervailing power, more than any institutional or ideological factor, that imposed constraints on ruler authority and behavior.<sup>74</sup>

The constraints on the power of territorial rulers found expression in certain institutions. The most important and the most ubiquitous of these was the representative assembly. The composition and powers of the representative assembly varied from territory to territory, but its essential role was everywhere the same: it approved taxes and it defended subjects' rights and liberties.<sup>75</sup> The periodic meetings of representative assemblies also served to promote solidarity among the represented groups in resisting pressure from the ruler and provided a framework within which these groups could forge alliances and work together.<sup>76</sup>

The representative assembly was not, however, the only institutional check on monarchical power. Independent judiciaries also played an important role in several territories.<sup>77</sup> For example, in Castile a Royal Council of legal scholars was established in the fourteenth century and it became the principal guardian of subjects rights and liberties.<sup>78</sup> It was the Council rather than the Cortes (the representative assembly) that

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<sup>74</sup>“[The medieval sovereign] was a leader, not a master. However great his influence and personal ascendancy, he relied on the conscious and willing collaboration of his subjects as the most effective and easiest instrument of success. Thus the doctrine of collaboration and consent emerged because it was the result of expedience and not of theory.” (Marongiu 1968)p33-4

<sup>75</sup>For more detail on the nature and function of representative assemblies, see (Kohn forthcoming) Ch 21.

<sup>76</sup>Representative assemblies were, however, by no means democratic in the modern sense. Representatives were rarely elected. (Koenigberger 1995) remarks that it would have been hard to predict that medieval representative assemblies would prove to be the forerunners of modern parliamentary democracy.

<sup>77</sup>See (Kohn forthcoming) Ch 21.

<sup>78</sup>(Thompson 1994)

was the principal intermediary between king and subjects. While the Cortes approved taxes, it was the Council that protected subjects against the arbitrary actions of the ruler.<sup>79</sup>

While it was primarily countervailing power that imposed constraints on the power of rulers, it was important that such constraints be seen as legitimate. Their legitimacy derived from the combination of two distinct sources. The first source was the contractual nature of feudalism, a consequence of its evolution from the Roman system of administration.<sup>80</sup> The second source was the Jewish tradition of the Old Testament, invoked by the papacy during the Investiture Controversy, which held that the king too was subject to the rule of law.

None of this is to say that the rule of law was absolute. Rulers often ignored the legal and institutional constraints on their actions and did as they pleased regardless. Moreover, even when rulers agreed to be bound by the law, their intention was often frustrated by their very limited control over their own officials.<sup>81</sup> Nonetheless, for the ruler or his officials to routinely violate the rule of law was to risk open rebellion by nobles, cities and even peasants and excommunication by the Church.<sup>82</sup>

### **Economic consequences**

Medieval constitutional government, although not perfect, had important economic benefits. Representative assemblies rarely denied rulers the revenue they requested. However, they were generally able to negotiate the nature of the taxes used to generate this revenue. For example, cities often bought off economically harmful taxes with lump-sum payments funded by less damaging taxes that the cities themselves would design and collect. There was a movement away from the most damaging forms of exaction such as

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<sup>79</sup>It was quite effective. (Thompson 1994) suggests that Castile may arguably have been the freest society in Europe. The judicial protection of rights has a precedent in Roman practice: in the early Roman empire, citizens were entitled to sue an official for abuse of their offices after that official left office ((Finer 1997), Book II Ch. 7).

<sup>80</sup>“Feudal monarchy (or at least feudalism) seems therefore to be a necessary pre-condition for the birth of the modern state.” (Genet 1992) p131

<sup>81</sup>(Britnell 1996) Ch. 6. See, also, (Kohn forthcoming) Ch 21.

<sup>82</sup>“Repression, exploitation, and other abuses were neither rare nor confined to small regions. But medieval constitutionalism ensured that extensive abuses would bring about powerful opposition.” ((Downing 1992) p37). For example, the imposition of unjust taxes by Philip the Fair of France led to an uprising of nobles and cities against him in 1314; this in turn caused the failure of his campaign against Flanders and the collapse and death of the king himself. ((Fryde 1979))

arbitrary expropriation and debasement.<sup>83</sup> So medieval constitutional government benefited both sides. Rulers obtained the resources they needed to wage war. Their subjects obtained a predictable fiscal and legal environment that facilitated commerce and production.

The fundamental liberty—the cornerstone of the rule of law—was, as we have seen, security of possession against exaction by the ruler: rulers could not impose taxes without the consent of their subjects.<sup>84</sup> A second fundamental liberty was freedom of association.<sup>85</sup> This was the basis for associational government as well as for forms of association that were essential to economic enterprise, such as merchant associations and craft guilds. Further important liberties were enjoyed by associations rather than directly by individuals. Associations frequently acquired the right of jurisdiction—so that individuals could be judged by their peers—and, to varying degrees, rights of self-government.

While the conflicts of the fourteenth century had political consequences that were economically beneficial, their direct impact on the economy was disastrous. Some of the harm came from the wars themselves, but much of it came from how the wars were financed. The result of both was a sharp increase in trading costs.<sup>86</sup> Widespread piracy and banditry and the proliferation of tariffs and tolls raised transportation costs, and widespread debasements undermined credit. The result was a fall in the volume of trade and a contraction in the extent of markets.

## **THE SECOND CYCLE: FIFTEENTH THROUGH SEVENTEENTH CENTURIES**

The first iteration of the political-economic cycle had run its course by the middle of the fifteenth century. The conclusion of the Hundred Years' War in 1453 brought peace to northwest Europe and the Treaty of Lodi of 1454 did the same for Italy. With peace

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<sup>83</sup>See (Kohn forthcoming) Ch 7 on the politics of debasement.

<sup>84</sup>Commines (c1447-1511), an important fifteenth century French thinker, saw the need of the ruler to obtain consent for taxation as being the essence of freedom and the antithesis of rule by tyranny and violence. ((Koenigberger 1995)). More recently, (Pipes 1999) has argued that the recognition of individual property rights by the ruler is the essential bulwark of individual liberty.

<sup>85</sup>“One liberty, or freedom, that all men took for granted was the freedom to act collectively, provided that their activities were not subversive.”(Reynolds 1997) p liv.

<sup>86</sup>See (Kohn forthcoming) Ch 1.

came a recovery of trade. Economic development, long interrupted, resumed.<sup>87</sup> Returning prosperity soon refilled government coffers exhausted by the previous round of wars. Government revenues increased sharply in the late fifteenth century—doubling in real per capita terms in England and France and increasing by a factor of 10 to 20 in Spain.<sup>88</sup>

The increase in government resources inevitably set off a second iteration of the political-economic cycle. However, this second iteration began from a very different starting point than the first. This was a result both of continuing economic development and of the political and military legacies of the first iteration of the political-economic cycle.

### **Legacies of the first iteration of the cycle**

Although the first iteration of the cycle had seen the imposition of constraints on rulers' power and on their ability to exact resources, some rulers nonetheless emerged from the wars of the fourteenth and fifteenth centuries with greater fiscal independence and so greater power. While forced to respect the constraints of medieval constitutional government, rulers constantly tried to evade those constraints. In particular, they tried to expand the range of revenues they could legitimately collect without requiring consent. Their success in doing this depended on the strength of their bargaining position relative to that of their subjects.

In France and Castile, where war was protracted and fought on home territory, the position of the rulers was stronger. Cities saw the rulers as their protectors—not least against the depredations of the nobility. As a result, the rulers managed to obtain from their representative assemblies grants of important new taxes in perpetuity: the kings of Castile obtained the *alcabala* (a sales tax) and the kings of France, the *taille* (a tax on land).<sup>89</sup> When the wars finally subsided, these rulers were fiscally in a much stronger

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<sup>87</sup>“[B]etween 1470 and 1540, continental Europe grew prosperous as rapidly as at any time during the twelfth and thirteenth centuries.”((Nef 1950) p6) Between 1450 and 1600, following a century of sharp decline, the population of Europe almost doubled ((Parker 1995)).

<sup>88</sup>(Bean 1973)

<sup>89</sup>(Ames and Rapp 1977). See also (Thompson 1994) on the former and (Wolfe 1972) on the latter.

position than they had been before, and they were therefore less dependent on the consent of their representative assemblies.<sup>90</sup>

In contrast, the rulers of England and of the Low Countries were in a weaker bargaining position. In England the war was more distant. In the Low Countries the cities were particularly powerful. Consequently in these territories the tightness of the constraints and the power of the representative assemblies did not diminish but rather grew over time.<sup>91</sup> However, even in these cases, the return of peace meant that rulers had less need to call on their assemblies for support and were therefore temporarily freed from their interference.

There was another important change that gave rulers greater freedom. Economic recovery was accompanied by renewed commercial and financial development—in particular, by the development of financial markets. The market for bills of exchange expanded and reached new levels of sophistication in Antwerp. The Italians who had traditionally dominated this market faced increasing competition there from a new generation of merchant bankers from southern Germany. The market for private and municipal annuities expanded rapidly in the Low Countries and northern France and spread from there to Germany and Spain. These developing financial markets provided rulers with an important new source of liquidity.<sup>92</sup>

There were important changes too in the technology and organization of war—a consequence of the intensity of war in the fourteenth and fifteenth centuries and of its commercialization.<sup>93</sup> The feudal armored knights who had dominated the battlefield in 1300 had become obsolete. Their place had been taken by mercenary infantry, armed first with pikes and bows and later with firearms. The invulnerability of stone fortifications, which had dictated the nature of warfare for centuries ended with the development of mobile gunpowder artillery. At least temporarily, gunpowder artillery shifted the military

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<sup>90</sup>In addition, the discoveries and transoceanic colonization provided some rulers (Castile, Portugal) with significant new revenues, also unencumbered by parliamentary constraints ((Miskimin 1975) Ch. 5)

<sup>91</sup>At the end of the fifteenth century, the Spanish ambassador in England informed Ferdinand and Isabella that Henry VII “would like to govern England in the French fashion but he cannot.” ((Nef 1940)p6)

<sup>92</sup>See (Kohn forthcoming) Ch 9 on the market for bills of exchange and (Kohn forthcoming) Ch 11 on the market for annuities.

<sup>93</sup>See (Kohn forthcoming) Ch 19.

advantage from the defender to the attacker.<sup>94</sup> This was demonstrated in the 1480s when Muslim Granada, which had held out against the *reconquista* for centuries, rapidly succumbed to the artillery of Ferdinand and Isabella.

The benefits of scale in warfare or, more accurately, in the financing of warfare, meant that smaller territorial states increasingly found themselves at a disadvantage.<sup>95</sup> The result had been a process of consolidation. Some smaller territorial states had been conquered, but most had been absorbed through a process of ‘merger and acquisition’—dynastic alliance and inheritance.<sup>96</sup> The larger states that emerged from this process of consolidation were ‘conglomerate states’: each consisted of a patchwork of territories subject to a common ruler, but with limited territorial contiguity and little or no political, judicial, or administrative unity. For example, the Burgundian state that was pieced together in the fifteenth century consisted of two separate blocks of smaller territories—one in the Low Countries and another around Burgundy proper.<sup>97</sup> The peoples of the many subject territories spoke a variety of different languages, and the territories themselves varied widely in economic and social structure. Although subject to a common ruler, each retained its own organization of government. There was not even a name for the Burgundian state as a whole. France, too, was a conglomerate state, as were Spain and Hapsburg Austria.

The advances in military technology and the benefits of scale in warfare also tilted the balance of power away from the nobles and cities and towards territorial rulers.<sup>98</sup> From the late fifteenth century, the rulers of Spain, France, and England devoted much of their attention to the crushing of domestic rivals and to the consolidation of their own hold on power.<sup>99</sup> Nobles were no longer able to rely on the protection of their castles, and few could match the scale of the ruler’s armies. Increasingly, the great nobles gave up their private armies to become courtiers: rentseeking at court promised greater rewards than

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<sup>94</sup>(Rogers 1995)

<sup>95</sup>(Spruyt 1994). (Lane 1958) has written on the advantages of scale in violence and their consequences.

<sup>96</sup>The Habsburgs were the masters of this technique: their unofficial motto was "*Bella gerunt alii, tu, felix Austria, nubes!*". This sort of peaceful consolidation was a phenomenon unique to Europe. No state or empire outside Europe was ever built in this way: all were created by conquest ((Finer 1997) v3 Ch 5).

<sup>97</sup>(Gustafsson 1998)

<sup>98</sup>(Bean 1973);

<sup>99</sup>(Tilly 1990) Ch. 3

the profession of violence.<sup>100</sup> With the great nobles weakened, dynasties became more secure and succession more orderly.<sup>101</sup> Cities, too, found armed resistance increasingly difficult and came to rely more and more on negotiation and the purchasing of favors. In France and Spain, the rights and liberties of cities were steadily eroded, with self-government increasingly replaced by direct administration by royal officials.

### **A new round of wars**

Because of the different starting point, the wars of the second cycle differed from those of the first. When economic prosperity again provided rulers with the means to go to war, their strengthened fiscal position meant that those means were now far greater. Moreover, improvements in financial markets meant that rulers could mobilize those means far more rapidly. At the same time, the development of siege artillery had made war much more ‘productive’: the rapid conquest of new territory was for the first time a real possibility.<sup>102</sup> The increase both in the demand for war—due to its likely success—and in the supply—the resources available to finance it—meant a rapid escalation in the scale of war and in its cost: “In 1494 a series of wars began so unprecedented in cost, manpower and international entanglements that they constitute, at least from these points of view, a new era.”<sup>103</sup>

The principle protagonists in this second round of wars were France, Hapsburg Spain and the Ottoman empire. The Burgundian possessions had been split between France and the Hapsburgs in 1477 and the Hapsburgs acquired Spain in 1516. At the beginning of the sixteenth century there were thus two great conglomerate states in Europe—France and Hapsburg Spain. To the east, the Ottoman empire, another conglomerate state, had been consolidating Muslim territories and accelerating its expansion into Europe following its conquest of Constantinople in 1452. The new round of wars began when France invaded northern Italy in 1494: the promise of siege artillery played a major role in the French

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<sup>100</sup>(Koenigberger 1995); (Ertman 1997) Ch. 4. Rulers used the carrot as well as the stick in bringing their nobles under control: in both France and Spain, nobles were granted exemption from taxation in exchange for their loyalty ((Ames and Rapp 1977)).

<sup>101</sup>(Schulze 1995) For example, the Stuarts followed the Tudors much more smoothly than the latter had followed the House of York a century earlier.

<sup>102</sup>(Tilly 1985).

<sup>103</sup>(Hale 1985) p 15

king's decision to launch this campaign.<sup>104</sup> This invasion set off a fifty-year struggle with the Hapsburgs for the control of Italy.<sup>105</sup> The Hapsburgs were at the same time waging a war against the Ottomans for control of the Mediterranean.

As had happened during the earlier round of wars, spending soon outran revenue. The development of military technology contributed to this. The offensive advantage of siege artillery was soon nullified by a new type of fortification—the *trace Italienne*. With the upper hand regained by the defender, campaigns once again became wars of attrition, but now involving much larger and more expensive armies. The army of France, some 18,000 in strength in 1494 grew to 40,000 by the 1550s; over the same period, the army of Spain grew from 20,000 to nearly 150,000.<sup>106</sup> Military expenditure in Europe as a whole grew from less than one per cent of national income in the Middle Ages to more than two per cent in the sixteenth century.<sup>107</sup>

Rulers once again found themselves desperate for resources. They squeezed what they could from existing taxes. In France, for example, repeated increases in the *taille* doubled its take in real terms between 1450 and 1610 and raised it by two thirds in per capita terms.<sup>108</sup> However, the need for new taxes once again forced rulers to summon their representative assemblies to obtain consent. As a result of the desperate need of rulers for their support, the cities and the nobility regained much of their former power.

The fiscal pressures of the new round of wars was an important factor in the timing of the Reformation.<sup>109</sup> The authority of the Church had been challenged before by dissident groups and sects, especially in the twelfth and thirteenth centuries.<sup>110</sup> However, then the interests of the Church and of territorial rulers had coincided, and the Church had therefore been able to enlist the support of rulers in suppressing the challenge to its religious monopoly. Now, the pros and cons of supporting the Church were more finely balanced. Some territorial rulers, such as those of England and Sweden, chose to side

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<sup>104</sup>(Rogers 1995).

<sup>105</sup>The Hapsburgs could not permit the French to succeed: "A French-Italian conglomerate state might have become the most powerful empire in Europe." ((Glete 1999) Ch. 6)

<sup>106</sup>(Tilly 1990)

<sup>107</sup>(Bean 1973) In comparison, Rome had devoted some 6% of national income to military expenditure.

<sup>108</sup>(Wolfe 1972) Ch. 1

<sup>109</sup>(Gelabert 1995); (Miskimin 1975) Ch. 5

<sup>110</sup>(Moore 1987)

with the ‘heretics’ and took the opportunity to expropriate Church property. Other rulers, such as those of France and Spain, supported the Church, but extracted in exchange valuable concessions and material compensation.<sup>111</sup>

### **The importance of borrowing**

Despite increasing revenue from taxes and other sources, expenditure continued to outrun revenue by a large margin. This was possible only because rulers were able to borrow heavily in financial markets. For example, the Tudors had by the end of their wars with France and Scotland in 1552 run up a debt in foreign financial markets of some £500,000—more than two years’ revenue.<sup>112</sup> But the borrowings of the Tudors were small change compared to those of the Habsburgs. By the 1550s the rulers of Spain were routinely meeting a third of their expenditures from borrowing—year in and year out. This expanding debt was being rolled over with no real thought of its ultimate repayment.<sup>113</sup>

The need of rulers to borrow further increased the power of representative assemblies. Rulers were able to borrow only when they could provide security for the loans. This usually took the form of a reliable cash flow, from taxes or other revenues, that could be dedicated to repayment. When existing taxes and regalian revenues had all been assigned to securing existing debts, rulers had to obtain new taxes as security for additional loans. Moreover, lenders insisted that these new taxes be legitimized by the approval of a representative assembly. In Castile the Cortes, which seemed in terminal decline at the end of the fifteenth century, received a new lease on life in the sixteenth when the king was repeatedly forced to summon it for just this reason.<sup>114</sup>

It was therefore the enormous growth of sovereign borrowing in the sixteenth century that made possible the growth of armies and the prolongation of wars.<sup>115</sup> It was not that rising expenditures forced rulers to borrow: rather it was rulers’ *ability* to borrow that

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<sup>111</sup>(Finer 1997) v3 Ch 5; (Elliott 2002)

<sup>112</sup>(Parker 1996)

<sup>113</sup>(Tracy 2002)

<sup>114</sup>(Thompson 1994)

<sup>115</sup>“It was, above all else, the financial resources of a state which held down the size of its armed forces. If too many troops were engaged, or if they were engaged for too long, mutiny and bankruptcy resulted.” (Parker 1995) p48

allowed them to sustain higher levels of expenditure.<sup>116</sup> The waging of war became completely dependent on credit, and access to credit became the ultimate determinant of military success.<sup>117</sup>

But borrowing had its limits. In the late 1550s, the debts of France and Spain became unsustainable and both defaulted. As a result, the war between them came to a sudden halt. The credit of France never really recovered, and France soon became embroiled in a religious civil war. Spain managed to renegotiate its debt, and it continued borrowing to finance its continuing conflict with the Ottomans. However, the efforts of Philip II to extract greater revenues from his possessions in the Low Countries led to rebellion there in 1572 and to a new and very expensive war in northwest Europe. Under this additional burden Spanish finances collapsed again in 1575, with a second default and renegotiation. However, a fortuitous increase in silver shipments from the Americas—a fifth of which went to the crown—and a host of new taxes provided Philip with security for new borrowing.<sup>118</sup> He used every penny he could raise to finance his increasingly frustrating and expensive campaign against the Dutch and against the English, who had come to their aid.<sup>119</sup>

As access to credit became the key to success in war, it also became the principal factor in the evolution of government. Medieval constitutional government had rested on a balance of power between predatory government and associational government. The increasing importance of credit upset this balance. Consequently, medieval constitutional government evolved in either one of two divergent directions—towards the ‘imperial state’ or towards the ‘associational state’. In the imperial state, credit collapsed and substitutes had to be found. In the process, predatory government came to dominate and associational government was suppressed. In contrast, in the associational state, it was

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<sup>116</sup>“Credit was, therefore, the first, not the last, response to the pull of expenditure.” (Thompson 1994) p 158

<sup>117</sup>“The king of Spain’s superior access to credit was one of the major factors which gave him the advantage over his international rivals.” (Thompson 1994) p158

<sup>118</sup>“At this moment, however, the wealth of the Indies came to his rescue” ((Elliott 2002) p269). The increased output of the Peruvian mines was the result of the introduction there of the mercury amalgam method of extraction (see (Kohn forthcoming) Ch 4).

<sup>119</sup>“This new *largueza*—abundance of money—gave Philip real freedom of manoeuvre for the first time in his reign. At last, after long years on the defensive, he could go over to the attack. It was because he had acquired this sudden accession of wealth that Philip was able to embark upon the bold projects and imperial ventures of the 1580s and 1590s...” (Elliott 2002) p269-70

associational government that gained the upper hand and, as a result, credit was strengthened. France and Spain were the leading examples of imperial states; the Dutch Republics was the primary example of an associational state. Let us examine these two systems of government in turn.

### **The imperial state**

The conventional explanation of the emergence of the imperial state attributes it to changes in military technology—especially the introduction of firearms—which drastically raised the cost of war. To meet the higher cost, rulers had to squeeze more out of their subjects. They could do this only by strengthening the coercive power of the state and by suppressing representative institutions and associational government. The result was a despotic form of government, sometimes called ‘absolute monarchy’, but which we prefer to call the imperial state.<sup>120</sup> This explanation is mistaken at every point.

First, as we have seen, the cause of the rising cost of war was not changes in military technology but rulers’ greater ability to borrow. Second, the imperial state was not the only possible answer to the rising cost of war. Another and more effective answer was the associational state. There the state’s coercive power, far from being strengthened, was significantly weakened. Despite this, the Dutch Republic, its prime exemplar, was able to sustain the highest level of taxation in Europe and to create the most effective army and navy.<sup>121</sup>

A more satisfactory explanation for the emergence of the imperial state begins with the realization that far from being defined by the ruler’s strength it was defined by his weakness. The ‘absolute’ ruler lacked the means to coerce his subjects into obedience.<sup>122</sup>

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<sup>120</sup>(Henshall 1992) uses the term ‘imperial monarchy’ to describe the regimes of Spain and France. However he uses the term in a different sense, to describe a regime in which “one central territory containing royal court and administrative capital assumed dominance over the rest”.

<sup>121</sup>(Price and Clemens 1987) cites the Dutch Republic as the most telling counter-example to the conventional explanation of the rise of ‘absolutism’.

<sup>122</sup>Absolutism was not about the extent of power: it was about the nature of authority ((Henshall 1992); (Vicens Vives 1971)). The absolute monarch asserted that his authority was absolute in those areas *that were within his prerogative*—especially the collection of revenues to which he was entitled, foreign policy, and the waging of war. Nobles, cities and representative assemblies had no right to interfere in these areas. However, outside the areas of their legitimate prerogatives, absolutist rulers continued to be constrained by the rule of law. This was just as true of the ‘imperial’ Valois of France, as it was of the ‘non-imperial’ Tudors of England. Both claimed absolute authority, but this “... did not imply that either monarch could do what he liked.” ((Henshall 1992) Ch 4). A regime in which the power and the prerogatives of the ruler are unlimited is not absolutist but despotic.

Consequently, to get what he wanted—more resources, more troops, the enforcement of his laws—he needed to enlist their voluntary cooperation.<sup>123</sup> The relationship between ruler and subjects was therefore not one of coercion but one of exchange: the ruler could not force cooperation, so he traded for it.<sup>124</sup>

The weakness of the ‘absolute’ rulers of France and Spain is amply demonstrated by their inability to integrate their conglomerate states into uniform administrative units that could be governed directly from the center.<sup>125</sup> They did not even try. Instead, they respected local institutions and customs in each of their disparate territories and struck deals with the local power-holders. Since their bargaining power varied from territory to territory, so did their success at exacting resources: a contemporary saying had it that “In Sicily, the Spaniards nibble, in Naples they eat, and in Milan they devour.”<sup>126</sup> Representative assemblies, far from disappearing, played an essential role in mediating this exchange of favors. Similarly, the nobility and the urban elites were not crushed but rather co-opted. Rulers had a great deal to offer those who were helpful—positions at court and in provincial administrations, seigneurial territories, patents of nobility, military and ecclesiastical appointments, monopolies, tax exemptions, and so on.<sup>127</sup>

Perhaps the greatest source of weakness of the rulers of imperial states was difficulty they experienced in borrowing to finance their wars. Many of the distinctive characteristics of the imperial derived from this. Unable to satisfy their need for liquidity in financial markets, they were forced to meet it by selling off their assets—not only their land but also their sovereign rights.<sup>128</sup> They sold to tax farmers the right to collect future taxes. They created and sold monopoly rights to traders and to producers. They sold government positions that promised the purchasers not only a salary and also opportunities for speculation and graft. In each of these cases, the ruler capitalized and sold a future cash flow, providing a substitute for the borrowing that was so problematic.

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<sup>123</sup>(Major 1971) emphasizes that the basis of the king’s power in France from 1450 to 1650 was not the standing army or the bureaucracy but popular support.

<sup>124</sup>(Henshall 1992) Ch. 1

<sup>125</sup>(Gustafsson 1998)

<sup>126</sup>(Downing 1992) Ch. 9

<sup>127</sup>(Major 1971)

<sup>128</sup>For detailed discussion, see (Kohn forthcoming) Ch 20.

But these fiscal expedients had significant non-fiscal consequences. One was a huge expansion in the number of officials, tax farmers, and monopolists. In seventeenth century France, for example, officials and their dependents made up about a third of the urban population.<sup>129</sup> These individuals, dependent on state power for their living, constituted a new predatory class—a predatory bureaucracy. The new predatory class had much in common with the old—the feudal nobility. Like the nobility, its members derived their income from the exercise of privatized government power. The old predatory class had owed the ruler in return military support; the new predatory class owed him instead financial support. Over time, the old predatory class and the new tended to merge.

The expansion of the predatory bureaucracy undermined associational government. Many of the offices that rulers sold were municipal offices, with the result that city government lost its independence and was absorbed into the state bureaucracy. Independent merchant associations and craft guilds became government sponsored monopolies, beholden to the ruler for their profits. City elites, the pillars of associational government, were co-opted by the imperial state—abandoning commercial enterprise for the purchase of government office.<sup>130</sup>

Although the mechanisms of medieval constitutional government continued to constrain the power of the ruler, they were less effective. The independent centers of power that had balanced the power of the ruler were weakened. The city elites and the traditional nobility were co-opted into the predatory bureaucracy. The Church, embroiled in the Reformation, lost much of its authority and became dependent on the ruler for support. However, much of the growing power of the imperial state was in the hands not of the ruler but in those of the predatory bureaucracy. And the power of the predatory bureaucracy was much less constrained by the traditional mechanisms of medieval constitutional government.<sup>131</sup>

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<sup>129</sup>(Swart 1949) Ch. 1

<sup>130</sup>See (Kohn forthcoming) Ch 21.

<sup>131</sup>See (Kohn forthcoming) Ch 23.

### **The associational state**

Associational government was in retreat in the sixteenth century, not only within imperial states, but also in the independent and quasi-independent cities in which it had earlier flourished. The benefits of scale in the waging and in the financing of war were inexorable. As we have seen, the independent city states of northern Italy underwent a process of consolidation to create larger city-centered territorial states. However, associational government did not scale up well: the governments of these larger states increasingly degenerated into despotism. Moreover, the city-centered territorial states were still too small to resist the military power of France and Spain, and by the middle of the sixteenth century, most of Italy had come under Habsburg control or influence. Only Venice remained an independent republic. Its continuing independence was partly due to the relative absence of the factionalism that had fatally weakened the other city states. But mainly it was due to its great wealth: in 1500 its government had an annual revenue of 1.3 million ducats—double that of the king of France.<sup>132</sup>

We have seen that there was another approach to capturing the benefits of scale in warfare—the city league or confederation. This was faring no better. The Hanseatic League succumbed to the reassertion of control by the Emperor and to the rising power in the Baltic of a revitalized Swedish state.<sup>133</sup> In contrast to Venice, its resources were meager: Hamburg, one of the richest of the Hanseatic cities, had an annual revenue in 1492 of only 20,000 ducats.<sup>134</sup> In Switzerland, the original confederation of three rural valley communities had expanded by 1500 to include a number of cities—Lucerne, Zurich, Berne, Fribourg, Basel. This larger confederation was powerful enough to play an important role in the Italian wars of the sixteenth century, and in the process it even managed to acquire some territory for itself. However, the Swiss confederation was more of a military alliance than a state, with no real organs of central government.<sup>135</sup>

Just as associational government appeared to be on the way out, a new—and very successful—form of associational government emerged from the Dutch revolt against the Hapsburgs. The Hapsburgs had acquired the Burgundian Low Countries at the beginning

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<sup>132</sup>(Lane 1973)

<sup>133</sup>(Hocquet 1995); (Glete 1999) Ch. 5

<sup>134</sup>(Hocquet 1995)

<sup>135</sup>(Coddington 1961); (Rappard 1936)

of the sixteenth century through their usual method of dynastic marriage. In the subsequent decades, they had made repeated attempts to increase the tax revenue from this territory. However, their high-handed tactics had met with increasing resistance, and in 1572 they finally provoked open revolt.<sup>136</sup> Spanish armies brought the southern provinces to heel by 1585, but the northern provinces held out, eventually winning formal independence in 1648.

The northern provinces had a strong tradition of associational government. Their joint representative assembly, the States-General, became the principal organ of government. Previously, it had represented the provinces and cities in negotiations with the ruler. Now it became the vehicle through which the provinces and cities themselves governed. The Dutch republic thus constituted a new form of associational state—an ‘association of associations’. Under medieval constitutional government, territorial rulers had granted certain rights and freedoms to associational governments. In the new associational state, the situation was reversed. Now it was the associational governments that were sovereign, and it was they that delegated certain limited powers to the state that they created.<sup>137</sup>

As European states evolved either into imperial states or into associational states it was long unclear which way England would go. Medieval constitutional government persisted there but it was increasingly threatened. Under the Tudors, and even more under the Stuarts, there was some movement towards an imperial state. The absolutist ideology of the monarchy was strengthened by its break with Rome, which placed the king at the head of the English Church.<sup>138</sup> And in some respects the rulers of England were less respectful of the rule of law than those of France.<sup>139</sup>

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<sup>136</sup>The people of the Low Countries strongly resented paying taxes to finance the wars of Spain with France and with the Ottomans—wars that were of no direct concern to them. Spain’s Italian provinces, more directly threatened by these wars, were more ready to pay. ((Downing 1992) Ch. 9; (Israel 1995) Ch. 7)

<sup>137</sup>(Price and Clemens 1987)

<sup>138</sup>(Palliser 1983) Ch. 10

<sup>139</sup>(Henshall 1992) Ch. 4. For example, English rulers obtained parliamentary bills of attainder to bypass the courts and to execute and expropriate rebellious nobles, unwanted wives, or ministers who fell out of favor; French rulers, in contrast, could punish their domestic opponents, if at all, only after judicial trial ((Major 1971)).

Why then did England not evolve into an imperial state?<sup>140</sup> One reason was that the fiscal pressure there was much weaker than it was in France and Spain. English rulers managed to keep out of the large-scale conflicts that bankrupted the French and Spanish crowns. Another reason—not unrelated—was that England never developed a predatory bureaucracy.

While the rulers of France and Spain relied on paid officials to govern, the rulers of England relied on unpaid local Justices of the Peace. These were drawn from the same layers of society that controlled local associational government and from which came members of parliament and common law lawyers and judges. In France, the lesser nobility merged with the bureaucracy to become a new predatory class dependent for its livelihood on the state. It was in their interest to strengthen state power. In England, the lesser nobility merged with the merchant elite, and was dependent for its livelihood on the market. It was in their interest to constrain state power and they were able to use parliament and the courts relatively effectively to do so.<sup>141</sup>

However, at the close of the sixteenth century the struggle between associational and imperial tendencies in England remained unresolved. It would take a civil war and most of the seventeenth century to settle the issue. But in the end, England became effectively an associational state. It was not formally an association of associations like the Netherlands, but functionally it was not dissimilar. The role of the English king came to resemble that of the Dutch States-General: he became less a predatory ruler than an agent of associational government.

### **Economic consequences**

From the last quarter of the fifteenth century to the middle of the sixteenth century, economic expansion in Europe was almost universal. There was then an economic divergence that corresponded to the divergence in systems of government. The areas under the control of imperial states experienced stagnation and even regression. The areas under the control of associational states continued to advance, some at an accelerating

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<sup>140</sup>(Koenigberger 1995) asks the question: England seemed more like France, why did it wind up like the Netherlands?

<sup>141</sup>(Nef 1940) It was also a help that the crown was dependent on it not only for money but also for political support in its struggles with the high nobility and the church ((Downing 1992) Ch. 7)

pace.<sup>142</sup> The reason for this divergence was the very different environment for economic development and growth that the two state created.

The difference in economic environment grew out of the difference in political regimes. In the imperial state predatory government was dominant and associational government was suppressed. Authority and power came from the top down—from the ruler to those below. The ruler exercised power primarily through a centrally created bureaucracy. Representative assemblies were created from above as a forum for the trading of royal favors for subjects' cooperation (provincial assemblies were much more important than assemblies at the state level). In the associational state, it was associational government that was dominant and predatory government was either absent or severely constrained. Authority and power came from the bottom up. The representative assembly was created from below to aggregate and to direct this power. It was a forum in which local interests negotiated and participated in the formation of policy. Policy was executed not by a centrally created bureaucracy but by locally appointed officials.

The two regimes naturally gave rise to different legal systems. Law in the imperial state was top down or 'authoritarian': it was based on the will of the ruler. To make known the ruler's will, the law was generally codified. The purpose of the law was to serve the interests of the state. Law in the associational state was predominantly customary: it was based on usage and custom rather than on a ruler's decree. It relied on precedent rather than statute and it was generally not codified. Its purpose was to facilitate economic interaction.<sup>143</sup>

The different political regimes were legitimized by different theories of government and they were consistent with different types of religion. The theory of government of the imperial state was absolutism, with authority descending from the top down—from God to the ruler and from ruler to subjects. Old Testament ideas of rule of law were played down; Roman ideas of the divinely given power of the ruler were emphasized.<sup>144</sup> This

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<sup>142</sup>(Nef 1950) Ch. 1. For details see (Kohn forthcoming) Ch 23,

<sup>143</sup>On the difference between customary and authoritarian law, see (Benson 1998) and (Kohn forthcoming) Ch 23.

<sup>144</sup>Renaissance Humanism, with its rediscovery of Classical learning, provided further ideological support: "Humanistic study, then, began to produce a philosophic and legal bias towards absolutism, and

ideology was supported by a top-down state religion—Catholicism. The associational state was less in need of a legitimizing theory of government, but thinkers did justify it in associational terms:

Dutch politics were very much ‘the art of associating’, referring to the theory of Johannes Althusius. In all, ‘the state’ was regarded as a function of society, a concept different from any elsewhere in Europe, where the state belonged to the monarch.<sup>145</sup> Religion in the associational state, rather than being top-down—supported by and supporting the ruler—was a grass-roots phenomenon, and rival Protestant sects proliferated.

The two regimes gave rise to very different types of dominant class and consequently to different cultures. The imperial state generated a new predatory class of officials, tax farmers and monopolists, which tended to merge with the old predatory class of nobles. Since the occupation of the dominant class was predation, its culture—and so the culture of the imperial state—was predatory or aristocratic. In the associational state there was no centrally created bureaucracy, and tax farming and state-enforced monopolies were less pervasive (although not unknown). Because power came from below the dominant class was made up of the leaders of local associational government—the ‘regents’ in the Netherlands, the gentry and urban elites in England.<sup>146</sup> Since the occupation of the members of this dominant class was commercial rather than predatory, its culture too—and so the culture of the associational state—was commercial.

The two regimes and their associated cultures gave rise to different attitudes to war. The imperial state was predatory. Unconstrained by effective representative institutions, its rulers went to war frequently, as predatory rulers will, in pursuit of honor and glory. Their wars were rarely motivated by economic gain and rarely brought economic benefits.<sup>147</sup> The associational state, in contrast, was commercial. While it was hardly

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encouraged the more vigorous application of Roman law, a powerful device to implement that propensity, by undermining traditional constraints that limited monarchies and protected the meek.” ((Miskimin 1975) p 166)

<sup>145</sup>(Hart 1993) p 26.

<sup>146</sup>((Israel 1995) Ch. 6)

<sup>147</sup>(Ertman 1997) Ch. 3

pacifist, its wars were either defensive or motivated by economic gain—for example, gaining access to trade or acquiring overseas colonies.<sup>148</sup>

The two regimes differed even more when it came to the economic impact of war. For both, war constituted a huge economic burden. War itself was destructive and it interfered with trade. But it was the financing of war that caused the greatest economic damage. This damage was greater in the imperial state for two reasons—both related to its limited access to credit. First, it was forced to increase exaction sharply during wars to compensate for its limited ability to borrow. Second, it created a predatory bureaucracy both to generate revenue and as an alternative source of borrowing. This predatory bureaucracy magnified the burden of exaction: since it took so much of the revenue it collected for itself, gross levels of exaction had to be correspondingly higher to leave sufficient net revenue for the ruler. Moreover, because of the weakness of legal and political constraints on the actions of the state, exaction frequently took forms that were particularly harmful and which caused economic damage far in excess of the revenue collected.<sup>149</sup> The associational state had much better access to credit (or a less pressing need for it in sixteenth century England). This meant that the cost of war could be spread over time so that there was less need for sharp increases in exaction. It also made it unnecessary to create a predatory bureaucracy as a source of liquidity. The absence of a predatory bureaucracy meant that more of the revenue raised actually went to the state, so that gross rates of exaction could be lower. Because of the legal and political constraints on the power of the state, exaction was either lighter (in England) or at least took less harmful forms (in the Netherlands).

The two regimes differed in the extent and in the nature of economic intervention. In the imperial state intervention in the economy was extensive, and it was motivated by predatory rather than economic considerations. Economic intervention increased the rents of the predatory bureaucracy either by promulgating new regulations that augmented the power of officials and so their take from corruption or by creating monopolies. This of

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<sup>148</sup>(Price and Clemens 1987). Of course, the interests of the ruling elites did not necessarily coincide with those of the population as whole. Wars could be waged to benefit the former at the expense of the latter: see (Lane 1973).

<sup>149</sup>“Without the cooperation of the wider nation it proved impossible, just as in France, to generate sufficient tax revenue to pay for these wars, and the highly regressive tax structure that was a hallmark of absolutist regimes everywhere inflicted serious damage on the Spanish economy.” (Ertman 1997) p 111

course increased the ruler's revenue by raising the value of the offices and the monopolies that he sold. Once again, there were few legal or political constraints to restrain such intervention or to limit its harmful effects.<sup>150</sup> In the associational state, there was no less desire for rents, but rentseeking there was constrained and mediated by politics.<sup>151</sup> The ability of one interest group to mobilize state power to its own benefit was checked by the power of other conflicting interest groups. There was another factor that tended to mitigate the harm of economic intervention in the associational state. Policy was executed not by a career predatory bureaucracy with a stake in state intervention, but rather by part-time local officials who were themselves often engaged in commercial activity. These local officials simply failed to execute policies that harmed local economic interests—including their own.<sup>152</sup>

Finally, the imperial state tended to suppress or to absorb into the state bureaucracy not only associational government but all forms of association. The predatory bureaucracy saw private associations as rival centers of power and rulers saw them as potential sources of sedition. The suppression or cooption of associations had economic as well as political consequences: association was no less essential for economic activity than it was for political liberty. For example, joint-stock companies—which evolved from merchant associations—developed more rapidly in the associational state.<sup>153</sup> In the associational state local associations frequently took the initiative in improving transportation and other infrastructure. In the imperial state, such improvements generally had to await action by the state. Because the state was always in fiscal crisis, there were consequently fewer improvements. Because of the top-down nature of the imperial states what improvements there were less well tuned to economic needs.<sup>154</sup>

## CONCLUSION

By the end of the second iteration of the political-economic cycle, therefore, two very different systems of government were emerging in Europe that differed markedly in the economic environments that they created. Over subsequent centuries, the two systems

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<sup>150</sup>See, for example, (Miskimin 1977) Ch. 4 and (Kohn forthcoming) Ch 22.

<sup>151</sup>(Ekelund and Tollison. 1981)

<sup>152</sup>(Nef 1940)

<sup>153</sup>See (Kohn forthcoming) Ch 14 on the joint-stock company.

<sup>154</sup>(Szostak 1991)

of government would be tested in Europe's never-ending series of wars. In these wars, the more favorable economic environment of the associational states gave them a crucial advantage. Their more dynamic economies often provided them with superior military technology. However, the principal advantage of their economic strength lay in their ability to finance war and especially in their ability to borrow.<sup>155</sup>As a result of these advantages, associational states repeatedly defeated imperial and autocratic states, often larger and more powerful than themselves.<sup>156</sup>

It was the emergence of the associational state in the sixteenth century that enabled Europe to break out of the 'political-economic trap' and to enter a period of rapid economic development unprecedented in human history.

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<sup>155</sup>(Tilly 1985)

<sup>156</sup>(Olson 1993)

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