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The Political Economy of Absolutism Reconsidered

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L'argent est le nerf de la guerre. [Money is the sinew of war.]
Richelieu

J'ai trop aimé la guerre. [I loved war too much.]
Louis XIV

European Comparative History

Between the mid-seventeenth century and the end of the nineteenth century, Europeans transformed their political and economic institutions to create modern states. Among the many aspects of this transformation, I focus in this chapter on four that played a key role in determining the process by which countries changed. Over these two centuries, there were three key political changes: central governments increased their control over expenditures and taxation, representative institutions became the norm, and expenditures for war increased stunningly. Finally, the key economic institutions were also transformed in that markets in general, and financial markets in particular, lost their medieval or early modern regulations and expanded dramatically. The spread of this dramatic transformation was slow. Indeed nearly two hundred years elapsed between the Glorious Revolution and the unification of Germany in 1870. This dispersion in time is odd at least in hindsight, since the countries that first adopted these new institutions derived considerable political and economic advantages. This fact poses a problem for common theories of long-term change, since they imply that societies that face common challenges should evolve in similar ways. The historical evidence, however, argues that our theories must bear the burden of explaining both evolution and stasis. This chapter argues that the uneven process of political and economic change across European countries can best be explained by focusing on fiscal institutions.

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Within the broad development of political institutions in Europe, this chapter examines how political institutions in England and France came to diverge dramatically in the seventeenth century. Of equal concern is why Old Regime France failed to evolve toward the British institutional model. The political and economic evolution of Britain and France has great prominence in economic and political history because these two countries were the great rivals of the preindustrial period.[1] Economic historians seeking to explain France's institutional immobility relative to Britain have made frequent appeals to political economy (De Vries 1976; Jones 1981; North 1981). These accounts, however, rarely detail which political institutions stifled change in France while encouraging it in England.

I argue that the divergent French and British experiences had their roots in the different outcomes of domestic conflicts over fiscal policy. In these countries elites (henceforth the elite) played a substantial role in determining the Crown's fiscal resources. Indeed, although the Crown usually enjoyed substantial independent revenues, it could not increase taxation without consulting the elite. The Crown sought resources to wage war, whereas the elite would have preferred more pacifist policies. The elite tried to use the power of the purse to influence royal activities in general and war making in particular. Among other things it sought to protect or increase its fiscal authority and reduce that of the Crown. Kings, in turn, tried to use their control of the political agenda either to maintain the status quo or to reduce elite political activities. Until the 1720s French kings' fiscal autonomy grew while their British counterparts lost authority to Parliament in a series of domestic political struggles. In this view political evolution was not the result of bargaining or of cooperative problem solving but of contention.

To make this case I employ an analytic narrative that rests on a specific theory of political negotiation. The theory is implemented in a model of taxation and warfare that illuminates the key factors favoring or restraining changes in the distribution of fiscal authority. Although the model was generated solely to explain the political economy of Old Regime Europe, it applies broadly whenever authority over policy is divided between groups that have significant differences in their policy objectives. The model sidesteps the standard debates about the reasons for war (see Fearon 1995); instead I argue that the cost and benefits of war are sufficiently unevenly distributed in societies that wars—which destroy resources in the aggregate—can be profitable for decisionmakers. The approach is also narrative because it seeks to use history to construct the theory and to flesh out its implications. The mathematics of the model have been relegated to an appendix, to better integrate the historical evidence with the general patterns underscored by the broad results of the theoretical analysis.

[1]The importance of the comparison between the two countries has certainly not been lost on historians (see for instance Miller 1987; North and Weingast 1989).

This approach leads to a synthesis of the political divergence of France and England in the seventeenth century that places taxation at center stage. This emphasis has general implications for theories of long-term change. It thus echoes Levi (1988) and North (1981), who emphasize the importance of taxation in institutional change, yet it goes beyond these previous analyses to construct a specific model of politics and taxation. For Levi and North, differences in tax rates rest in the intrinsic fiscal efficiency of political regimes or in the preferences for revenue of political actors, but in this model taxation depends on the way institutions structure the interactions of political actors. In particular I emphasize the role of corporate, provincial, or parliamentary organizations in choosing tax levels. This approach also echoes the sociological literature on the rise of the state that seeks to understand how classes and states interact (Skocpol 1979; Tilly 1990). Here I seek to show that the rulers may, at times, have an agenda that is different from the agendas of members of dominant classes; in particular, when the executive is staffed by a monarch, the monarch's independence varies depending on the political structure. Thus the apparent levels of tension between the ruler and the elite do not necessarily inform us about the role of divergent preferences.

The new narrative presented here also has implication for the historiography of Early Modern Europe. Most scholars, including those who reject Whiggish historiography, divide nations into two groups: those that adopted or retained representative institutions and those that failed to do so. Since representative institutions are often viewed as socially superior, those countries where kings were able to impose absolutist regimes are perceived as having failed. The literature has yet to draw fully the distinction between failure at a national level and the success of royal policies. The issue remains of why some countries developed representative institutions while others did not. Clearly if political evolution failed it must have been that a coalition that would have suffered under the new rules blocked change. According to this theory, the Crown was the central obstacle, not because it failed to perceive the social gains from Parliamentarism but rather because the Crown's private costs of change outweighed the private gains from change. Thus the goals of different actors were similar in the different countries examined, but differences in the distribution of fiscal authority had long-run implications. Indeed those countries where the Crown had insufficient independence to act alone were the ones that developed representative institutions.

The chapter proceeds as follows. First, I use France's history to construct a model of taxation and warfare. At the same time I use the model to analyze the institutional evolution of France during the two centuries that preceded the revolution of 1789. In the next section I argue that the model fits England with very few modifications and helps us understand why the Stuarts and their opponents were so fixated on fiscal issues. The examination of the historical material then leads me to consider the importance of two factors ignored by the

model: domestic political structure and religion. The model is then put to work to reexamine the joint political evolution of France and England. I conclude by turning to a broader set of conclusions.

A Model of French Political Conflict

After the end of the Seven Years War the French Crown had to reorganize its finances. Bringing the state's budget back into balance was achieved through a partial repudiation of the debt and by increasing taxes (Marion 1927–31:1, 222–79). As part of this broad reorganization the Crown solicited funds from a variety of organizations, among them the Burgundian Estates. Burgundian officials had the following reaction to a new loan request:

> Sera néanmoins très humblement representé au seigneur Roi que les impots multiples dont ses sujets ont été acablés pendant la guerre et sous le poid desquels ils continuent de gémir depuis la paix ont dut diminuer considérablement la masse des dettes de l'état, si le produit de ces impots a été employé suivant la destination annoncée par les édits sans nombre qui les ont créés.
>
> Et que si malheureusement ces dettes subsistent encore elles ne sauroient s'éteindre que par une sage économie des revenus de sa majesté, par le retranchement des dépenses, et non par des emprunts fréquents qui ne libèrent point l'état en substituant de nouveaux créanciers à la place de ceux qui sont remboursés. (Archives Départementales de la Côte d'Or, series C4568, 13-3-1771)[2]

Burgundian officials did grant the Crown some financial relief, but, as had been the case since Louis XIV, less than the Crown really desired (Major 1994:344). This was because in Burgundy the king could levy no taxes without the assent of the provincial estates, whose fiscal authority had been recognized since the fifteenth century (Major 1994:21–22). The same officials noted pointedly that the Crown did not appear to be spending the resources it had raised as it had promised. The estates and other Burgundians expected taxes to reduce the debt, which had not been the case. This reflection from officers of the province of Burgundy encapsulates the central elements of the model we need to build: a Crown with limited fiscal authority, but with the ability to spend as it pleases, and public expenditures heavily focused on war.

[2] "It shall nevertheless be suggested to the lord King that the many taxes, which have burdened his subjects during the war and which continue to weigh upon them since the peace, should have considerably reduced the debts of the state if the product of these taxes has been used in the way that the innumerable edicts that created them suggested.

"And that if sadly these debts remain today, they will only be paid off by a wise economy of his majesty's income, by the reduction of expenditures, and not by frequent borrowing which does not liberate the state but simply replaces old creditors with new ones."

A quote does not establish a fact, so we must begin by reviewing the evidence that argues that, in Old Regime France at least, the elite and the Crown had separate spheres of fiscal authority. In Early Modern France, the Crown's fiscal authority was limited by a battery of organizations. The Estates General, provincial estates, the assembly of the clergy, municipalities, venal officers corps, and other groups all provided funds to the Crown in separate negotiations (Mousnier 1974; Major 1994: Michaud 1994). The organizations that provided supplementary funds to the Crown were dominated by nobles, clergymen, and urban elites; rural dwellers and the laboring classes were not enfranchised. These organizations controlled taxation over geographical areas, groups of individuals, or economic activities. In each case, the Crown recognized the fiscal authority of the organizations by charter. Although it could and did sometimes revoke the charters, this was a very costly step and one that was largely abandoned after 1660 (Beik 1985; Bien 1987; Potter and Rosenthal 1997a,b).

The institutional complexity and diversity of these organizations leaves many modeling options open. I chose the simplest one and model the public finance process as follows. Taxation is not unified; rather it is decided separately by the elite and the king in the distinct sectors of the economy over which each has fiscal control. For simplicity I assume that the elite is unified, so that a single entity decides taxation in sectors over which the elite has fiscal control. The elite sector contains all the disparate organizations that enjoyed fiscal independence. The royal sector contains the rest of the economy. In particular, the French Crown had significant latitude in fiscal matters because it was able to rely on one or more of the following strategies: changing excise and tariff rates, the sale of offices or titles, manipulation of the currency, and the use of judicial authority to regulate property rights.[3]

What is crucial for the model is that the elite controls taxation in one part of the economy (henceforth the elite sector) while the Crown controls taxation in the rest (henceforth the royal sector). Indeed such separation of fiscal decisions will be the source both of a free rider problem (each party will prefer to have the other raise resources for joint projects) and of the power of the purse (if the Crown's fiscal authority is small enough then the elite can influence policy through its control of funds). Finally, raising resources is a costly enterprise, so that the burden imposed on the country is larger than the revenues raised. Although this last assumption is standard in studies of the economics of taxation, it pertains particularly well to Early Modern Europe, whose bureaucracies were of limited efficiency.

[3]For our purposes the Crown's sector yielded two sources of revenue, ordinary revenue and prerogative revenue. The Crown had been able to secure some regular revenues, usually called ordinary revenue, by transforming what had at one time been extraordinary taxation into annual levies; prerogative revenue flowed from the Crown's control of certain property rights (Collins 1988; Hoffman 1994; for England see North and Weingast 1989).

In France, as elsewhere in Early Modern Europe, fiscal resources were used primarily to prepare for and prosecute war (Hoffman and Rosenthal 1997). Kings found their ordinary revenues adequate in peacetime but woefully inadequate in wartime. Thus, in conflicts over domestic policy, as Burgundian officials found out in 1771, the elite could not expect to have much influence on royal decisions.[4] This then allows us to focus on war. The objective of both the elite and the Crown is to maximize their respective returns from war. Whereas in reality both the elite and the Crown probably had much more complex goals, the importance of war in total expenditures means that it must have been the dominant dimension of contention.

When kings wanted to go to war they had to secure resources, because success in warfare was contingent on the availability of funds. Louis XIV, for instance, increased indirect taxation upon the opening of the war of the League of Augsburg in 1689, and he also secured financial commitments from the Church, venal officers, and provincial estates (Michaud 1994; Potter and Rosenthal 1997a,b). If the king could not raise sufficient funds to fight the war he desired, then negotiation was likely to settle the dispute that had created the opportunity for war. If, however, the king succeeded in securing sufficient resources from one or both sectors of the economy, he could then launch his army into battle. Here it is crucial to note that in the model the king makes executive decisions—which seems fitting for an absolutist monarch. By implication, we assume that the elite cannot control the stream of expenditures, and that there is a moral hazard problem between the elite and the king. In other words, the king may use resources for purposes of which the elite does not approve. For simplicity, in the model these purposes are restricted to unpopular wars. It should be noted, however, that the problem of moral hazard would crop up whenever the executive prefers policies of which other members of society do not approve.

In keeping with the history of Europe, where years of warfare could produce only minor changes in territory, I allow for conflicts to end in draws.[5] Winning, losing, or stalemate are uncertain outcomes, but I assume that the odds of success rise as a country invests in arms, provided that other countries do not

[4]See the discussion later in this chapter of the frustration of the English elite when faced with the religious policies of Charles I in the 1620s and 1630s.

[5]The existence of draws affords a convenient way to introduce a bias to account for the personal value that the king attaches to a given war. For other ways to translate resource effort into outcomes and achieve an equilibrium, see Hirshleifer (1995). Previous theories of war have focused on rent dissipation. Each period of play features two players with a resource endowment. Each player can use his endowment for either war or production. Output is divided according to the relative magnitude of warfare investment by each party. Although it is possible to introduce a political structure to choose war investment, in that setting it is not possible to distinguish between aggressiveness (which wars get fought) and resource commitment (how hard wars are fought), a central theme of this research.

simply match the increased spending.[6] More important is the question of how the spoils of war were divided.

I assume that the elite and the Crown share the returns from winning and losing according to the extent of their fiscal control of the domestic economy. For instance, the elite's share in victory is simply the value of victory times its share of fiscal control. The elite is also assumed to bear a cost from draws because it is responsible for staffing the army and the administration, both of which are made to work harder during hostilities.[7] What is crucial here is not the precise division of returns between elite and king, but rather that there is a significant difference between the expected profits of the king and those of the elite. This difference creates the key policy tension in the model: there are some wars that the king wishes to fight but that the elite does not. Other ways of creating this difference in preferences, such as a fixed cost of war for the elite or asymmetries in the division of the spoils, do not alter the substantive results of the analysis.

That such significant differences exist presupposes that the Crown and the elite cannot reach a bargain whereby they split the returns from war in a way that mirrors their attitudes toward war. In other words, it assumes that the institutions that govern the division of spoils are not sufficiently flexible that they can adjust to differences in the expected profitability of wars. We cannot ascertain how such institutions worked; however, we can examine the implications of choosing a different assumption. Should the king and the elite always evaluate the profitability of war in the same way, there would be no conflict in objectives and the only difference across countries would involve fiscal divisions. Since fiscal divisions induce free rider problems whereas unified taxation (taxation solely controlled by either the elite or the Crown) is efficient, we would expect regimes to evolve quickly toward unified taxation. Indeed, since efficient taxation increases the resources available for war, countries in which there are no important policy differences should evolve efficient fiscal regimes. Clearly, however, that was not the case for France. Fiscal reform in general, and unified tax authorities in particular, did not emerge from a process of regular bargaining between Crown and elite; rather reform occurred during the French Revolution.[8]

[6]As has often been observed, all other things being equal, numerical supremacy significantly improves the odds of success for a combatant. Numerical supremacy on the battlefield can be the result of strategy, organization, or luck, but it is often the result of superior resources.

[7]The remaining cost of draws is borne by the rest of the population. The essence of the problem is that the elite and the Crown *both* bear relatively low costs for war relative to the rest of the population; but the Crown bears a lower cost of war than the elite. Using draws to create war bias is convenient but not fundamental.

[8]We can easily imagine that the Crown could offer to compensate the elite for losses incurred in war. Such promises, however, may not have been credible. Indeed the Crown would have had to increase its transfers to the elite after wars that it lost (in other words, when its coffers were particularly bare).

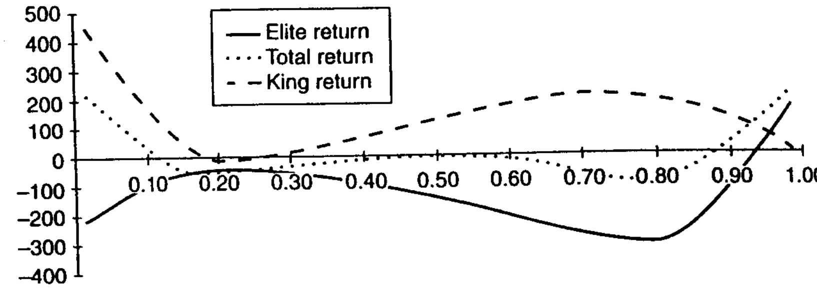

FIGURE 2.1. Returns when the value of winning is close to the value of losing. The model analyzed to arrive at the values in table 2.1 has the following parameters: $Y = 10{,}000$, $W = 11{,}000$, $L = -6{,}000$, $D = -500$, $d = 1{,}000$. For the functional forms see the appendix.

I therefore assume that the rule for sharing the spoils of war is fixed. Furthermore I assume that spoils were divided according to shares of fiscal power. Although somewhat artificial, these assumptions do serve as reasonable approximations. After all, a king cannot hog the profits from war if he expects support from the elite. In the model, the process of war making unfolds in several steps. First, when faced with a war opportunity, the king decides whether or not to fight. If he decides on war, he calls on the elite to make a contribution and decides how to raise resources in the part of the economy he controls. The war is then fought, followed by a division of spoils.

The appendix offers a mathematical version of the model just described. For purely technical reasons it is not possible to solve the model just outlined in general form.[9] Standard specifications of the impact of taxation and of the relationship between spending and war outcomes have well-behaved solutions. Thus the figures and tables display the result of a numeric example whose results stand up to specification changes. The model has a number of important implications for our understanding of the relationship between fiscal authority and political regimes.

First, according to columns 3 and 4 of table 2.1, when the division of fiscal authority is quite skewed, only one of the two parties contributes to the war effort (in the example, when the elite controls less than 10 percent of the economy, it raises no taxes). Indeed, in these cases the party with little fiscal authority opts

[9]It is possible to solve for equilibria in a general setting, but obtaining comparative static results requires additional assumptions because the tax curve will not always have a unique minimum. Although it has been found to be broadly U-shaped in all cases, when the returns from winning and losing are nearly alike, the return from war for each party has two local minima. In such cases aggregate returns are typically negative, and changes in the tax structure lead to perverse results. In some ranges (as illustrated in figure 2.1), it pays for the Crown to surrender fiscal control, even though the probability of winning declines, simply because it can shift a greater share of the tax burden *and* the consequences of losing onto the elite.

TABLE 2.1
War Resources, Tax Rates, and War Outcomes by Regime Type

Regime type	Total effort	Tax rate: Elite	Tax rate: King	Outcome probabilities: P	Outcome probabilities: Q
0.01	604.55	0.00	5.99	0.27	0.27
0.05	577.00	0.00	5.48	0.26	0.28
0.10	542.50	0.00	4.88	0.25	0.28
0.15	518.80	0.02	4.31	0.24	0.29
0.20	508.40	0.08	3.75	0.24	0.29
0.25	500.50	0.18	3.23	0.24	0.29
0.30	494.80	0.31	2.74	0.24	0.29
0.35	490.50	0.48	2.30	0.23	0.29
0.40	487.50	0.69	1.89	0.23	0.29
0.45	486.00	0.94	1.53	0.23	0.29
0.50	485.10	1.22	1.20	0.23	0.29
0.55	485.70	1.55	0.92	0.23	0.29
0.60	487.20	1.92	0.67	0.23	0.29
0.65	489.70	2.32	0.46	0.23	0.29
0.70	493.70	2.77	0.30	0.23	0.29
0.75	498.90	3.25	0.16	0.24	0.29
0.80	506.30	3.77	0.07	0.24	0.29
0.85	516.00	4.34	0.01	0.24	0.29
0.90	545.30	4.91	0.00	0.25	0.28
0.95	579.50	5.51	0.00	0.26	0.28
0.99	606.90	6.01	0.00	0.27	0.27

Note: The model analyzed to arrive at the values in the table has the following parameters: $Y = 10{,}000$, $W = 18{,}000$, $L = -6{,}000$, $D = -500$, $d = 500$. For the functional forms see the appendix.

to let the other side pay for all war costs. The implication is that when the Crown is dominant in taxation, the elite has no real power and does not contribute to war efforts.[10] Conversely, if the elite's fiscal authority is dominant it can control war making. The Crown in such cases free rides by not levying any taxes on the limited sector it controls. France, before 1789, clearly corresponds to a regime of divided taxation in which neither party is dominant because elite groups did contribute to the budget, and their contributions increased in wartime.[11] Second,

[10] This problem perpetually plagued the British Empire, from the Stamp Act crisis of the American colonies to discussions with Australia, Canada, New Zealand, and South Africa in the late nineteenth century over military taxation (see Davis and Huttenback 1987).

[11] Another implication of the model is that aggregate revenues are actually slightly higher when the elite has near total control than when the fiscal system is in the king's hands, because the king cares less about the outcome of wars. But that result has limited implications for France since it was never in such an extreme case.

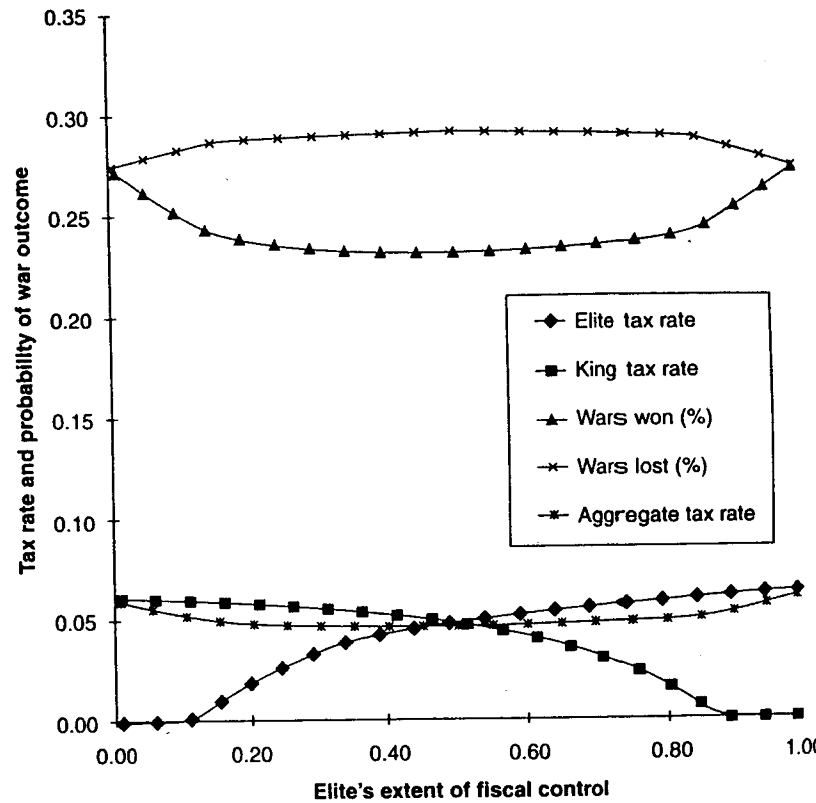

FIGURE 2.2. Political regimes, taxes, and warfare.

following the aggregate tax rate curve in figure 2.2, it is clear that aggregate revenue is high when either the elite or the Crown dominates the fiscal process, and it is lowest when taxation is most evenly divided. Indeed the case in which taxation is most evenly divided is that in which the free rider problem is most severe, whereas it is eliminated when taxation is consolidated. In the model, when either party controls the fiscal system, the tax rate is about 6.3 percent, whereas in the case in which the regime is evenly divided the tax rate falls below 5 percent, a drop in revenue of nearly one-fifth. This finding goes a long way toward explaining why per capita taxation was significantly lower in France or Spain than in England or the Low Countries.[12]

Finally, fiscal rates are skewed whenever fiscal control is unevenly divided. Whoever controls the smaller sector tends to tax at a lower rate than his

[12] The observed differences in rates between Great Britain and France are much larger than those found here, a finding that may well be driven by the fact that the elite was not a unified tax authority in France.

counterpart who controls the larger sector. The existence of such differences in tax rates was a hallmark of absolutist regimes, which were full of tax exemptions, as well as differences in intensity of taxation across provinces. The model is therefore consistent with much of the public finance of Early Modern France, yet for our purposes it is its implications for the process of war making that matter.

Fiscal regimes matter beyond their varying efficiencies because they affect the likelihood of war. Recall that in the model the Crown is more aggressive than the elite. To constrain the Crown, the elite would like to use the power of the purse to induce the king to be more selective about which wars are fought, but this is not always easy. To begin with, the elite would rather succeed than lose, so it would like to provide resources to increase the probability of winning if a war is to occur. Often, however, the elite prefers peace to war, so it has an incentive to deny resources to the Crown if it thinks that this approach will dissuade the Crown from launching its armies into battle. The Crown, in contrast, would like to go to war often; in fact it will always be willing to fight any war the elite wants to fight. The Crown, however, may be constrained because the elite can refuse to provide financial assistance. The model thus suggests that war was the source of tension in public finance, and that the Crown and the elite often found themselves at odds.

Furthermore the model argues that the decision as to which wars get fought depends on the resources that are raised and the willingness of Crown and elite to participate in wars (for empirical evidence see Kiser et al. 1995). Given a division of authority, some wars are so profitable that both the elite and the Crown want to fight. The region in which wars are popular is in the upper right-hand corner of figure 2.3 (region I). In this region wars are sufficiently socially profitable and the elite receive a sufficient share of the proceeds that they are happy to participate. That region grows in size as the elite increases its fiscal authority. Indeed as the elite gains control of taxation it also increases its share of the spoils of war. Therefore as its fiscal authority increases, the elite becomes more willing to go to war. Because it can spread the cost of draws over a greater share of the returns from winning. Similarly there are also some wars that are too unprofitable to fight; these are at the bottom of figure 2.3 (region II). In these cases, the returns from winning are sufficiently low that they do not offset the cost of losing, even for the Crown. Between these extremes we find two further regions. In one, the elite dislikes war, but the king will fight on his own (region III). Here wars occur because the king has sufficient resources to go to war alone. Wars are unpopular with the elite, though given that they occur the elite may provide some funding to the king. Finally, in the fourth region, the king wants to fight but needs the cooperation of the elite because he cannot fight alone (region IV). It is in this last region that the elite's control over taxation translates into control over foreign policy. By denying the Crown resources, the elite ensures that the Crown will not

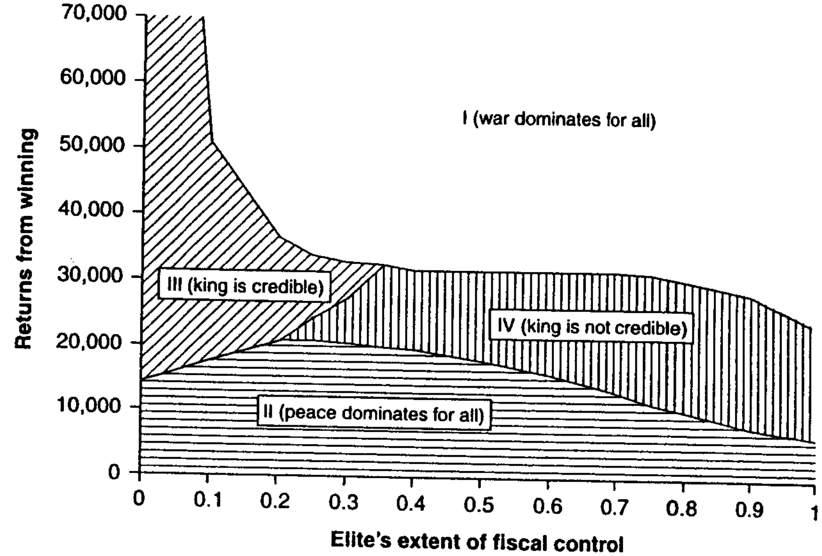

FIGURE 2.3. Warfare and political regimes.

fight. Thus the elite and the Crown care about the division of fiscal authority because it has implications for which wars are fought. More important, as long as fiscal authority is reasonably divided (no party controls more than 90 percent of taxation in the model), then small changes in authority affect which wars are fought. Indeed increases in royal authority free the king to fight more wars. In theory, therefore, the king would use every opportunity to increase his fiscal authority because such authority directly translated into greater policy autonomy.

In France, at least, monarchs used increases in political authority to increase their fiscal independence. Following a revolt in Normandy in 1624, Louis XIII rewrote the province's statutes so that its estates became irrelevant to the fiscal process and stopped meeting (Esmonin 1913; Mousnier 1974:1, 608–15). Estates were the key institutional constraint on the French Crown's fiscal cravings. In fact, during the latter phases of the Hundred Years War, a weak Crown had leaned on estates in nearly every region of France to decide and assess taxes. Over the next two hundred years French kings progressively disbanded most estates during periods when their thirst for funds had temporarily abated (Major 1994:3–56). By the early seventeenth century only some regions, *pays d'états*, had been able to retain their estates. Others, often known as *pays d'élections*, had no such legal guarantees. Their estates ceased to meet in the sixteenth century—and thereafter the Crown imposed some taxes at will. To be sure, significant reform in taxation implicitly required the convening of some form of estates, provincial or general.[13] Thus, although the Crown's power was never unchecked, in many provinces it had acquired the freedom of action that comes with discretion over tax revenues. To the extent that it could raise resources without consultation, it was more independent than if it had to use estates.

The link between domestic politics and fiscal evolution can be underscored by examining the fate of a *pays d'état* that ran afoul of royal power: Provence. Provençal nobles revolted during the Fronde (Pillorget 1975:601–800). Although the rebellious aristocrats were treated relatively lightly when Louis XIV reasserted his authority, the province's fiscal privileges were abrogated and its estates did not meet again until the late 1780s. To many the issue of estates may appear benign, since the Crown was closely involved in taxation decisions even in *pays d'états*. However, dispensing with estates removed very real obstacles to the growth of tax revenue (Beik 1985; Major 1994:342–45). Reforms such as those that Louis XIII and Louis XIV were able to impose on regions like Provence and Normandy effectively freed the Crown to set most tax rates there and represented clear reductions in the local elite's authority. At least until 1720, the political evolution of France was toward a Crown more and more powerful in fiscal matters.

This trend did not go unchallenged by the elite. Given the opportunity for a regency, the elite revolted in 1652 in the hope of securing royal political concessions. That revolt, known as the Fronde, was the last violent attempt by the elite to limit royal authority before the Revolution. After the Crown prevailed, Louis XIV was able to expand his fiscal authority with little challenge.[14] As a result, the elite's control over taxes was weaker during his reign than at any other time in French history. Conversely, after the bankruptcy of 1714–21, the elite was able to usher in a new regime that effectively reduced the Crown's fiscal autonomy (in the model, an expansion of elite control). That new regime was based not on the traditional privileges that had been the mainstay of the *pays d'états*, but on strict legalism interpreted by judicial bodies known as *parlements* (Norberg 1994).

Until 1789, France, unlike Britain, never converged on either autocracy (in which the Crown controls all taxation) or parliamentarism (in which the elite monopolizes fiscal decisions). Instead fiscal authority remained divided between the Crown and the elite. The equilibrium that was established by the end of the first half of the seventeenth century was broadly stable, and it featured

[13]The distinction between *pays d'élection* and *pays d'état* is less obvious than it appears. Dauphine's estates failed to meet after 1628 even though it was a *pays d'état*, whereas before 1620 Normandy had estates even though it was a *pays d'élection*. By 1660, however, being a *pays d'état* seems to have been a necessary condition for estates to meet.

[14]Yet Louis heeded the warning of the Fronde and did not significantly challenge the myriad of fiscal privileges that were the domain of the elite until nearly forty years into his reign. In 1695 the *capitation* was introduced. It was intended as a progressive tax that no one could evade.

divided fiscal authority. It was stable because French kings managed to rule and compete internationally for 160 years without calling the Estates General. The Crown was able to do so because it had considerable autonomy over some tax rates. Yet that equilibrium did not leave the Crown unconstrained, because there were clear limits on what and whom the king could tax.

The stasis that characterized the period between 1720 and 1789 was not associated with any major change in priorities by either party. In fact, at first neither side was prepared to accept this equilibrium. Given the chance, the French elite strove to reduce the fiscal independence of the king. In 1714, after the death of Louis XIV, the aristocracy persuaded the regent to eliminate some of his new taxes despite the desperate need for revenue (Marion 1927–31). As Jean Egret (1962) has detailed, the pre-Revolution (1787–88) was less a debate over administrative reform than a tug of war between the Crown and the aristocracy over how much fiscal autonomy the Crown would have to surrender to receive increased funding. After his reform efforts of 1787 and 1788 failed, Louis XVI was in a weakened position, and he was forced to call the Estates General. The Estates quickly seized budgetary control from the Crown (Sutherland 1988).

The model then offers some key revisions to the narrative of French political history—in particular to the key problem of why France did not evolve political and economic institutions similar to those of Britain. First, the political stasis that we observe was less likely to have been caused by mere stodginess than by a clear perception by the Crown of the dangers of political reform. Although the Bourbon monarchs may not have been tireless workers seeking to improve their nation, there is little evidence that they behaved significantly differently than their British counterparts. Louis XIV with Colbert and Vauban in the 1660s and 1670s; Louis XV with Maupou, Turgot, and Terray; and Louis XVI with Calonne and Brienne all made significant efforts to alter French institutions in the hope of spurring economic activity. In each case these efforts met with at best partial success. Louis XIV abruptly halted his reforms with the onset of wars that ended only with his death. Louis XV was spurred to change by the outcome of the Seven Years' War, and at his death most of his reforms were still in place. Louis XVI was moved to reform by the financial consequences of the War of American Independence. For French absolutist monarchs, war, institutional change, and the budget could not be separated. We shall return later in this chapter to the scope and impact of the reforms; let us simply note here that the monarchs were keenly aware of the importance of prosperity for their popularity and power. If they failed to address France's economic problems it was because they had international ambitions and these were ruinous; but that scarcely sets them apart from other kings and queens of Europe.

The model also addresses another proposed explanation for the lack of institutional change in France: the absence of representative institutions. Hilton Root has recently argued that the lack of representative organizations substantially raised the costs of reform because there was no forum in which socially improving bargains could be struck.[15] A "representative" institution existed in France, namely the Estates General, but it was not used. The Estates General failed to meet after 1629 because the Crown opted to dispense with representation. Since the king alone decided when to call the Estates, he was able to avoid them entirely. The Crown must, therefore, have felt it was not in its interest to call the Estates. In other words, from the Crown's point of view, the economic gains of the Estates were outweighed by the political costs. In particular, the king must have perceived that the Estates were likely to make decisions that he would not like. For instance, the Estates would probably try to limit further the Crown's fiscal autonomy—an undesirable outcome from the king's point of view.

The fact that the French Crown decided to forego the bargaining opportunities represented by regular callings of the Estates General in return for autonomy suggests that representative institutions are not simply mechanisms for resolving collective action problems and thus enhancing the welfare of all the participants. It may be that certain political institutions exist to alter property rights for socially improving reasons; but they can rarely do so without consequences for the distribution of wealth and power, and it is the latter as much as the former that concerns decisionmakers. One might presume that regular meetings of the Estates General would have allowed the Crown and the elite to negotiate a more efficient system of taxation that would have, in turn, created more economic growth and more resources for war. However, the Crown's interest in war and the elite's preference for peace created an insurmountable impasse. A more efficient fiscal system demanded a unified tax agency. If the elite controlled that agency it would surely have used it to dictate foreign policy. The fact that the Estates intended to use their fiscal authority to curtail the autonomy of the Crown in other matters was something no king was prepared to accept lightly.[16] Negotiations could not change this situation, so French kings were correct in perceiving no reason to call the Estates General. Indeed, as French monarchs discovered in the seventeenth century, they only controlled

[15]Root (1994:8–13, 182–83). For Root the crux of the problem for France is the institutional inability of the Crown to make binding promises (credible commitments). Root suggests that representative institutions could have solved that problem. The history of the developing world and some industrialized countries economic policies' offer at best mixed support for this thesis. Governments with representative institutions have experienced massive inflation, budget deficits and other poor economic policies when those have been popular or expedient. This is not to say that democracy offers worse economic policies than other political regimes rather it is that democracy is not a sufficient condition for growth.

[16]In the model the joint profit maximum occurs when the Crown is an autocrat. Theoretically it would be possible for the Crown to compensate the elite for what ever losses they might suffer from political change and move to autocracy. The fact that no such bargain has ever been made suggests that such a "welfare-improving" bargain is stymied by transaction costs—in particular the inability of the sovereign to commit to paying the compensation.

when representative institutions met, not what happened at those meetings. The proceedings easily turned to issues that the Crown was not willing to discuss. Indeed, these assemblies were golden moments for a usually scattered elite to communicate and therefore to oppose the Crown.[17]

We can now turn to the implications of the model for political and economic reform. Under absolutism, the Crown controlled the reform agenda: thus it would not carry out reforms it did not like. If the model's stress on taxation is correct, then the Crown would allow reforms that would increase fiscal receipts and disallow others. Thus we should expect the French Crown to have favored market development since this process stimulated growth and increased the king's revenues. Once again political institutions derail our economic intuition. The political structure of absolutism placed severe constraints on the Crown's ability to encourage economic growth because the division of the economy between the royal and elite sectors was fixed and hard to change. The only mechanism for reallocating the tax base was the Estates General. In the absence of calling the Estates, the Crown could not easily react to changes in the tax base. The model therefore predicts that economic processes that reduced the tax base (or encouraged investment in the elite sector of the economy) would be discouraged, whereas those that increased the tax base would be viewed more favorably. More generally, economic processes that increased royal autonomy would be warmly welcomed, whereas those that required tying the king's hands would be vetoed.

The alternative approaches to the one just outlined argue that privilege[18] and the past evolution of institutions limited reform in France. Furthermore, for many these problems worsened between 1660 and 1789 and were thus at least in part responsible for the Revolution (Root 1994). The alternatives fall by the wayside when we consider the findings of recent work in French economic history. Far from ossifying in a tangle of corporate and contractual constraints, the Old Regime was in fact quite capable of evolution. French

[17]If, however, one neglects (as Root does) the fact that domestic and fiscal reform would have curtailed the Crown's ability to wage war, then Bourbon monarchs appear somehow blinded, since in the domestic sphere everyone, including the Crown, favored the efficiency gains made possible by "representative" institutions. The issue of representative institutions has brought us straight back to fiscalism and foreign policy. Yet in *The Fountain of Privilege* there are but three references to war in the index—and they are all single references to specific wars. French kings failed to make credible commitments because they did not have enough revenue both to always keep their promises (to bondholders in particular) and to fight wars. More generally the inability to commit to policies that would be popular with the elite suggests that the elite and the Crown had divergent preferences (as I suggest they had over war). The institutional solution examined by Root (representative institutions) might have enabled the Crown to make credible commitments—but it would also have enabled the elite to dictate policy. It is likely that the Crown preferred to make its own policy in an imperfect world than carry out the elite's policy in a perfected one.

[18]By *privilege* I mean to take in the whole nexus of special rights whose beneficiaries encompassed, among other groups, corporations of royal officers, provincial institutions, and urban guilds.

absolutism had at least two distinct incarnations separated by the convulsion of the Regency (1715–23). Prior to 1715, the Crown used privilege to expand revenues. The Crown accomplished this by alternating between promoting and attacking privilege, but in most years new privileges were granted and new venal offices were sold (Mousnier 1971; Desert 1984; Bien 1987). One can understand this process by recalling that a Crown with incomplete fiscal control has serious incentives to have high tax rates on the sector of the economy it controls (as suggested in the model by the fiscal asymmetries in the absolutist range). During Louis XIV's gambit to control Europe from 1682 to 1713, the financial demands of war rose dramatically. Since revenues, as defined by the division of fiscal authority of the 1670s, were clearly insufficient for the war, the Crown faced two options. First, it could surrender fiscal autonomy in order to secure revenues at the moment. This involved calling the Estates General, and quite likely reducing the king's autonomy in international affairs in the long run.[19] Alternatively, Louis XIV could try to go it alone and raise tax rates wherever he could. He chose to follow the latter policy to financial bankruptcy and stalemate in international affairs.[20]

Louis's XIV's financial legacy was resolved in the massive default of the Regency. Yet during the 1730s, the Crown adopted different policies, which made privilege and officeholding a minor component of public finance relative to regular taxation and public borrowing.[21] Servicing the obligations incurred to officeholders under Louis XIV, however, remained an important item in the budget.[22] The Crown not only reduced its predation, but also invested some energy in encouraging economic growth. Efforts were made to increase the circulation of goods across the country. By one measure at least, the integration of markets increased significantly during the century—proof that the commercial economy was expanding (Weir 1988). Also testifying to the vitality of the economy was the migration of textile manufacturing to the countryside, following the British example of a few decades earlier. Although corporate guilds slowed that movement, they proved unable to halt this process; at best they were able to co-opt it by specializing in specific activities that

[19]The Estates would probably have questioned the king's international ambitions and refused to vote any meaningful tax increases. They might have also pressed political demands unpalatable to the king. So calling the Estates may well have been undesirable in the short as well as the long run.

[20]Louis XIV must have viewed the increased intensity of taxation as temporary—the new territories he expected to conquer would bring in new revenues and thus allow fiscal pressure to ease.

[21]The significant differences in the political economy of Old Regime France before and after 1720 have been overlooked by many authors—Skocpol (1979), Bien (1987), and Root (1994), for instance—in particular because they have neglected crucial quantitative information about financial markets, government debt, and tax receipts.

[22]According to Marion (1927–31:1:62, 2:131) the value of venal offices was nearly the same in 1715 and 1789.

complemented rural crafts (Clark 1987).[23] In any case, they did not find the royal administration an effective support in their attempts to curtail rural production (Bossenga 1991; Vardi 1992). Clearly the expanding economy was not the target of a new round of taxation. Indeed tolls and other internal barriers to trade were either reduced or left unchanged in the latter part of the century (Kaplan 1976).[24] The general economic expansion depended on a stable currency and the growth of the financial sector. In short, though there was no industrial revolution in France prior to 1789, there was a good deal of economic change. Furthermore, in many cases the Crown assisted market development because it stood to reap fiscal rewards. For instance, the Crown stood to benefit directly from the growth of rural manufacturing because it could tax the countryside much more easily than urban dwellers. On the other hand, the grain trade was never fully liberalized. Indeed the Crown had no mechanism to offset the loss of revenue from internal tolls that would have been eliminated by the reforms.

The expansion of the economy took place only after the 1720s because it depended on the end of government attacks on the financial sector. Such attacks had been common under Louis XIV because the currency and the financial sector were convenient sources of royal revenue (Hoffman et al. 1995). In particular, monetary manipulations were very attractive sources of revenue for the king. By reducing the metal value of the unit of account the Crown reduced the real value of its debts and forced all coins to be reminted, thereby securing seignorage revenue. Between 1688 and 1726 the livre's value fell by nearly half (Goubert 1960). As a result, intertemporal trade was subject to uncertainty because private contracts had to be drawn up in the unit of account. It seems likely that investment was discouraged by the Crown's monetary practices under Louis XIV. By contrast the silver value of the livre remained unchanged from 1726 to the Revolution, reducing the risks faced by parties in private contracts. More generally during the 1720s, royal attitudes toward the economy seem to have undergone a significant change from attack to neutrality.

The observation that the Old Regime changed direction after Louis XIV's death is most accurate when considering credit markets. Recent research has sharply redrawn our understanding of public and private credit markets in Old Regime France, particularly in Paris (Hoffman et al. 1992, 1994, forthcoming). Prior to 1720, private credit markets in the capital were largely stagnant and government debt was closely held by members of the elite. The Crown used both currency manipulations and defaults to reduce its obligations after military

[23]The fact that a spinning factory opened in France less than a decade after the first one had opened in Britain is vivid illustration of the limited impact of the institutional differences between countries. France was behind, but not by much.

[24]The attack on internal trade barriers failed to a large extent, but the point remains that the situation did not worsen and that, at least in the Northeast, private institutional innovation in commerce apparently continued apace.

defeats—and therefore it passed as much of the burden of wars on to the elite as it could. After 1726, by contrast, the Crown marketed its securities to the general public, with the result that they were broadly held by the richer segments of the French population as well as by some foreigners (Luthy 1961; Hoffman et al. 1992). Privileged corporations became less important providers of resources, both because few new offices were sold and because members of corporations now held a shrinking fraction of the debt. Thus general debts rather than obligations to corporations constituted the new financial frontier. Those general debts were issued in the Paris capital market under an apparently unusual set of rules. As I have argued elsewhere, this development was contingent on the development of the Parisian capital market (Hoffman et al. forthcoming). One might presume that such an evolution would have required the creation of a commitment mechanism to guard against default.

However, no such mechanism was ever put in place. Instead, the Crown innovated while preserving its ability to default. This evolution brought to the Crown a clientele of lenders who were largely disenfranchised. Defaults occurred periodically, but they targeted specific debt issues rather than specific bondholders. The characteristics of the bondholders and the nature of the risks they faced in their public debt holding had changed in tandem. All this is hardly consistent with a government ignoring the economy. Clearly the Bourbons promoted or allowed economic change when that change did not interfere with their policy autonomy.

The creation of a large capital market in Paris should be enough to disprove the notion that the Old Regime ossified, yet even in credit it evolved in other ways as well. A second component of innovation lay with the use of regional estates as financial intermediaries (Potter and Rosenthal 1997a). The estates afford an illuminating perspective on the Old Regime. Manned by the local elite, the estates carried out three tasks. First, they controlled taxation in their provinces; second, they shared control of local politics with the Crown's agents; finally, they acted as financial intermediaries for the Crown. The estates issued bonds in return for a royal agreement allowing them to keep a certain amount of royal tax revenues until interest and principal had been repaid. Unlike the debts issued directly by the Crown, estates bonds were repaid on schedule, interest was paid regularly, and if the bonds were involved in royal defaults, the estates minimized the effect on the pocketbooks of bondholders within the constraints of the law. So confident were the estates of their credit reputation that they announced with great fanfare in 1773 that they would serve as their own secondary market. They did so because they thought this step would make placing the bonds easier. They also gambled that few investors would want to resell them at any one time—and their expectations were realized [Archives Départementales de la Côte d'Or, series C4569 (déliberation des élus), 18-2-1773].

Regional estates' bonds provide a wonderful natural model of what a more modern—more British—credit market might have looked like in France.

Furthermore, they provide suggestive clues to the reasons for its absence. Estates bonds from all provinces composed 15 percent of the debts of the Old Regime in 1790. They composed a good deal more of the debts issued between 1726 and 1789 because such bonds were paid off with greater regularity than other royal debts. The estates, however, could only bear a limited burden of debt because the penalties they could impose on the Crown were equally limited. As Potter and Rosenthal (1997a,b) argue, the estates were no more than provincial institutions, rendering strictly local services with the backing of the local elite. Had the estates supervised a large fraction of the debt, the Crown would no doubt have forced them to default more frequently because the fiscal savings would have exceeded the political costs of default. To extend the benefits of regional estates the king would have had to create more provincial estates or to call the Estates General regularly. Because such strategies would have reduced royal autonomy, the Crown passed on the opportunity.[25] As in the case of the Estates General, the regional estates alert us to the fact that France did not lack institutions that could increase fiscal or financial efficiency; instead the Bourbons deliberately chose not to use these institutions. Indeed the monarchs feared the consequences for royal autonomy of increased reliance on the estates.

The Old Regime, therefore, was quite capable of evolution, even if it was not an economic powerhouse like Britain, its closest competitor. The ability of the Bourbons to adapt to changing environments explains why they managed to avoid negotiating with the elite and yet endured so long. If they had been unable to access capital markets at all, French kings would no doubt have been forced to call on the Estates General in each major war after 1660. However, they had access to credit and they had information about the value of different institutional arrangements. Therefore, they allowed credit markets to evolve up to a point, to increase the number of investors that they could solicit. Yet the Crown also knew that creating a large anonymous credit market for a consolidated public debt was only worthwhile if it was going to honor its obligations. Indeed in a large consolidated market the Crown would have been forced to equate the risk on new bonds with the risk of default on the outstanding debt. In return the Crown would have reduced the cost of debt service because government bonds would have become much more liquid. Yet such a reform was worthwhile only if the Crown knew it would not default. Indeed in the case of a consolidated debt it would have to pay a default premium on the whole debt, whereas by marketing varied types of bonds the Crown could choose to pay that premium only at the margin. The fiscal constraints under which the French kings operated made it impossible to avoid defaults, and thus the French debt was never consolidated under the Old Regime.

[25]The estates' pool of bondholders also broadened dramatically at the same time as the estates increased the borrowing they undertook for the Crown, suggesting that the political independence of the estates had increased (Potter and Rosenthal 1997a).

Credit markets represent but a small fraction of the economic environment that mattered in royal decisions. However they are one of the rare areas for which we have sufficient evidence to assess the impact of the Old Regime on the economy. In particular, credit markets allow us to make the British comparison explicitly. In this case the comparison has an unambiguous outcome: capital markets were less well developed in France than in England, but they were thriving in both countries. The Old Regime might have limited growth in France, but it did not prevent it. Reform was halting and piecemeal because significant reforms would have also required a transfer of fiscal authority, and on that issue the elite and the Crown had irreconcilable differences.

Thus the burden on political analyses of the Old Regime is to explain this piecemeal or partial evolution. I argued earlier that such evolution is inconsistent with previous explanations stressing the Old Regime's increasing ossification. However, the important, if limited, evolution of the Old Regime is consistent with the view that after Louis XIV's reckless war making, the Crown had discovered that few wars were in fact worth fighting and that fiscal resources were important. Louis XV and Louis XVI then had every incentive to promote economic growth within the existing political framework. Because they were no more powerful than Louis XIV, they could not expect to acquire more fiscal authority. On the other hand they were unwilling to compromise with the elite over foreign policy. Thus to fund their international ambitions they had to depend on the fiscal windfalls provided by overall economic growth and the willingness of capital markets to redistribute taxation over time. Given that the Bourbon monarchs shared the general eighteenth-century view that the prospects for growth were rather limited, their ambitions were correspondingly limited. The elite perceived reform proposals from a slightly different perspective. Those reforms that would effectively increase the Crown's fiscal independence were not welcomed, and to the extent that the elite could impede or prevent the progress of such change it did. On the other hand, the elite was actively involved in every aspect of the French economy, from credit markets to trade and manufacturing (Forster 1960, 1980; Chaussinant-Nogaret 1976; Hoffman et al. forthcoming). Piecemeal evolution and economic growth were welcomed in Old Regime France as long as they did not upset the political equilibrium.

Whether the Crown was willing to sacrifice the economy in the pursuit of glory, or whether it shepherded the economy to increase royal resources, it had the same overriding concern: preserve its autonomy in international affairs. Given that overriding concern and the king's perception of gains from war, he chose whatever policy for the nation he preferred. In other words, in France the Crown opted for growth as long as it did not conflict with its broader political agenda. Because that agenda included fighting unpopular wars, turning over fiscal authority to representative institutions was a reform that no king would entertain. In France, therefore, the political regime evolved via conflict, not

bargaining. The next section considers the same issue for England and arrives at much the same conclusions for the seventeenth century.

The Model Applied to England

Both Britain and France began the seventeenth century with fiscal authority divided between the elite and the Crown. The British king was a person of considerable wealth. Often the monarch was granted some revenues for life upon accession to the throne, and he could exercise considerable discretion in the collection of other revenues. On the elite side, England and Wales, Ireland, and Scotland each had a parliament, with England and Wales providing the bulk of government revenues. However, these separate parliaments were not unified in a single institution. In fact the only joint assembly occurred in 1653 (Coward 1994:359). It was not until 1707 that Britain was unified and not until 1801 that the United Kingdom fully coalesced. Thus, from a historical perspective, the unification of fiscal authority occurred at about the same time in France and Great Britain. However, parliaments, unlike French estates, maintained effective control over land taxes, and they never legally surrendered their authority over excises.

As in France, war consumed the bulk of the British Crown's revenues, and fiscal policy was the central source of conflict between Parliament and the king. Again as in France, the king's ordinary revenue was ample enough to allow him to pursue any domestic policy he chose; thus in the absence of war British kings were as absolute as their French cousins. This absolutism did not necessarily prejudice good relations with the elite. James I's relations with the elite were amicable enough, but one should bear in mind that at that time England remained at peace. By contrast his successor, Charles I, had both domestic and international disagreements with the elite. On the domestic side, his authoritarian church doctrine was at odds with both of the dominant elite persuasions: traditional Anglicanism and Puritanism (Coward 1992:119–84). His foreign policy, which was favorable to Spain, was also highly unpopular. Unable to secure subsidies from Parliament, Charles tried to dispense with elite consultation and expand his fiscal prerogative. As a result Parliament did not meet for twenty years. Thus, between 1621 and 1640, the division of authority seemed to tilt toward the Crown, mostly because large amounts of resources were not required. The situation, however, was abruptly reversed when a Scottish rebellion forced Charles to call Parliament in 1640.

The elite's power came from the inability of the king to fight any wars without parliamentary support. Here the contrast with France is quite telling, for the Bourbons were able to deal with internal violence without recourse to elite taxation. Hence England clearly corresponds in the model to a division of fiscal authority that was more favorable to Parliament from the outset. Henry VIII and Elizabeth I had to call upon Parliament regularly to fund their conflicts with either Spain or France. For Charles II, the Scottish revolt of 1640 was a brutal reminder of the limits to his fiscal independence. Parliament quickly moved to exercise the power of the purse, granting Charles some financial relief on the condition of religious reform and increased parliamentary authority. The civil war that followed was precipitated by Charles's refusal to accept this political realignment.

Tension over policy persisted under Cromwell but focused on domestic rather than international issues. The failure of the Protectorate led to the Restoration in 1660. Charles II was brought back to the throne under conditions that curtailed his fiscal autonomy compared with that of his father. Consistent with the model, Parliament attempted to avoid a repetition of the early seventeenth century by limiting the Crown's fiscal independence. Yet the resources granted to Charles were not ungenerous as long as the king limited his foreign policy objectives. At first, the Crown and the elite shared foreign policy objectives. These focused on the Dutch, whose commercial and maritime activities competed against those of British firms. Yet the rise of Louis XIV as a major force and the decline of the Dutch shifted the elite's position from antagonism toward the Low Countries to deep suspicion toward France. Throughout Charles II's reign the royal fiscal sector remained small enough that he accepted substantial French subsidies. Charles had a close connection to France because he had grown up there. The elite, however, viewed Louis XIV's government with a great deal more reserve. Yet despite Charles's favorable attitude toward France the Restoration was a stable settlement. Domestic tensions were limited because England remained at peace; Britain was not forced to choose sides in a significant conflict in part because Louis XIV was not yet bent on conquering the Spanish Netherlands.

The reign of James II was a period of great conflict, and I examine it in detail in the next section. It suffices to note here that under his rule the elite was unable to block the king's policies as long as they only concerned domestic questions. Historians have noted that when William and Mary were offered the Crown in 1688 the political bargain to ensure Parliament's existence was more implicit than explicit (North and Weingast 1989). Yet in one dimension the bargain was blatant: William and Mary were only voted subsidies for a few years and had to make annual requests for further funds from Parliament (Dickson 1967; Coward 1992:365–79). Their prerogative powers in revenue matters were curtailed, shrinking royal autonomy in taxation. In other dimensions, however, they were not given more stringent fiscal terms regarding ordinary revenue than the Stuarts. What is less clear is whether, in the absence of the wars that raged nearly uninterrupted from 1688 to 1713, William and his successor Anne would have been willing to adhere to this settlement. William and Anne clearly disliked parliamentary politics, even though they usually got what they wanted (Coward 1992:397–400).

In the short run the sovereigns of England were fighting a popular war, and this fact suppressed the underlying discord between the Crown and the elite. In the long run, the institutional evolution that climaxed in 1688 would lead to a permanent shift whereby the Crown would accept the fiscal powers of Parliament (though it would take another forty years before Parliament would exercise significant executive authority). The budgets of William and Anne were always approved; so were their choices for prime minister, as well those of their Hanoverian successors (Langford 1992). Clearly after 1688 England and Wales had a fiscal regime in which decisionmaking was centralized in Parliament. The extent of centralization would increase even further after 1707, when Parliament extended its purview to Scotland. Yet that outcome was precisely what the Stuarts had attempted to avoid through the seventeenth century because of its implications for policy.

Once the equilibrium of 1688 was in place, William and his successors worked to create a more efficient financial system. The Bank of England, while representing creditors of the state, was an innovation heavily influenced by William's Dutch advisers. It was not so much a creation of Parliament set against the king as a creation of the king and Parliament to serve their common interests, given the fiscal equilibrium. It is unclear whether William would have engaged in the same institutional innovation if he had perceived a possibility of seizing direct control of British taxation. It is similarly unclear what James would have done had he perceived that any gambit to reduce Parliament's fiscal control would fail. Thus the evolution of financial institutions in England, as in France, was contingent on the evolution of fiscal institutions. William and Parliament showed little concern for the political consequences of financial changes because the entire economy was part of Parliament's tax base. Precisely because fiscal authority was unified after 1688, financial change was not relevant to the distribution of political power. Its impact on international politics, however, was profound, since it enabled England to become a dominant power.

The history of Britain highlights several aspects of the model in a more dramatic fashion than the history of France. First, the division of fiscal authority changed a great deal more in Britain than in France and that change allows us to ascertain the impact of fiscal authority on the political process. Prior to the Glorious Revolution, Parliament did exercise power through its control of taxation, but this power was relatively weak. Indeed Parliament again and again conceded significant long-term fiscal revenues to the king even though these revenues allowed him to act in ways of which Parliament disapproved. In the seventeenth century the king was regularly granted long-term revenues for reasons of ideology (the divine right of monarchs) and efficiency.[26] As long as

[26]Here the argument of Kiser et al. (1995) about the structure of tax farming becomes highly relevant. They show that the Crown centralized tax authority in response to improvements in transportation and information diffusion. The same argument applies to representative assemblies. Given the technology of transportation, it was simply too costly for the elite to have regular assemblies during most of the Early Modern period—but such monitoring was much cheaper in a small country such as England than in a large country such as France.

Parliament was willing to make such grants, British kings strove to gain fiscal independence, the first step toward absolutism.

Conversely as Parliament's fiscal authority grew the Crown's discretion in matters of policy shrank. Finally in 1688 Parliament monopolized fiscal authority, and royal challenges to its legislative powers ceased. Moreover, the Crown had to nurture parliamentary support for its policies in ways unimaginable in France. If the Bourbons were watching events unfold in England, it is not surprising that they did not call the Estates General. And they were watching. In fact the lessons of British history formed vivid tableaux for the French Crown. Indeed Charles II grew up at the French court during the Cromwellian protectorate, and James II was to spend the last decade of his life in France.

The key role of the power of the purse is easier to observe in England because its kings were always more constrained then their French counterparts. Nonetheless the two countries started the seventeenth century with fiscal authorities sufficiently divided that conflicts between the elite and the Crown were inevitable. Initial conditions did matter in that the elite's greater fiscal control in England than in France made it much more likely that a parliamentary system of government would emerge in London than in Paris. Finally in England tensions over international policy were more marked than in France because, beyond the Crown's war bias (in modern terms, internationalism), there were key ideological differences between the elite and the king. These differences made the Crown's policies unpalatable to the elite (increasing the fixed costs of war) and sharpened the tension between Crown and elite. Since the source of these differences lie beyond the scope of the model we examine them separately in the next section

Beyond the Model

The model specifies only two variables: the value of warfare and the fiscal structure of the economy. Therein lies its power, and therefore its weakness—it is by its very nature an incomplete account. It must be evaluated on the basis of its substantive power. Were critical variables missed? If so the preceding accounts of politics in France and England could be substantially improved by explicitly incorporating other factors. Two historically relevant factors were left out of the model: elite structure and religion. These omissions may appear at first glance damning, since in the case of England religion was a source of significant tensions in the seventeenth and eighteenth centuries. In France, it has been argued that the lack of cohesion of the elites was in large part responsible for the rise of absolutism. This section attempts to show how these omissions affect the narrative and that they are less onerous than they may at first appear. A better understanding of the internal structures of elites and the politics of religion would surely enrich our understanding of the evolution of French or English institutions, yet the brief examination that follows shows that the connections among taxes, warfare, and political conflicts remain unchanged.

The model and the narrative treat the elite as a unified entity. This approach ignores two well-known facts about Early Modern elites: they were quite heterogeneous, and in their dealings with the Crown they were rarely unified. It would appear that diverse and divided elites could not provide the kind of unified response to fiscal demand that the model suggests. The point can be made even more clearly by noting that the representative bodies of most European countries were often multiple and poorly organized to voice dissent from the king's will. Even Great Britain did not unify its Parliament until 1707—well after the Glorious Revolution. Yet although we can easily acknowledge the existence of these divisions, their impact on the substantive conclusions of the model is more ambiguous.

The structure of domestic politics affects the model in two ways. To begin with, it dictates the returns that the Crown will achieve in using bribes and threats to extract revenue from the elite: a more unified elite will be less easy to cajole or coerce. It also dictates the free riding incentives of each elite group: a more divided elite has less direct incentive to aid the Crown. These two forces therefore have opposite effects on the ability of the Crown to raise money in the sector of the economy where it does not have fiscal control. We would face a particularly damning problem if the political structure of the elite were directly related to the extent of its fiscal control. Variation in elite structure could offset changes in the extent of its fiscal control. To take a perverse case, we can imagine that the distribution of regimes would be such that as monarchs lost fiscal control the elite became more atomized. Then one could find that absolutist regimes raised more taxes than parliamentary ones. Fortunately that was not the case, at least as far as Britain and France were concerned: though there was a secular trend toward fiscal unification in both countries, it was overshadowed by the growth in Parliament's fiscal authority in Britain and the growth of royal fiscal independence in France. Given that the current model predicts the variation in tax rates properly, it may well be unnecessary to be concerned with elite politics, at least at this initial stage of the research.[27]

If the internal structure of the elite calls into question the level of institutional detail that the model should capture, religion forces us to confront the sources of conflict between Crown and elite. Between 1620 and 1688, British politics was

[27]The Crown in any case could affect the institutional fragmentation of the elite; it is therefore likely that the political structure of the elite reflected the perception by the Crown of the balance between the cost of fragmentation and its return. Had increasing or decreasing elite cohesion yielded more revenue for the Crown, it would have worked in that direction by using its institutional authority. One brake on such tinkering with the elite's political structure was the clearly perceived implications for the division of power between Crown and elite. Change in domestic institutional structure affected both the internal cohesion of the elite and the fiscal division of the economy between elite and Crown. For instance, in 1789 the calling of the Estates General in France resulted in the unification of taxation in a national assembly at the same time as it made elites cohesive (for a time at least) in their resistance to royal demands.

heavily charged with religious conflicts. At first it was Protestant dissenters who battled the king for control of the Church of England; later the conflict would be between a Catholic monarch and his largely Church of England opposition. This conflict leads to two sets of potential problems for the model. First, it may be that tension over warfare was fueled by divergent preferences about different wars owing to ethical rather than profitability concerns—countries of one religion, for instance, preferring to fight countries of another religion. Second, religion, rather than struggles over the power of the purse, may have been the engine for institutional evolution.

That preferences over warfare may have been shaped by concerns other than profitability does not raise a fundamental problem for the approach set forth here as long as the conflict between the Crown and the elite persists. Indeed the model focuses on how often a country should go to war, whereas when religion becomes the dominant factor, the concern will shift to which enemies should be engaged. This shift does not require a wholesale change in the model. As long as the Crown and the elite want to fight different wars, and the Crown controls foreign policy, the elite will be tempted to use its power of the purse to control war making. In this case it would want to withhold funds for wars of which it does not approve. The free rider problem that drives most of the model remains because the king and the elite, all other things being equal, would prefer to lower the tax burden on the sectors they each control. The accretion of fiscal authority by the Crown allows it to become involved in wars on its own—wars that the elite may support with resources if not prayers. Hence the broad relationships would still hold even though ethics rather than profits affected preferences about war.[28] Most important, the arguments about political evolution remain valid in this different context—in fact they may be reinforced because having a king of a different religion from the elite may be perceived as an irreconcilable difference. Thus the examination of an omitted variable shows that the model's insights may well extend beyond Early Modern Europe.

Religion, however, may still have been an important force in shaping elite behavior. Indeed changes in religious beliefs could imply changes in preferences about national policy that could either divide or unite the elite. Recall that in France by 1600 issues of religion had become relatively minor, because the monarch and the bulk of the population were all Catholics. Protestants simply did not control sufficient resources to challenge the Crown effectively. In England religion was always more important, but until the 1670s religious conflicts between the Crown and the elite had always turned to the advantage of the Crown, unless foreign policy intruded, as it did in 1640. It was the invasion

[28]One point should not be lost, however. In cases in which ethics matters, the policy space has two dimensions (profits and ethics), and this characteristic may complicate the political process greatly. Though the tension in policy would remain, equilibria could be difficult to attain within the model.

of the Scots that empowered Parliament; Charles's tinkering with Church of England doctrine neither unified the elite nor made it a unified force. Indeed the king had at his disposal sufficient resources to pursue religious policies independent of Parliament.[29] After the Restoration, conflicts over religion became institutionally relevant because the rift between the Anglican majority and the dissenting minorities appeared to give the Crown a chance to achieve political gains at the expense of Parliament. Yet again after 1670 it was the interaction between religion and foreign policy that drove the political process. Although the elite was deeply divided in religious affairs, it was relatively united in its foreign policy preferences: only the Catholic minority favored alliance with France, whereas Protestants favored alliance with Holland. Because both Charles II and James II were suspected of Francophilia, the true conflict was between the Crown and the elite, not among the elite.

Matters came to a head in 1673 when Parliament required that public officers—including James of York, the heir apparent—affirm their allegiance to the Church of England. James in turn revealed his Catholicism. As a result, tensions rose between Parliament and the Crown. The Protestant elite was now aware that Charles II, whom it did not trust, could be succeeded by a Catholic. But religion alone proved an insufficient force to alter the political equilibrium: attempts to remove James from the line of succession failed.[30] The elite therefore foresaw a bleak future. James, as a Catholic monarch, would likely pursue foreign and domestic policies that the elite deeply disliked. In particular, he was likely to continue favoring France over the Low Countries. James came to the throne in 1685 with his Catholic convictions intact, and he implemented policies that favored religious toleration at home and France on the international scene. Although the elite was rather divided on religious issues, it was united in its dislike of France. The elite could put pressure on James II to change his policies by decreasing its grants of revenue. It could also attempt to reduce the king's fiscal independence. Either James II could acquiesce to the elite's fiscal pressure and change his policies or he would have to attempt to increase his fiscal independence, in other words to seek absolutist powers. In the short run, James's favorable policy toward France had to be tolerated by the elite because the power of the purse was ineffective in peacetime. In the long run, his Francophilia posed a greater problem because when the next war occurred England would enter on the "wrong" side. Yet even the long-run tensions did not create an immediate rift between Parliament and the king. Indeed, when James

[29]Religion was very divisive among the elite, yet it was not divisive enough to allow Charles to prevail against Parliament in the civil war, nor were James II's overtures to dissenters sufficient to avert the Glorious Revolution.

[30]The exclusion crisis underscores the danger of calling Parliament representative. The Stuarts had such control over the election process that the elite was unable to prevent James from ascending to the throne.

inherited the throne, he did not immediately embark on a course leading toward absolutism, for his heirs, Mary and Ann, were both Protestant and thereby likely to reverse any pro-Catholic policies.[31] An increase in his authority would lead to short-term gains during his reign but in the long run would likely have little effect. The elite performed the same calculation: they had no reason to enter into a bitter conflict with the monarch because his influence could not be expected to last very long. Given his Protestant heirs, James II would be an unpopular but tolerated king. From Parliament's point of view, limiting the Crown's fiscal resources seemed sufficient to control James II's policies.

In 1687 James's wife became pregnant, and that event precipitated the Glorious Revolution. Indeed the expectation of the birth of a Catholic prince of Wales dramatically reduced the value of accommodation both for the King and for the elite. For James II absolutist power was now far more valuable. He did not attempt a coup or use violent means against the elite; instead he sought to massively increase his fiscal independence by packing Parliament. Armed with fiscal independence, he would be able to implement policies that he could now expect to persist through the reign of his Catholic descendant (Jones 1972:93). The birth of an heir who would be likely to follow policies similar to those of James led the elite to a simple conclusion: the longer they waited to act, the stronger James would be. The only possible response was a permanent limitation on the king's fiscal independence. Yet the elite had no institutional mechanism to change the country's fiscal balance, because the Crown controlled the agenda in choosing when to call Parliament. The elite thus had to act outside the normal political process. Within a few short months, the positions of the Crown and the elite had diverged completely, setting the stage for the Glorious Revolution.[32]

Religion therefore appears to be one of the important forces that upset the political equilibrium. Yet one should bear in mind that religion was not a force sufficient to cause change. Domestically James had built a coalition of Catholics and Protestant dissenters that parliamentary leaders could do little to stop. That coalition, however, was sundered by the coming war between Louis XIV and the Low Countries in two ways. First, Protestant dissenters could not accept alliance with France. Second, William of Orange intervened in British affairs to avoid England's joining ranks with the French. Thus religious conflicts were a mainstay of British politics and have received a great deal of attention, yet on their own they had little real impact on royal authority unless they were aided by events on the international scene.

The examination of issues of elite cohesion and religion—two factors that the model ignores—helps to delineate the limits and the power of the model.

[31]James was fifty-two in 1685. He would live until 1701.

[32]One proposal that circulated during the transition was to have William and Mary be succeeded by the prince of Wales (James II's son), provided he was raised an Anglican (Jones 1972:308).

Increasing the complexity of the model to better reflect the structure of domestic politics could well be the key to understanding differences in tax rates and national policy choices within broad classes of political regimes (absolutist or parliamentary), but it is unlikely to change the fundamental relationship between Crown and elite. The discussion of religion suggests that one should take a broad view of the factors that might shape a population's preferences. Yet such a broad view increases the importance of the relationships that this model highlights rather than weakens them. We can therefore return to the Early Modern period to examine the source of institutional change.

Political Evolution

Political change, in Early Modern Europe, had several potential sources. Regimes could evolve because elites became more unified as a result of organizational or ideological changes. They could also change because of changes in the technology of the state. As the British elite always feared, the rise of a standing army could enable the creation of a despotic government. Furthermore, change could arise from advances in warfare; magnifying the impact of differences in funding levels on the outcomes of wars would increase the level of pressure for the unification of taxation. Finally, evolution could come from strategic interactions between countries, so that fiscal or financial innovators would be imitated. Some of these possibilities were envisaged as early as the eighteenth century by Montesquieu:

> La plupart des gouvernements d'Europe sont monarchiques, ou plutôt sont ainsi appelés; car je ne sait pas s'il y en a jamais eu véritablement de tels; au moins est-il difficile qu'ils aient subsisté longtemps dans leur pureté. C'est un état violent, qui dégénère toujour en despotisme ou république: la puissance ne peut jamais être également partagée entre le Peuple et le Prince; l'équilibre est trop difficile à garder. Il faut que le pouvoir diminue d'un côté, pendant qu'il augmente de l'autre; mais l'avantage est ordinairement du côté côté du prince, qui est à la tête des armées. (1721, letter CII:281)[33]

From Montesquieu's point of view, monarchy was absolutism, a regime in which the Crown wielded considerable, though not unchecked, power. He considered monarchies to be unstable and believed that such regimes would converge on one of two extremes: despotism (in the model, complete royal control of

[33]"Most European governments are monarchies, or rather are called such; because I do not know if there ever were any such; in any case it is unlikely that they survive any real length of time in their pure state. It is a violent state, which always degenerates into despotism or republicanism: power can never be equally split between the people and the prince; the equilibrium is too hard to maintain. Power must decline on one side as it increases on the other; but the prince who leads the army usually has the advantage."

taxation) or republicanism (in the model, parliamentary control of taxation). Yet our model and the history of Europe suggest that Montesquieu may have been overly optimistic. Let us begin by considering the Crown's and the elite's preferences across regimes. Table 2.2 details the returns from warfare for the Crown and the elite under various political regimes. As suggested by the first row of the table, in the aggregate the Crown prefers to control the fiscal system by itself. In this case it receives the most it can ever receive. As previously discussed, the history of France up to 1789 and that of England well past 1688 suggest that monarchs cherished their fiscal independence. The model goes further to argue that monarchs would prefer fiscal despotism over any other form of government. The elite has exactly the opposite reaction, preferring to control taxation directly.

Montesquieu then turned to a consideration of what might be stable as an equilibrium outcome. His conclusion was that only extreme regimes were stable in the long run. Although monarchies might arise temporarily, sooner or later despotism or parliamentarism would arise. To relate Montesquieu's conclusion to the model, we can focus on which distributions of tax authority between the elite and the Crown are locally stable. Indeed dramatic movements in the distribution of authority were rare (even in Britain, Parliament had accumulated a very large fraction of the fiscal authority long before 1688). To be sure, without specifying exactly what forces acted upon the evolution of the fiscal system we cannot pinpoint the stable divisions of fiscal authority in a particular country or time period. Nonetheless the analysis allows us to formulate necessary conditions for stability, and these have clear implications. Fiscal institutions will be stable whenever both the Crown and the elite prefer the current division of fiscal authority to any proximate division of fiscal authority, or when they want to move in opposite directions.

Returning to table 2.2, we can examine how changes in fiscal authority affect the expected payoffs from war when war opportunities vary along a single dimension: the value of winning. In the model, the elite and the Crown only care about the spoils of war—they have no value for war or victory or fiscal authority per se. As a result they have diametrically opposed preferences about regime type, as suggested by columns 4 and 5 of table 2.2, which detail the expected returns from war for each group. The Crown always prefers to lower the elite's fiscal authority whereas the elite wants to increase it. Thus all distributions of fiscal control appear stable. Such stability points to a key limitation in the model: it fails to suggest how political change might come about. Indeed should the division of power shift to allow the elite to reapportion fiscal authority, it would immediately seize all authority. Thus without a model that translates domestic power into fiscal authority we appear to predict either rapid convergence on the extremes or no change at all. Yet the division of fiscal control changed regularly in both Britain and France between 1600 and 1730. Civil wars and other political processes that significantly shift power from Crown to elite or

TABLE 2.2
Selection of Wars, Returns from War, and Likelihood of Success

Regime type	Value of winning the war	Expected value of winning	Returns from war			Likelihood of a:		
			Elite	King	Joint	Win	Loss	War
0.01	11,000	30,500	−42	6,581	6,539	0.368	0.368	1.00
0.10	11,649	30,825	696	5,531	6,227	0.348	0.380	0.98
0.15	12,430	31,215	1,074	5,281	6,355	0.345	0.382	0.96
0.20	13,315	31,658	1,446	5,076	6,522	0.342	0.384	0.94
0.25	13,380	31,690	1,777	4,779	6,556	0.340	0.385	0.94
0.30	13,390	31,695	2,091	4,491	6,582	0.338	0.386	0.94
0.36	13,400	31,700	2,434	4,173	6,607	0.337	0.387	0.94
0.40	13,500	31,750	2,690	3,947	6,637	0.337	0.387	0.94
0.50	13,850	31,925	3,282	3,427	6,708	0.336	0.388	0.93
0.60	14,200	32,100	3,869	2,882	6,751	0.337	0.388	0.92
0.70	14,350	32,175	4,451	2,283	6,734	0.339	0.386	0.91
0.75	14,320	32,160	4,743	1,959	6,701	0.340	0.386	0.91
0.90	13,010	31,505	5,569	858	6,426	0.348	0.380	0.95
0.99	11,610	30,805	6,552	91	6,643	0.368	0.368	0.98

Note: The model analyzed to arrive at the values in the table has the following parameters: $Y =$ 10,000, $L = -6{,}000$, $D = -500$, $d = 1{,}000$. For the functional forms see the appendix.

vice versa can be thought of as changes in the size of the sector in which the elite controls taxation. The model should reflect this possibility.

This failure suggests that the model is overly oriented toward describing the material impact of warfare and that a better model would take into account the ideological consequences of war. Indeed as we saw in the case of Britain, beyond the material rewards of war there were considerable ideological differences between the bulk of the elite and the Crown over foreign policy. For instance, after 1660, no matter how profitable a defeat of the Dutch might have been, British elites strictly preferred fighting the French. Since the ideological rewards of engaging one foe versus another are pure public rewards, they do not depend on the distribution of fiscal power; in other words, they are fixed rewards. One should not overstate the intensity of these ideological differences, since elites spent a large fraction of their time attempting to gain in a direct fashion from the pursuit of war or to shield themselves from its costs. In the French case, the ideological dimensions of warfare were more limited, though the elite is likely to have enjoyed victory per se.

Consider column 7, which details the probability of winning given that wars occur. As the elite increases its fiscal authority, the probabilities of war making and victory fall, then rise, while the chance of defeat has a symmetric shape. If the rewards from war for the elite and the Crown were independent of their control of taxation, then their preference about political regimes would be directly correlated with the probability of winning. At this point the preferences of both groups would be similar: they would both want to maximize the probability of winning. At first glance this different reward structure has appeal since it would allow for changes in the equilibrium. Furthermore, such fixed rewards were very real in the seventeenth and eighteenth centuries. Both monarch and elite gained prestige through victory and were shamed by defeat. Both of them derived part of the rationale for their existence from military service. More generally, these returns from victory or war making were partly noneconomic: gains came in the form of prestige or the utility of fighting (not unlike the utility that some derive from the exercise of power). The fixed returns may also have been partly economic to the extent that a portion of the returns from war was given to each group independent of its fiscal authority. The profit-sharing rules of the original model provided too little movement (every division is potentially stable) and too much contention (the Crown and the elite are always at odds). Fixed rewards offer too much movement (only the extremes are locally stable because they offer the highest probabilities of war and winning) and too little contention (the Crown and the elite nearly always agree). In the case of fixed rewards, the elite and the Crown each wants to move to the extreme closest to its current location.

The best specification for the returns from war for both parties is clearly a combination of fixed rewards and shares in the spoils. In this case, provided the fixed rewards from victory are sufficiently large, the king's returns from war will take on a U-shaped form as one changes the fiscal division of the country. If the king controls taxation in a sufficiently large fraction of the economy, then he desires to increase his fiscal authority, because that will increase the probability of winning and his share of the spoils. If, however, the king's fiscal sector is small enough, the effect of changes in fiscal authority on the share of spoils is negligible, and the king prefers to surrender his tax powers to the elite in order to increase the probability of winning and thus the likelihood that he will earn his fixed reward.

The converse will occur for the elite. In other words, once the division of fiscal power is heavily skewed the elite and the Crown will have the same objective: to unify taxation in the hands of the party that already controls most of it. The elite, however, will never encourage a move toward autocracy if it controls taxation in at least half of the economy, and the king will never agree to parliamentarism if he controls taxation in at least half of the economy. As a result, if fiscal authority is relatively evenly divided, elite and king will have opposite goals because each will seek to appropriate the other's fiscal powers. The mixed set of preferences thus described seems the one best suited to describe Old Regime Europe: individuals cared about the returns of war and those were divided in a political process in which fiscal authority mattered; however, they also cared about victory per se.

With a mix of fixed and variable rewards one can define three types of political regime, each of which is stable. First, if the king controls enough of the tax regime, the political system is likely to evolve smoothly toward autocracy. Indeed the elite will surrender its remaining fiscal power to increase the effectiveness of the tax regime and to increase the probability of winning. Similarly, if the elite controls enough of the tax regime, the political system is likely to evolve smoothly toward parliamentarism. Finally, there exists a third type of regime, absolutism, in which the elite would like to increase its fiscal authority while the Crown would like to decrease it. Consensual political change cannot occur, as was the case in France.

Over the range of absolutist regimes, the problems for political evolution are multiple. Indeed within this range changes in fiscal authority have complex effects. To trace these effects we can hypothetically consider increasing the elite's fiscal power further. This step will change the efficiency of the fiscal system and the probability of winning (although unless we can determine precisely where that range is located, we cannot predict whether taxation will be more or less efficient). If taxation becomes more efficient then the probability of winning will also increase. Furthermore, the growth in the elite's fiscal authority will increase its profits from war. Finally, the decline in the power of the king will reduce warmongering since it will reduce the Crown's ability to fight on its own. The effect on fiscal efficiency of changes in which sector has the power to tax should lead to consensual evolution. The effects on the distribution of profits as well as the effects on warmongering lead the Crown and the elite to have opposite objectives. This regime classification, along with inflection points for regime preferences, is displayed in figure 2.4.

Figure 2.4 contains key lessons for the analysis of France and England. To begin with, the evolution from absolutism to parliamentarism is not an equilibrium phenomenon—because the king prefers an opposite evolution. Furthermore, and more important, incremental bargains are rare. If the society is in an unstable situation it will converge toward either autocracy or parliamentarism. Alternatively it may find a stable equilibrium in the range of absolutism. Within absolutism the king will never find it in his interest to transfer authority to the elite or to promote the development of "representative" fiscal institutions.[34] Therefore, whenever taxation and spending are contentious issues, there are no bargains to be made between the king and the elite—because no change will leave them both better off. Montesquieu's insight therefore foreshadows many of the results of the present analysis. In this context, the creation of powerful

[34]Since absolutist regimes are such that the elite controls taxation in less than half of the economy, the convergence toward parliamentarism is in fact less likely than the convergence toward autocracy. Indeed on average the decrease in elite fiscal authority that would be necessary to move a regime from absolutism to autocracy would be smaller than the increase that would turn the same regime into a parliamentary one.

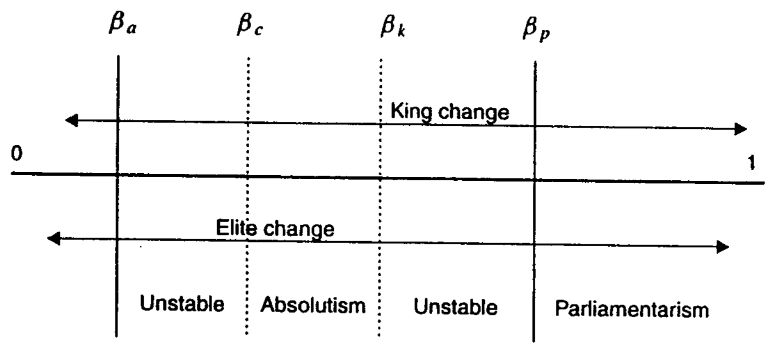

FIGURE 2.4. Taxation authority and political regimes.

representative institutions (increasing the share of the economy in which the elite controls taxation to the point that it dictates policy) represents not the creation of a bargaining nexus but a fundamental shift in the distribution of power with important consequences for policymaking and international politics.

The Crown's distaste for parliamentarism explains why the creation of a unified tax authority required revolutions in both countries. It also suggests that (in this case at least) there was a fundamental political schism that few contingencies could resolve. In particular, external events such as changes in the technology of war or strategic interactions among countries will play only a limited role in pushing absolutist states to evolve. Instead contention between the elite and the Crown will probably be the primary engine for change. To make this case I consider the impact of changes in the value of warfare on the potential for political evolution. An example of a change in the value of warfare would be the weakening of the Spanish Crown that made the Spanish Netherlands an easier target for Louis XIV. An alternative would involve the decline in the economic significance of the region that made it a less appealing goal. Finally, the increased investment of the British in combating the French reduced the Bourbon likelihood of success. Thus the rise of Britain as a major contender implied that the French would have to devote more resources to attaining each prize.

The model suggests that as the expected value of war falls, the political process is affected in two distinct ways. First, the Crown's credibility problem increases because there are more wars that it is unwilling to fight alone. Second, the elite is more likely to oppose war because there are more wars that it does not want to fight at all. To mitigate the first problem, the king would like to increase his fiscal autonomy; thus he may engage in domestic political actions designed to weaken the elite.[35] At the same time the elite wants to increase the

[35]For instance, creating a royal administration that is independent of the local aristocracy, as Louis XIV did with the intendants.

constraints on the Crown so as to reduce the fraction of wars that the Crown may start credibly. To do so it must increase its fiscal authority; that is, the elite comes to a conclusion exactly opposite to the Crown's about what the political process should yield. Thus massive changes in the value of war are likely to intensify the degree of domestic conflict.

It is important to bear in mind that although the cost of warfare clearly affected political evolution, what was critical was the expected cost of success. Given that different political equilibria gave rulers different levels of resources, it is no surprise that the historical record shows that changes in warfare were coincident with political changes. Indeed Louis XIV's expansion of taxation was in part underwritten by his early military successes. Yet his methods for raising revenue during the war of the League of Augsburg and the War of Spanish Succession were heavily resented by the elite, who seized upon the regency of 1713–23 to halt and partially overturn Louis's past fiscal expansion (Marion 1927–31:1:65). After the War of American Independence both the Crown and the elite realized that France needed fiscal reform if it was to engage in international competition. The Crown sought to bring about fiscal change without political change, whereas the elite seized upon this opportunity to demand political change.

A different scenario played out in England in 1687–88, as James II attempted to achieve fiscal independence by packing Parliament. It is unclear what role international objectives played in his attempt, though historians have usually focused on religious and domestic issues (Caruthers 1996). His successor, however, had clear foreign policy objectives. Intent on resisting Louis XIV's attempt to conquer the Spanish Netherlands, William realized that the funds available in the Low Countries were insufficient to oppose the French successfully. Indeed the French had done well in the previous engagements in 1682. Given that James would be at best an unreliable ally, William joined the conspiracy that would become the Glorious Revolution. William then accepted Parliament's fiscal supremacy because he was in no political position to secure revenues without Parliament's assistance. What is clear is that, had William not faced the prospect of a war with Louis XIV whose successful prosecution required British aid, he either would not have challenged James or would not have accepted the settlement of 1688.

In both France and England, the elite and the Crown appear to have favored opposite goals. The elite's victory in Britain is usually set in parallel with the Crown's victory in France. The British elite was able to gain an uncontested dominance in fiscal and financial affairs. Not only did Parliament approve all new taxes and loans, but it also chartered the major joint stock companies that provided funds to the Crown. After 1688 British monarchs had few if any avenues to seek funds beyond Parliament. In France, however, the Crown never achieved such dominance. Although it made significant gains in the early seventeenth century by eliminating some fiscal institutions, its advance was stopped. Thus political evolution went further in England than in France—although, as this section has suggested, not because of the pressures of any international situation. Rather it was the differential outcomes of domestic conflicts over foreign policy that mattered. Neither the French nor the British came to a negotiated settlement. The British elite monopolized fiscal authority despite their monarchs' opposition. The French by contrast settled into an uneasy equilibrium, which was broken in 1789 when the Estates General announced that they were the National Assembly and that all taxation not approved by them was illegal (Sutherland 1988:45).

Some Broader Implications

Although this chapter focuses on two countries at a particular point it time, it also has implication for the debate about how the state and ruling classes interact (see Tilly 1994). If one wishes to understand how political structures affect social evolution, one must deal with several methodological issues. First, it is crucial to specify what independent actions the state will take and what actions the elite will take. If there is no potential independence of action by these parties then a model in which the state and the elite coincide is observationally equivalent to one in which they are distinct. It is equally important to investigate areas in which the state and the ruling class may have divergent preferences. This is precisely what the model does theoretically and what the historical setting achieves empirically. The research shows that there were periods in the historical record when some actors enjoyed very limited independent action (e.g., the elite in Britain prior to 1640, the elite in France from 1660 to 1715, and British kings after 1688). In these cases, though the king and the elite have different preferences, these differences have little substantive impact. There were also key periods in which the elite and the Crown had similar goals (e.g., Britain under William and Mary). In all these cases a scholar who concludes that the state controlled the ruling class or vice versa could not be proved wrong simply on the basis of the evidence internal to the particular period under study. In other words, thinking about rulers as independent actors is not useful unless one steps into periods in which this independence becomes important. Finally, in the case of the debate over the importance of fiscal versus financial innovation in propelling Britain to the forefront of European politics (Brewer 1988; North and Weingast 1989; Caruthers 1996), the comparison with France proves critical. Indeed the divergence of Britain and France was much greater in the case of taxation than credit. The development of large financial markets in both countries suggests that politics played a limited role in their rise. In the case of taxation, however, politics proved to be a binding constraint. Thus the causal structure should run from politics to taxation; developments in financial markets were largely ancillary.

The substantive conclusion also has implications for the developing world. Many poor nations face problems with either securing adequate revenue or limiting expenditures. In many cases the individuals making expenditure decisions have little control over revenue. These problems can be quite devastating because their resolution is intimately bound up with the distribution of political power. The comparison must take into account a key variable, absent from the model, that distinguishes Old Regime France from many other despotic regimes: the security of the ruler. France had four kings between 1610 and 1789. French rulers were secure enough to take the future into account in making their decisions.[36] That long-term perspective had two effects. First, it made the Crown unwilling to negotiate politically in periods of peace because it knew that in the future a war would occur that it would want to fight despite the elite's objections. Second, it made economic growth and prosperity desirable prospects because they would raise the resources available for future wars. Up to 1715, English rulers faced more uncertainty, and they were alternatively more predatory than the French and more innovative. The implications for the developing world are twofold. First, some rulers may be willing to engage in reform to lengthen their tenures. Second, most rulers care more about their tenures than about the economic growth of their countries. The poor economic policies followed in many developing nations have their origins not in despotism but in political instability. The indictment of despotism as a political regime must be moral, not economic.

The history of France and England suggests more broadly that institutional change in the economic arena may well depend on the evolution of political power. Indeed the political institutions of preindustrial Europe induced a divergence in objectives between rulers and elite. As long as the king and the elite had substantially different preferences about policy outcomes the movement toward representative institutions would be difficult. Despite the clear connection between fiscal institutions and economic growth, the evolution of these institutions is constrained by the ruler's concern over the impact of fiscal reform on his or her autonomy in other arenas like foreign policy. The case of France provides a particularly stark example of these constraints, since that country had a "representative" institution that could have raised the efficiency of the fiscal system, yet the Crown chose not to exercise it for a century and a half. The Crown thus was willing to forego increases in fiscal efficiency and increases in economic activity in order to preserve its autonomy. To the extent that such constraints exist on the objectives of contemporary rulers, the lure of economic efficiency will not be sufficient to allow for reform to progress. Reform will occur only if it promises to offer the rulers a bundle of resources and policies that improve on the status quo.

[36] Levi (1988) similarly emphasizes the importance of discount rates for fiscal decisions. For a differing view see Olson (1993).

Appendix: The Model Specified

The Model

Let us focus on wars of aggression. All the public finance results of the model carry through in the case of a war of defense, but the political problems are diminished. Indeed when the country is attacked the occurrence of war is exogenous, so there can be no conflict about whether or not to fight, which is the key political question in our model. One should not overstate the difference between wars of aggression and wars of defense, since even in the latter the population might want to pressure the Crown to negotiate and avoid war by limiting its fiscal autonomy.

To fight a war the king must raise resources. Raising resources is itself a costly enterprise, so that funding a war effort of size E in an economy of size Y imposes a burden of $\tau(E, Y)$. $\tau(E, Y)$ thus includes both the resources raised for warfare and the cost of raising those resources. We require that (E, Y) be homogenous of degree 1, increasing and concave in E, and decreasing and convex in Y. For simplicity assume that $Y = 10{,}000$ and choose $(E, Y) = (EY/10)/[(Y/10) - E]$ for $0 \leq E < 1{,}000$.[37] Taxation is decided separately by the elite and the king. Assume that the elite controls taxation in a fraction β of the economy. Define the tax burden tau_e that the elite needs to raise in order to fund a war effort E_e as $\tau_e(E_e, \beta 10{,}000) = (E_e\beta 1{,}000)/(1{,}000 - E_e)$. The tax burden τ_k that the king needs to raise in order to fund an effort E_k is defined in an analogous way:

$$\tau_k(E_k, (1-\beta)10{,}000) = [E_k(1-\beta)1{,}000]/[(1-\beta)1{,}000 - E_k)$$

Fiscal resources are only used in war. Winning, losing, or stalemate are uncertain outcomes. The effect of expenditures (E) by one country on the probability of winning or losing depends on the level of expenditures by its opponent (E_o). Specifically, I assume the probability of winning to be

$$p = E/(E + E_o + d)$$

The probability of losing q is symmetric in E and E_o. The role of d here is to create a likelihood that the conflict ends in a draw; $p + q = (E + E_o)/(E + E_o + d) < 1$. The more resources both sides invest in a conflict, the more likely is a victory for one party, and increasing d reduces the decisiveness of a conflict at all expenditure levels. The reason I include draws explicitly is that they were quite frequent outcomes of conflicts. It is also a convenient way of creating war bias because only elites bear a burden for draws, as I discuss later in this appendix. Increasing the likelihood of draws

[37]If $E = Y/10$ then $(E, Y) = \infty$.

has predictable effects on equilibria: it reduces the profitability of war and thus discourages participation in conflicts, and because it reduces the likelihood of winning it discourages investment in warfare.[38]

The outcome of wars can be defined as follows. For the elite, $W_e > 0$; $D_e < 0$; $L_e < 0$. For the king, $W_k > 0$; $D_k = 0$; $L_k < 0$. We assume that the elite and the Crown share the returns from winning and losing according to the extent of their fiscal control of the domestic economy. The elite's share in victory, W_e, is simply βW. Similarly its share in defeat is $L_e = \beta L$. In addition, the elite bears a cost of draws, D_e and $D_k = 0$.[39] Therefore W, L, and D_e are the returns from war that the elite and the Crown share ($W > 0$; $L < 0$; and $L < D < 0$). Most of the burden of wars is in fact passed on to the rest of the population so that these payoffs do not mirror the country's return from war. In the analysis that follows I will assume that wars vary only by the value of success ($W \in [W_l, W_h]$).

This structure requires us to specify a set of exogenous variables—Y, L, D, and d—that will be kept constant throughout. There is an additional set of variables that the king and the elite take as given but that we will vary: β, the division of fiscal authority in the country, and W, the aggregate value of winning. Furthermore, in the example described in the tables and figures, the country under study always meets a country in which the elite fully controls taxation ($\beta = 1$) with an economy of identical size. Hoffman and Rosenthal (1997) show that the choice of an opponent has some importance to the analysis in that some regimes fight harder than others. For the purposes of this chapter, however, we can hold the opponent's type constant since no further results are obtained by varying it. Because war efforts are nonseparable, E_o, the opponent's effort, is endogenously determined.[40]

Our scenario is that the king controls foreign policy and is presented with a conflict opportunity. He chooses a war making probability α, a random variable that is realized as $\alpha(\alpha = 0, 1)$.[41] If $\alpha = 0$, there is peace. If $\alpha = 1$, there is war, and the king, the elite, and the opposing country simultaneously select their levels of effort, E_k, E_e, and E_o. The war then occurs with an outcome that can be W, L, or D. The goal of each party is to maximize the returns from war. The king has the following objective function:

[38]Hoffman and Rosenthal (1997) also explore a specification of war returns in which separability is maintained and arrive at similar results.

[39]The remaining cost of draws, $(1-\beta)D$, is borne by the rest of the population.

[40]The objective function of the opponent is the same as that of the elite when is set to 1. The strategic interaction concerns the elite and the king; the opposing country makes no decision about whether or not to go to war. It only fights the war if it occurs.

[41]One might assume that is realized later, in particular after expenditure decisions have been made. But that would create considerable inefficiencies, for resources would be raised to satisfy an expected war rather than a realized war, leading to a surplus of resources in peacetime and a dearth of resource in wartime.

$$V_k(E_k,\alpha) = (1-\alpha)0 + \alpha\{-\tau(E_k,(1-\beta)Y) + p(E_k+E_e,E_o)(1-\beta)W + q(E_k+E_e,E_o)(1-\beta)L\}$$

The elite chooses a level of effort E_e to provide to the king so as to maximize their objective function:

$$V_e(E_e) = -\tau(E_e,\beta Y) + p(E_k+E_e,E_o)\beta W + q(E_k+E_e,E_o)\beta L + [1 - p(E_k+E_e,E_o) - q(E_k+E_e,E_o)]D$$

Although it is possible to show that a unique equilibrium in war expenditures exists under a large set of tax and war technologies, the process of obtaining further general results is stymied by problems of third partial derivatives. In particular, the model must be further constrained to describe the evolution of the endogenous variables as political regimes change. It is therefore necessary to choose a specific example:

$$V_k(E_k,\alpha) = \alpha\{-(1-\beta)E_k1{,}000/((1-\beta)1{,}000 - E_k) + (E/(E+E_o+d))(1-\beta)W + (E_o/(E+E_o+d))(1-\beta)L\}$$

$$V_e(E_e) = -\beta E_e 1{,}000/(100 - E_e) + (E/(E+E_o+d))\beta(W-D) + (E_o/(E+E_o+d))\beta(L-D)$$

Given β, W, L, and D, it is easy to show that the optimization of $V_k(E_k,\alpha)$ and $V_e(E_e)$ has well-behaved solutions. Figure 2.2 and table 2.1 illustrate the choices of effort level by the king and the elite over the range of β, with the following set of parameters: $W = 18{,}000$, $L = -6{,}000$, $D = -500$, and $d = 500$.

Credibility

To keep matters simple, we assume that there are no informational asymmetries between the king and the elite. War then breaks out whenever the king makes a credible announcement that hostilities are imminent.[42] His announcement is credible as long one of two conditions is satisfied. The first is that the elite wants to fight the war.[43] In other words, war must have a higher return than peace for the elite. The first condition thus becomes

[42]One alternative would be to write a model in which the king has the ability to commit to wars. There are several possible rationales for such a model: kings can create "border incidents" that automatically degenerate into wars, and they have an incentive to gain a reputation for fighting all wars. But such reasoning neglects the fact that the elite was itself also a long-run player with its own reputational motives. If the elite can commit to funding levels, then it can force the Crown to fight only those wars it wants.

[43]All wars that are profitable for the elite are profitable for the Crown.

$$-\tau(E_e^*|E_k^*) + p\beta W + q\beta L + (1-p-q)D > 0$$

Here $\tau(E_e^*|E_k^*)$ is the tax to which the elite agrees, conditional upon what the king will furnish. The second condition that makes a declaration of war credible is that the king be willing to fight without help from the elite. In this case, we must have

$$-(E_k^*|E_e = 0) + p(1-\beta)W + q(1-\beta)L > 0$$

Here $(E_k^*|E_e = 0)$ is the tax that the king levies when the elite furnishes nothing. Clearly credible declarations of war are not always followed by positive contributions by the elite.

Define $W_e(\beta, E_k^*)$ to be the value of victory in war that makes the elite indifferent between war and peace, given that both it and the king contribute to the war effort and that the elite controls taxation in a fraction of the economy. $W_e(\beta, E_k^*)$ solves the following problem:

$$p\beta W + q\beta L + (1-p-q)\beta D = \tau(E_e^*, \beta Y)$$

$W_k(\beta, E_e^*)$ is the value of victory that makes the king indifferent between war and peace, given that both parties contribute to the war effort and that the elite controls taxation in a fraction of the economy. $W_k(\beta, E_e^*)$ solves

$$p(1-\beta)W + q(1-\beta)L = \tau(E_k^*, (1-\beta)Y)$$

Finally, $W_k(\beta, 0)$ is the value of victory required for the king to be indifferent between war and peace, given that he alone contributes to the war effort and that the elite controls taxation in a fraction of the economy. $W_k(\beta, 0)$ solves the following problem with E_e set equal to 0:

$$p(1-\beta)W + q(1-\beta)L = \tau(E_k^*, (1-\beta)Y)^{44}$$

Figure 2.3 computes $W_e(\beta, E_k^*)$, $W_k(\beta, E_e^*)$, $W_k(\beta, 0)$ assuming that the value of winning wars is distributed between 0 and 70,000 and that D and L are fixed.

Furthermore, in the example β_a, the lowest value of β such that the Crown requires the assistance of the elite to fight at least some wars, is 0.15. β_p, the lowest value of β such that the Crown is unwilling to fight any war, is 0.357.

For table 2.2 we assume that the costs of wars are homogeneously distributed between 15,000 and 50,000 and determine which regimes initiate which wars, how the spoils are divided, and the probability of winning.

[44]In the most general case the derivatives of $W_e(\beta, E_k^*)$, $W_k(\beta, E_e^*)$, and $W_k(\beta, 0)$ need not be well behaved. That is what requires us to specify the example fully.

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Three

Conscription: The Price of Citizenship

MARGARET LEVI

We're coming, ancient Abraham, several hundred
strong
We hadn't no 300 dollars and so we come along
We hadn't no rich parents to pony up the tin
So we went unto the provost and there were
mustered in.
Sandburg 1948:2:362

THROUGHOUT the nineteenth century states enhanced the extent and depth of their administrative and coercive capacity while also expanding the privileges and numbers of their citizens. Rulers developed increasingly efficient and centralized administrative apparatuses to monitor and extract manpower from the countryside, but they had to appease citizens who were also voters and to ensure the cooperation (or at least avoid the resistance) of those whose services they sought, whether or not they were voters. Consequently, nearly all the European, North American, and antipodean states—democratic or autocratic—redefined the mutual obligations of citizens and government actors.

The substantive focus of this chapter is on the disappearance of various forms of buying one's way out of military service if conscripted: commutation (a fee paid to government) and substitution and replacement (payment to someone else to take one's place). "Buying out" had its origins in the feudal obligations of subjects to their lord; feudal subjects had the option of paying a fee in lieu of military service. The nineteenth-century defense of medieval practices led to a series of rationales, but all were based on distinctions among classes. Buying out, advocates claimed, protected the sons of the well-off from the greater suffering and costs military service would impose on them than on those more used to the rough life. Furthermore, they pointed to the benefits to society of a

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