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**The History, Nature and Economic Significance
of an Exceptional Fiscal State for the
Growth of the British Economy, 1453-1815**

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“Revenue is the principal preoccupation of the State. Nay more it is the State”
Edmund Burke

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1. Early Modern States and the Provision of Public Goods for Economic Growth

Today efficient states can be represented as sovereign authorities governing successful economies that provide high, stable and rising standards of welfare for their citizens. Such states emerged slowly and painfully over centuries of geopolitical rivalry and conflict among aristocracies for hegemonic monarchy until they came to rest upon firm fiscal and political foundations.¹ Over a very different period of history that unfolded for roughly four centuries after 1453, when English armies were finally expelled from all further imperialist ventures on the mainland of Europe, no European state recognized responsibility for economic growth with social welfare as anything other than contingent.² Their policies emanated from an almost overwhelming concern with their own stability and formation in contexts of external threats to security, impulses to colonial expansion; and intense rivalries for control over resources with warlords, aristocratic magnates, provincial and urban oligarchies, organized religions and other serious contenders for authority within their own more or less vulnerable borders³. Power prevailed over profit by

¹ Spruyt, *Sovereign state*.

² Harris, *Shaping the nation*.

³ Blockmans, *History of power*.

large margins in the priorities of all pre-modern states. The overriding objectives of emperors, popes, tsars, monarchs, princes, oligarchies and ruling elites everywhere included: dynastic and regime survival, territorial security with colonization overland or overseas, the monopolization of internal coercion and the integration of diverse regional, ethnic and religious populations into polities (empires, realms, dominions and republics) in order to transform them into societies of compliant subjects obedient to laws promulgated, adjudicated and enforced by a single sovereign source of authority.⁴

Over several centuries before 1815 a majority of the dynasties, hereditary elites and oligarchies that appear more or less briefly in historical records as recognized rulers over many now forgotten polities in Europe, failed to achieve the security, stability and sovereignty required to construct viable states. History reveals that hundreds of territories and societies of varying shapes, sizes, locations, populations and constitutional forms were conquered and absorbed into rival empires, dominions realms, principedoms and republics.⁵ Agglomeration occurred sometimes by way of prudential political agreements (mergers – cemented by marriages) among rulers. Incorporation as the as the outcome of violent conflict was more common and victorious states are recorded as those that mobilized armed forces more effectively for violent takeovers. Alas, inputs and endowments that help to explain both conquests or prudential mergers into larger polities are difficult to explain in general terms. They can indeed, from case to case, be ascribed to such fortuitous factors as better commanders, braver soldiers and more astute diplomacy.⁶ Nevertheless, most economic historians looking retrospectively at the process of state formation over centuries of time are

⁴ Lachman, *Capitalists*.

⁵ Tilly, *Coercion, capital and states*.

⁶ Contamine, *War and competition*.

inclined to minimize differences in diplomatic, military or naval capabilities in favour of structural capacities including: natural resources, larger populations, more extensive and productive domestic and colonized economies, homogeneous patriotic or compliant societies and finally (to reach the theme explored in this survey) they will emphasize access to the “sinews of power” . Attracted by possibilities for quantification many of our tribe have honed in upon money, or rather centralized and viable fiscal regimes, capable of providing embryo sovereign states with the resources required to sustain their security and stability and support the territorial and economic expansion, as the way to model their survival and success in the mercantilist international order that persisted for centuries before and decades after the Treaty of Vienna in 1815⁷. During that era states, operating within the parameters of an international, geopolitical and economic order marked by persistent bouts of warfare and virulent competition attempted to regulate cross border flows of trade, labour, capital and useful knowledge in ways that were designed to maximize benefits for one country or empire at the expense of others.⁸ Within their insecure borders states also confronted unpredictable episodes of instability associated with abrupt changes of ruling dynasties and oligarchies, internal revolutions and episodes of revolt and repression.⁹

These enduring features of that early modern world order explains why two public goods, supplied by states for economies and societies under their control were widely recognized at the time, as virtually indispensable for any sustained increase, however gradual, in private investment and trade. Although most European historians are clear that agreed frameworks for the adjudication and enforcement of contracts, for the exchange of commodities and factors of production could be, and

⁷ Bonney, *Economic systems*.

⁸ Magnusson, *Mercantilist economics*.

⁹ Reinhard, *Power elites*; Zmera, *Monarchy, aristocracy and state*.

were in general, left to some considerable extent to institutions set up and maintained by firms and individuals directly involved in production and exchange.¹⁰ Nevertheless, they also recognize that the protection of persons and their property from violence and predation both within and beyond the frontiers of established polities could not be secured (except at high cost) without minimal and predictable levels of support from states. Economically speaking inefficient states can be depicted as those that simply lacked the means to guarantee investors in physical and human capital and innovators searching for useful and potentially profitable knowledge with anything other than inadequate protection against the risks of external invasion, internal instability and predation on private property, domestic production, internal trade and commerce overseas. In general such guarantees (when effectively enforced) constituted the two most important public goods supplied by early modern states for both their domestic and colonial economies. They insured wealthy elites undertaking investment and the extension integration and coordination of markets, against invasion, violence and theft in an era when such risks formed omnipresent and persistent obstacles to trade, capital formation and innovation.

Latterly the significance of privately maintained institutions, rules, customs and culturally conditioned behaviour for the promotion of long-term economic development has become a field of extensive and enlightening research and theorizing by economists and other social scientists. But the role of states in sustaining productive as well as counter-productive institutions behind observed rates and patterns of economic growth has not received anything like the same attention or theoretically rigorous analysis that any serious political economy seeking explanations for long run economic growth really warrants.

¹⁰ North, *Institutions and institutional change*.

Yet to fail to analyse the architecture of laws and sanctions provided by states is a serious deficiency which implies that new institutional social science remains without foundations because behind the observed and contrasting regimes within which private investment, innovation and trade occurred across Europe stood an array of benign, neutral, ineffective and malign states. Ultimately states defined and enforced property rights or failed to do so. States solved or neglected many of the legal and infra-structural problems involved in extending, integrating and coordinating markets. States helped or hindered the reordering of religions, ideologies and cultures of behaviour that effected such important matters for economic progress as shirking, cheating, free riding, thrift, risk, innovation and entrepreneurship. There is almost no area of new institutional economics, sociology and political science where a fully specified analysis of the political regimes or constitutions surrounding commodity and factor markets could be neglected. In short the reorientation (or rather restoration) of economics and economic history to take institutions into account always implied a serious engagement with states and with whole libraries of political history concerned with their formation, strategies and operations.¹¹

Between 1453 and 1815 European states faced common and particular problems and their successes and failures in creating, supporting and sustaining institutions that promoted long-term convergence and divergence in economic development needs to be understood and compared in specified historical contexts that differed widely across space and time.¹² Analyses based upon prior ideological commitments to free markets, laissez faire and constitutions for liberty in this era of autocracy, mercantilism, predation and state formation are

¹¹ Bloch and Evans, *State and economy*; Field, 'Problem with neoclassical institutional economics'.

¹² Tilly, *Formation of national states*.

simply anachronistic and shed only distant and murky light on the roles that states actually played or neglected to play historically in the divergent trajectories for long-run development taken over the centuries by competing national and imperial economies.¹³

Fortunately, programmes to investigate the comparative economic history of state formation are now underway.¹⁴ Antecedents for that discussion in the history of political and economic thought go way back and that literature is perfectly clear that some form of centralized and coordinated provision for external security and internal order were everywhere prerequisites for any kind of economic growth.¹⁵ Our parent discipline (history) has long recognized that private institutions, designed to facilitate investment, production, skill formation and innovation required the sponsorship, promotion, support or at least benign neutrality from states for their operation and development.¹⁶ Like proverbial hedgehogs historians also know one big thing, namely that states without access to the resources required to fund the delivery of effective levels of protection and sustain institutions that fostered some semblance of congruence between the pursuit of private profit and social welfare were either taken over; or often by default (rather than malign intent) hindered rather than promoted the development of economies.¹⁷ Furthermore, historians neither seek nor anticipate that there could be any overarching parsimonious explanation or model to account for the strategies and policies pursued by states that either by design or outcome, effected the progress of domestic and imperial economies.¹⁸ Their sense of what to

¹³ Ekelund and Tollison, *Politicized economies*.

¹⁴ Teichova and Matis, *Nation state and economy*; Backhaus and Rodger, *Navies and state formation*.

¹⁵ Sonenscher, *Before the deluge*.

¹⁶ Reinert, 'Role of the state', pp. 268-326.

¹⁷ Glete, *War and state*.

¹⁸ Persson and Tabellini, *Economic effects of constitutions* represents a mathematically rigorous attempt to construct such a model for the modern period.

emphasize in constructing a negotiable meta-narrative designed to come up with some plausible generalizations that somehow include a range and variety of states that exercised power over pre-modern European economies assumes that plausible and heuristic generalizations should be grounded in the well-established and sophisticated historiographical discourse (already in print) that highlights constraints on the penetrative powers of rulers to cope even with serious and persistent threats to external security and internal order, let alone lend support to the execution of effective strategies for economic growth with imperial expansion overland and overseas.¹⁹

Meanwhile libraries of political history, summarized and conceptualized as historical sociology, has more or less degraded the generalizations on offer from economics on the role of early modern states. For example a wave of revisionist research devoted to studying the practices of governance as distinct from the constitutions, legal systems, political pretensions and rhetorics of absolutism and autocracy has probably undermined a venerable and entirely congenial discourse in liberal philosophy that has for centuries maintained that the constitutional forms of states were everywhere and for all times closely correlated with the advance of their national economies.²⁰ Since Montesquieu a canonical tradition of writing in political thought has maintained that constitutional forms of government that provided for representative assemblies, for constraints on the executive powers of emperors, kings, princes and other rulers, as well as freedom for individual and private

¹⁹ National historical professions have been engaged with research into the formation and policies of states for more than a century. Historical sociologists following the lead of Michael Mann have tried to impose some order and induct some discussable generalizations from the awesome volume of historical scholarship that is in print. Vide Mann, *Sources of social power*; Hall and Schroeder, *Anatomy of power*.

²⁰ Relevant texts have been cited above and include seven volumes under the editorship of Blockmans and Genet, *Origins of modern state in Europe*. A brilliant short synthesis was published by Epstein, *Freedom and growth*.

enterprise represent the optimal conditions for economic progress. In short constitutions for liberty have been represented as constitutions for higher levels of productivity and standards of living.²¹

Economic historians anticipate that investigations into and comparisons across the fiscal and financial institutions sustained by states will display complex inter-connexions to their political arrangements for making and implementing decisions. Connexions ran both ways which implies that episodes of deplorable predation upon private property by states could arise as the outcome of failures to secure compliance with demands for necessary and properly funded central governance.²² In short fiscal history seeks to expose the underlying economic, political, cultural and other structural constraints on the capacities of various states to implement policies to fund the provision of public goods over time.²³

Yet a long tradition of neo-liberal writing in the economics of public choice continues to favour small states, constrained by limited access to taxes. Represented in recent decades by James Buchanan and his acolytes this tradition maintains that effective fiscal systems (even for this era of mercantilism) simply provided ubiquitous, predatory and rent seeking rulers of all ancient political regimes with funds that they wasted on warfare or utilized for purposes that were inimical for the long-run growth of economies.²⁴

Most of this is ideology predicated on a-historical foundations. Its a *priori* assumption is that expenditures by most states partake of the attributes of private consumption and carry entirely limited, externalities for the longer term growth of economies. Yet during this era of

²¹ Macfarlane, *Riddle of modern world*; Rosenthal, 'Political economy of absolutism' for sympathetic and critical views of this tradition.

²² Bonney, *Rise of fiscal state*.

²³ Grapherhaus, *Taxes, liberty and property*; Sonenscher, *Before the deluge*.

²⁴ Ekeland and Tollison, *Mercantilism*.

mercantilism the overwhelming proportion of the expenditures by states was on armed forces mobilized to preserve external security, to expand the territory, assets and human resources under central control. Only a residual proportions of revenues and other income were allocated to royal or imperial courts – long regarded as habitats for “wasteful expenditures” of all kinds. Courts varied, however, across polities. Some proportion of their activities have, moreover, been plausibly represented as functional for the maintenance of internal stability and for the efficiency of central governance operating under primitive technologies for communication and coordination. Many royal and ecclesiastical courts patronized forms of cultural activity that reordered elite cultures in directions that embodied support for innovations that generated longer term benefits for society as a whole.²⁵ In any case the overwhelming proportion of the revenues channelled to central governments were, to repeat, allocated to their armed services. Of course, waste was endemic to conflict, but the proportions of these allocations that can be realistically depicted either as avoidable or as rents (in the sense that the services supplied by armies and navies could conceivably have been obtained at significantly lower costs) have never been specified let alone measured.

Mercantilism was, as Adam Smith and his French predecessors eloquently maintained, a deplorably wasteful and violent geopolitical international economic order.²⁶ Unlike his modern acolytes Smith realized, however, that it was the context and order in which Eurasian states had perforce to operate. Some managed to rule societies and promote economic development more effectively and at lower costs than others. Successful states were those that raised the resources required to survive, cope or even to foster gradual economic progress in a Hobbesian

²⁵ Elias, *Civilizing process*.

²⁶ Winch, *Riches and poverty*; Dome, *Political economy*; Sonenscher, *Before the deluge*.

world of geopolitical conflict, unregulated economic competition and internal threats to law, order and political stability. Only historical research can help us comprehend both the common and the particular fiscal and financial problems faced by states in terms and ways that rulers and their talented advisers might have recognized as representing their own world and times.²⁷

Unfortunately a statistical base containing secure and properly calibrated data for revenues made available over these centuries to the central governments for a sample of major European states has not been constructed and remains as an urgent and necessary task for research into fiscal history on a comparative basis. Scattered data for several polities for some years has, however, been published.²⁸ Only conceptual taxonomies for the quantitative indicators required to compare relative levels of real revenues allocated to fund the strategies and policies formulated and implemented by central governments can be elaborated upon at present. But once the runs of data covering a large sample of European polities becomes available and are calibrated into standardized units of account and relevant ratios, then we should be in a much better position to distinguish fiscally secure (powerful) states from those that (for reasons to be investigated) lacked sufficient resources to supply the public goods and to support an architecture of governmental as well as a framework of subordinate private institutions providing for the long-term development of national and imperial economies.²⁹ Meanwhile we must make do with a narrow range of *ad hoc* and published figures and other impressionistic evidence, but basically with a bibliography of national histories that offer accounts of why some states managed to

²⁷ Holsti, *Peace and war*.

²⁸ The European Science Foundation project, *Rise of European state* did not alas produce the required database. See Bonney, *Economic systems*, appx. pp.577-79.

²⁹ Hoffman and Norberg, *Fiscal crises* includes some properly calibrated data..

construct fiscal regimes that provided central governments with either sufficient (or inadequate) access to the revenues required to fund the infrastructure and institutions for security, stability and incentives for higher rates of growth in productivity per worker and per capita incomes.³⁰

Such analyses logically begin with fiscal bases because in some ultimate macro economic sense the limits on the capacities of states to appropriate (and earn) revenues was the size of gross national or imperial products over which they claimed rights to taxation and which also included the profits, interest and rents accruing from income generating assets under direct state ownership and/or control. Clearly aggregated volumes of production varied enormously both in the scale and the scope that they offered rulers for the construction of regimes for fiscal extraction. For example, the expanding fiscal potential available to the Austrian and Romanov emperors in the 17th and 18th centuries was ostensibly many times larger than the base controlled by the British monarchy and Parliament during that same period.³¹ At the height of his struggle to repress the revolt of the United Provinces, the king of Spain (ruling over a far flung empire in Europe and the Americas) could, in theory, appropriate resources that were immeasurably greater than anything under the command of his rebellious Dutch subjects.³² Polities that evolved to include extensive territories, large populations and high overall levels of

³⁰ For early modern states the bibliography is long. In recent years useful texts, collections and survey articles with bibliographies have been produced by: Weber and Wildavsky, *History of taxation*; Hoffman and Norberg, *Fiscal crises*; Bonney, *Economic systems*; Bonney, *Rise of fiscal state*; Teichova and Matis, *Nation, state and economy*; Torres Sanchez, *War, state and development*, Yun- Casalilla, *Formation and efficiency of fiscal states*; Bordo and Cortés-Condé, *Transferring wealth*. I have relied on this literature to place Britain in a European context.

³¹ Hellie, 'Russia, 1200-1815', pp 481-505, Gattrell, *Russian fiscal state*, ch. 12.

³² Thompson, 'Castile: polity, fiscality', pp 140-80, and 'Castile: absolutism, constitutionalism and liberty', pp. 181-226', Muto, 'Spanish system', pp. 231-60; Gelabert, 'Castile 1504-1808', pp. 201-41; Nunez and Tortella, 'Economic development', pp. 146-85; Yun-Casalilla and Comin, 'Spain from composite monarchy', ch. 5.

production thereby minimized risks and could realize economies of scale for expenditures on external security from outside invasions. But as the examples of the Spanish, Austrian and Eastern empires reveal, they also became vulnerable to interludes of disorder, crises of secession and internal revolts to bring about regime change – all of which increased the need, but at the same time circumscribed their political capacities to raise more and more taxation.³³

Apart from Switzerland nearly all histories of early modern states are marked by propensities towards fiscal imperialism – i.e. by attempts to expand their parameters for taxation by acquiring territories, assets and populations beyond their circumscribed medieval frontiers and for European (not Asian) polities by actively pursuing mercantilist policies designed to channel taxable flows of international commerce through ports under their jurisdiction and control.³⁴

During times of war, tribute could (as the case of Napoleonic France testifies) significantly augment revenues for victorious states, but usually for rather short spans of years.³⁵ Colonization in the Africa, India and the Americas did, however, add significantly to the albeit cyclical and longer terms flows of revenue that became directly accessible to the Portuguese and Spanish monarchies in the form of silver, gold and other transportable and taxable luxuries for centuries after 1415 and 1492.³⁶ No other imperial state (with the exception of the Netherlands and Belgium for shorter periods during the 19th century) managed, however, to extract and transfer to the metropolis “significant” and continuous flows of tax revenues from conquest and colonization overland or overseas. Total

³³ Deng, ‘Origins of fiscal state in China,’ ch. 13; Bin Wong, *Taxation and good governance*, ch. 14.

³⁴ Porter, *War and rise of the state*.

³⁵ Aerts and Crouzet, ‘Economic effects of French wars’; Bonney, ‘Struggle for great power status’, pp. 315-91.

³⁶ Yun-Casalilla, ‘Institutions of Spanish imperial composite monarchy’; Braga, ‘War, taxes and gold’, pp. 187-236; Mata, ‘Pioneer mercantile state’, ch. 4.

flows of “colonial” tribute into the coffers of governments of the Ottoman, Mughal, Qing, Romanov, Austrian-Hapsburg, British, French, Danish, and other early modern empires cannot be depicted as significant for the construction of productive and viable fiscal systems for long run growth. After meeting outlays for conquest and the annual costs for the defence and governance of their colonized territories and provinces, such net flows almost certainly added rather small or negative amounts to the fiscal resources at the disposal of metropolitan governments.³⁷ In the 19th century, Prussia and Piedmont appropriated assets with taxable potential for the new and unified states of Germany and Italy at the expense of the Austrian empire.³⁸ Mergers with Scotland and Ireland had earlier increased the English kingdom’s potential for taxation, but with more disappointing results.³⁹ While the Belgian state obtained fiscal control over the territories and assets of the Southern Netherlands, when it seceded from Holland in 1830.⁴⁰ In general with the exception of Brandenburg Prussia, only Spain and Portugal succeeded in sustaining increases to the fiscal resources flowing to support centralizing states by the ostensibly direct routes of conquest, annexations and colonization.⁴¹

That strategy as the histories of Spain, Portugal, Austria and, above all, Napoleonic France reveal, led to downswings as well as shorter lived upswings in the revenues of states.⁴² Over the centuries of early modern history fiscal resources were augmented with varying degrees of success by states who managed to construct fiscal and financial regimes with sufficient powers and organizational capacities to

³⁷ O'Brien and Prados De La Escosura, *Costs and benefits of European imperialism*.

³⁸ Good, *Economic rise of Habsburg empire*.

³⁹ O'Brien, 'Political preconditions for the industrial revolution', pp. 124-55.

⁴⁰ Janssens, 'Taxation in Belgium', ch. 9.

⁴¹ Schremmer, 'Taxation and public finance'; North, 'Finances and power, ch. 11; Craig, *Germany*; Tilly, *Formation of national states*; Brewer and Hellmuth, *Rethinking leviathan*.

⁴² Liberman, *Does conquest pay?*

penetrate deeply into local economies and to directly or indirectly tax the wealth and incomes of populations over which they claimed sovereignty. That outcome could be furthered by colonization, but only if and when the profits of private individuals and firms who garnered most of the gains from state supported territorial extension overland and commercial expansion overseas could be brought into nets for taxation.

Meanwhile pressures to build up efficient fiscal and financial systems also varied across time and space. Some states (e.g. England) obtained defence on the cheap from its geographical position as an island which it reinforced by taking over the neighbouring island (Ireland) to the west and by merging with a potential enemy on its northern border (Scotland) in 1707. No other state enjoyed such favourable natural endowments for homeland security against invasion. Perhaps mountainous Switzerland came close.⁴³ While the sheer scale, geographical diversity of the Spanish and Austrian empires rendered them vulnerable to secessions and conquests of outlying territories, as well as internal instabilities associated with religions and nationalisms. Many states also emerged from the middle ages with considerable revenues from patrimonial domains of cultivable land, forests and minerals at their disposal, which mitigated demands for higher taxation.⁴⁴ Alternatively rulers (such as Elizabeth I) realistically refrained from pursuing strategies for imperial expansion which rarely paid for themselves.⁴⁵ Nevertheless, and over the centuries after 1500 pressures on states to first supplement and then gradually replace domain income with revenues derived from taxation intensified with the rise of modern large scale capital intensive and technologically proficient armies and

⁴³ O'Brien, 'Political economy of British taxation', pp. 1-32; Altorfer, *Canton of Berne*.

⁴⁴ Schulze, 'Emergence and consolidation of tax state', pp. 261-80; Ormrod, *Crises, revolutions and self-sustained growth*.

⁴⁵ Hammer, *Elizabeth's wars*.

navies. After the weakening of religious restraints on geopolitical violence (that flowed from the Reformation, and competitive imperialism in Africa, the Americas and European expansion across the oceans) the international system, witnessed an altogether more vigorous and costly pursuit of power and profit by nearly all states, nations and empires in the process of formation and extension – a pursuit that led to unavoidable attempts to widen and deepen their bases for taxation.⁴⁶

Pressures to borrow money intensified at the same time because revenues from domains and taxes flowed slowly and cyclically into their coffers. While expenditures on defence, aggression and internal repression usually demanded the urgent mobilization of and payments to armed forces. Credits and longer term loans could usually be obtained (at a price) on the security of the incomes or real assets of domains or by way of anticipation of inflows of tax revenues or rents. States that improved their capacities to tax, *mutatis mutandis*, also increased their capacities to raise and service loans at the same time. Unless they obtained subsidies from other friendly powers, their fiscal and financial prowess continued to be ultimately constrained within the parameters of the territories, colonies, populations and assets over which they claimed sovereignty.⁴⁷

Claims by rulers to devise dynastic or even constitutional rights to contributions, taxation and/or loans could rarely be translated easily into fiscal sovereignty which is perhaps the most enlightening indicator for centralized power (pretensions to absolutism) available to historians of state formation.⁴⁸ Degrees of fiscal sovereignty could in theory be ascertained with reference to shares of national income appropriated as tax revenues and borrowed as loans and allocated for expenditures by

⁴⁶ Ertman, *Birth of Leviathan*; Glete, *War and state*.

⁴⁷ Korner, 'Public credit', pp. 507-37; Caselli, *Government debts*.

⁴⁸ Bonney, *European dynastic states*.

the agencies of central governments. Tax revenues per head of population and/or per square kilometre of territory nominally under the fiscal jurisdiction of states are also revealing as ratios to contemplate . They fluctuated between periods of peace and war and interludes of stability and instability. They serve as indicators of centralized power and of access obtained by states to incomes from privately owned and controlled natural resources, capital and labour.⁴⁹ Unless and until the complexities behind the formation of European states and their fiscal constitutions can be formulated into some kind of model and then tested (inevitably in reduced form and with unavoidable help from ambiguous dummy variables), then variations in fiscal ratios can only be comprehended within bilateral and multilateral comparisons across an extended sample of case studies.⁵⁰

My survey attempts to induct some tentative generalizations about the relative efficiency of European states based upon reciprocal comparisons with the most successful fiscal, financial, commercial and industrial state of the period, namely England, as that polity evolved into a United Kingdom and hegemonic power.⁵¹ For that purpose I propose to analyse fiscal politics and fiscal administration. The former elaborates upon political forces and histories that precluded, retarded or helped states to formulate viable fiscal strategies for taxation that might be universally applied to entire societies, nominally under their sovereignty or dominion. The latter seeks to expose salient differences in the organizations constructed or employed by states, to assess, collect and

⁴⁹ Mooers, *Making of bourgeois Europe*.

⁵⁰ Acemoglu, 'Politics and economics'; De Long and Schleifer, 'Princes and merchants'; Alessina, 'Economic integration'; Barro, 'Democracy and growth' expose the heuristic benefits and limitations of cross-sectional regression analysis and parsimonious knowledge of political history.

⁵¹ Findlay and O'Rourke, *Power and plenty*; Kindleberger, *World economic primacy*.

dispatch taxes into their coffers for expenditures of their choice, on public and/or useless goods.

2. The English Fiscal System from Civil War to Triumph at Waterloo

I begin by rejecting historical narratives which place the Glorious Revolution at the beginning and Parliament near the centre of explanations for the rise and success of Britain's fiscal naval state as truncated in chronology, narrow in conception and insular in focus.⁵² Unfortunately they have been read and represented by North American "Whigs" as the "constitutional moment" in England's political and legal history when the realm's monarchy and aristocracy accepted a Bill of Rights and embraced an unwritten, economically functional constitutional regime.⁵³ As these economists and political scientists interpret it, the Revolution marked a discontinuity from the economically malign ways of the Stuart monarchy, when a reformed parliamentary system of government entered into sustained commitments: to respect property rights, protect private enterprise, support freedoms to contract and then, over time, facilitated and promoted a penumbra of favourable institutional developments which led (via unmeasurable reductions in transaction costs) to the emergence of the world's first industrial market economy.⁵⁴

My paper offers an alternative interpretation to a widely cited but superficial summary of English history that mis-specifies the significance of the Glorious Revolution as a discontinuity in the development of private property and other institutions for the support and integration of free markets, and exaggerates the nature of the Revolution as political

⁵² Brewer, *Sinews of power*; Stone, *Imperial state at war*.

⁵³ North and Weingast, 'Constitutions and commitments', pp. 803-32.

⁵⁴ Weingast, 'Constitutions as governance', pp. 286-312.

conjuncture – which is better represented as a fundamental change in the realm’s foreign policy.⁵⁵ The interpretation has neglected to read and interpret a virtual library of scholarship dealing with the highly significant history of Civil War, Republican Interregnum and Stuart Restoration, when the constitutional and administrative foundations for a successful fiscal state were put in place.⁵⁶ As Anglocentric history it fails, moreover, to take into account the geopolitical and fiscal histories of England’s rivals, who were somehow pushed aside to make space for the realm’s geopolitical evolution towards the political and economic hegemony recognized by other European powers at the Congress of Vienna in 1815.⁵⁷

There is a consensus among English historians that the Civil War (which after all began as a tax revolt) should continue to be represented as the profound conjuncture, not only in the realm’s constitutional history but in its fiscal history, because the pressures and costs of civil warfare generated untenable as well as sustained increases in the capacity of the state to levy taxes.⁵⁸ Efforts made by Royalists and Republicans alike to revalue the fiscal base, by measuring personal incomes and/or regional wealth, upon which universal and equitable types of direct taxes might be levied occasioned insurrection and tax strikes which revitalized a social tradition of resistance to intolerable intrusions into the private sphere for purposes of direct taxation.⁵⁹ Thereafter, memories and myths surrounding three decades of serious violence, which began with a dispute over ship money to build up a Royal Navy, conditioned political attitudes to all forms of direct assessments for taxes on the income and

⁵⁵ Clark, *Political foundations of modern economic growth* pp. 563-88..

⁵⁶ Russell, *Crisis of parliaments*; Hirst, *England in conflict*.

⁵⁷ Jones, *Britain and the world*; Horn, *Britain and Europe*; Black, *Britain as a military power*.

⁵⁸ Braddick, *Nerves of the state*; Russell, *Causes of the Civil War*.

⁵⁹ Braddick, *State formation*; O’Brien and Hunt, ‘England, 1485-1815, pp. 53-100..

wealth of households for more than a century before Pitt introduced an income tax, at a moment of crisis and threat to the security of the realm in 1798-99.⁶⁰

Tenacious and persistent political antagonism from classes with incomes above subsistence levels did not extend, however, to indirect forms of taxation. Although experiments during the Civil War with a wide range of “foreign” excises had been unpopular, a new principle (namely that duties could be imposed upon goods and services produced within the realm) had been conceded by Parliament. Furthermore, that departure from tradition had demonstrated that the assessment and collection of duties levied on selected domestically produced commodities (especially beer and liquors, but also salt, soap, starch, coal and minerals) could produce (under long established systems of tax farming) significant amounts of revenue for the Exchequer in London.⁶¹

Farming indirect taxes (customs and some excise duties) has functioned since the Middle Ages within legal frameworks in which states set rules for the assessment and collection of duties; as well as the scope of tax farms. These rules included: the periods and terms for leases, provisions for default of contract and proper accounting procedures. For example, royal farms could be created and leased for the collection of duties upon a single commodity or, as great farms, they might include a penumbra of duties. Farms could be co-extensive with counties, towns or bounded to tax trade passing through particular ports. Their extent and specialization could be changed to take advantage of prospects for increased administrative efficiency or to tap into business expertise or local knowledge of taxable production, distribution and services.⁶² Franchising pleased the Commons, anxious about any expansion in the

⁶⁰ O, Brien, ‘British incomes and property’ , pp. 255-67.

⁶¹ O’Brien and Hunt, ‘Emergence and consolidation of excises’, pp. 35-58.

⁶² Bonney, ‘Revenues’ in Bonney, *Economic systems*, ch. 123.

numbers of public servants owing allegiance to the Crown. Farming also created profitable opportunities for peers, parliamentarians and merchants to share in royal income, accruing from regal rights to customs and excise duties.⁶³

For the king's purposes, franchising fiscal administration into the hands of business syndicates provided him (as the system did throughout Europe before the evolution of capital markets) with ready access to credits and loans. In common with their continental rivals, English monarchs expected to borrow on the security of tax revenues that accrued in the first instance to royal agents. For their part, farmers stood prepared not only to manage the assessment and collection of taxes, but to risk investing their own and (through their networks of affluent clients) other people's money in the form of credit and loans extended to the Crown. That way repayments, with interest, could be guaranteed and deducted from the fixed annual sums of taxes that they had contracted to deliver to the Exchequer in London.⁶⁴

After a republican interregnum which ended with another tax strike in 1659 the English state reverted to stabilizing royal and aristocratic rule over one of the more lightly taxed societies in Europe. The restored monarchy's fiscal policies were designed to rebuild and to retain trust in a royal constitution and to take more account of prospects for compliance with rising and potentially contestable demands for revenue. Thus, and for some three decades after the Restoration, the king's ministers, wary of raising higher levels of direct taxation, engaged instead with the legal and administrative frameworks required to maintain and, whenever possible, gradually increase the amount of revenue collected in the more

⁶³ Ashton, 'Revenue farming', pp. 310-22; Dietz, *English government finance*; Chandaman, *English public revenue*.

⁶⁴ Ashton, *Crown and money market*; Harper, *Public borrowing*.

acceptable form of indirect taxes, particularly customs duties.⁶⁵ Stuart Parliaments repealed all but a small range of excises introduced during the Civil War, but provided for new valuations and rates of duty levied upon a wider range of imports. Ministers and their advisers at the Treasury concentrated upon the rules and regulations required for an effective (but initially a largely privatised) system for the assessment and collection of indirect taxes levied upon imports as well as that thin wedge of taxes already driven as excises (which means cuts) into domestic production and consumption.⁶⁶

As had been a European wide practice for centuries dominant proportions of revenues from indirect taxes continued to be farmed out to private contractors or syndicates under a variety of complex legal arrangements, designed to ensure acceptable levels and stable flows of income into the Exchequer year after year.⁶⁷ Tax farming had offered Tudor and Stuart monarchs an alternative to royal bureaucracy, seen as open to antagonisms and political interference from parliaments – prey to corruption and prone to promote members over the king's fiscal and financial interests.⁶⁸

Yet whenever they failed to provide stable flows of revenue the rationale for franchised assessment and collection of taxes looked weaker. When farmers made inflated demands for their knowledge and services, the case for nationalisation became even stronger. That occurred in 1670 when Charles II and his ministers found themselves in dispute with a powerful metropolitan syndicate over terms for the renewal of the lease for customs duties. Apparently the farmers rashly offended the king by demanding prior commitments about defalcations allowable in

⁶⁵ Jones, 'Fiscal policies', pp. 67-95.

⁶⁶ Roseveare, *Financial revolution*.

⁶⁷ Kiser and Kane, 'Revolution and state structure', pp. 183-223.

⁶⁸ Hoon, *Organization of the customs*.

the event of another war with Holland.⁶⁹ Unwilling to concede that “monied men” could raise questions about royal prerogatives to control foreign policy, ministers cancelled the contract, repaid loans and then put into place and depended thereafter upon the King’s own customs’ service for the assessment and collection of duties levied on imports.⁷⁰

Farming survived for another twelve years for excises. Their gross yield had risen steadily throughout the 1660s and 1670s and the tight system of surveillance – provided for under short leases, supervised by Commissioners for the Excise, helped royal ministers to take every opportunity to squeeze excess profits out of farmers. Step by step the collection of the Excise agglomerated into a single great farm managed by London merchants and financiers, who in effect not only operated as agents for the Exchequer but also provided loans and credit on the security of forthcoming revenues.⁷¹ Nevertheless and whenever their profits diminished, farmers cut costs and thereby failed to bring the maximum potential volume of production into the net for taxation.⁷² At such times they also attempted to “recoup” by demanding higher rates of interest for the loans they had contracted to extend in anticipation of future flows of excise duties. As the potential gap between net revenues obtainable from privatised, as opposed to public management narrowed, arguments formulated and pressed by the Treasury for direct collection became economically compelling. That came to pass at a time when the political distinction between a “metropolitan clique” of tax farmers on the one hand and a royal bureaucracy on the other, lost all significance – even for opponents of any extensions to the powers of the Crown.⁷³

⁶⁹ Jones, *Charles II*.

⁷⁰ Crews, *Great farm of the English customs*.

⁷¹ O’Brien and Hunt, ‘Emergence and consolidation of excises’, pp. 35-58.

⁷² Whitworth, *Works of Davenant*.

⁷³ Jones, *Restored monarchy*.

Meanwhile decades of collaboration with farmers of customs and excise duties had provided the Treasury and the Commissioners of Customs and Excise with the know-how required to monitor the practices of private management and to absorb the organisational systems as well as many of the personnel involved in the assessment and collection of customs and later excise duties into departments of state.⁷⁴ Thereafter both departments evolved; the excise rapidly (the customs faltering and only partially) into bodies of government servants, who became, by standards of the day, relatively effective agents for the collection of “duties” owed to the king in the form of customs and excises.⁷⁵

When a coup d'état by William of Orange secured the throne in 1688 and preserved his grateful protestant subjects from the Stuarts and their politically inept steps towards religious toleration, England's fiscal regime had been effectively reconstructed.⁷⁶ On the eve of King William's War and what became a Second Hundred Years' War against France, the system can be represented as economically and administratively poised to support the accumulation of a huge debt required to sustain the armed forces of the Crown through seven major wars, fought against the Bourbons and their allies over the next 127 years.⁷⁷ Just before James II fled to France, the Stuarts were appropriating only 3%-4% of the national income as taxes, spending a mere £2 million a year on the army and navy and carrying a tiny royal debt of roughly the same amount. Shortly after Britain's final victory at Waterloo, peace-time taxation had risen by a multiplier of fifteen, compared with James's brief reign, and the state serviced a national debt which then amounted to 2.7 times the national income.⁷⁸ This remarkable ratio can be compared to the most profligate

⁷⁴ Ashworth, *Customs and excise*.

⁷⁵ Brewer: *Sinews of power*; Leftwich, *History of the excise*.

⁷⁶ Israel, *Anglo-Dutch moment*.

⁷⁷ Crouzet, 'Second hundred years war', pp. 432-50; Douglas, *Taxation in Britain*.

⁷⁸ O'Brien, 'Political economy of British taxation', pp. 1-32.

standards of debt accumulation undertaken by the Habsburg and Bourbon dynasties in pursuit of their ambitions in Europe and overseas before and after 1648.⁷⁹ As a debtor the Island realm even surpassed the achievements of the Dutch republic borrowing desperately throughout its golden age to gain and preserve its independence between 1568 and 1795.⁸⁰

3. The Mainland's Fiscal Constitutions in an English Mirror

In a "European mirror" Britain's outstanding fiscal achievement from the first Anglo-Dutch war to victories over France at Trafalgar and Waterloo raises two related questions for comparative economic history.⁸¹ Firstly, how did a small and vulnerable state (that had endeavoured to enlarge its fiscal base without discernible success since Tudor times) manage to push up shares of the national income appropriated as taxes and borrowed as loans to unprecedented and internationally outstanding levels? (See Figures 1 and 2) Secondly, (and since there are reciprocal questions implicit in all comparative history) what were the economic, political, cultural and other constraints that prevented Britain's European rivals from raising their financial and fiscal (along with their naval and military capacities) to counteract the Hanoverian regime's conjoined fiscal efficiency with its drive for geopolitical hegemony and imperial expansion overseas.⁸²

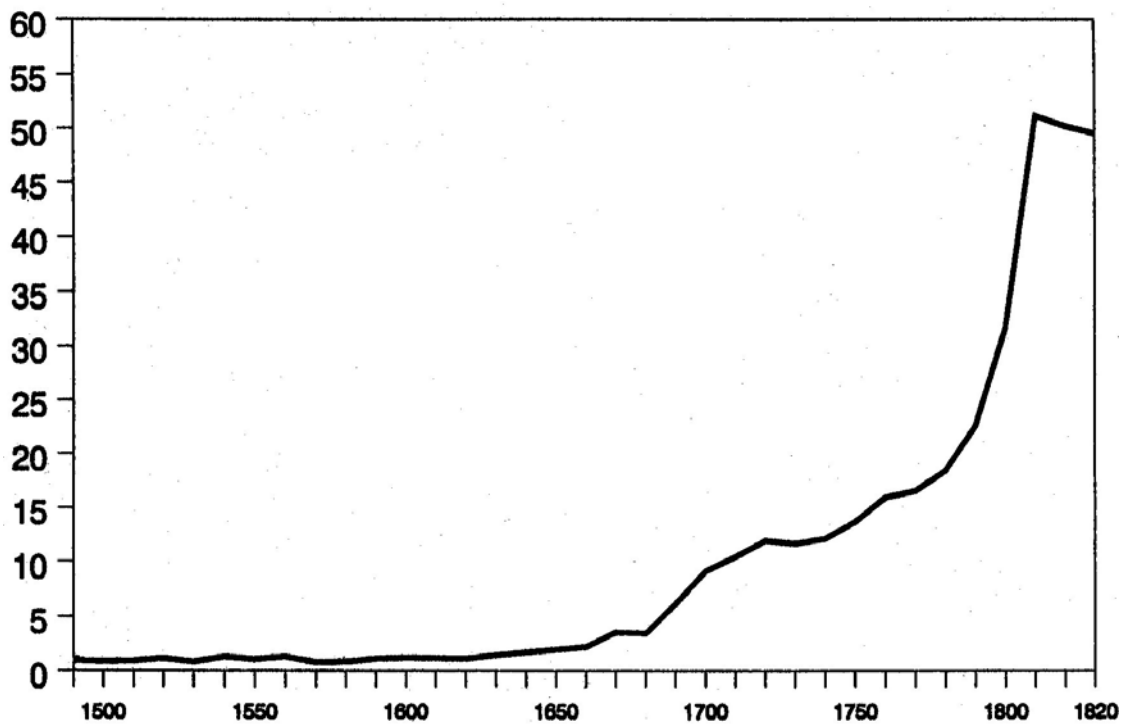
⁷⁹ Macdonald, *Free nation deep in debt*; Caselli, *Government debts*.

⁸⁰ 'tHart, *Mobilizing resources for war*, pp. 79-200; 'tHart, *Financial history of the Netherlands*; 'tHart, *Making of a bourgeois state*.

⁸¹ Crouzet, *La guerre économique*.

⁸² Black, *British foreign policy*; Glete, *War and the state*. Capie, 'Fiscal and monetary institutions in England', ch. 2.

Figure 1: Total Taxes 1490-1820⁸³



Notes: The points plotted are 9-year moving averages for every tenth year 1490-1820.

Reliable statistical evidence for several major European states is required to deal properly with this question. Alas, published data for the centuries before and after 1648 are neither comprehensive nor accurate enough to tabulate statistics and calculate the potentially relevant and illuminating range of ratios, exposing divergence and convergence.⁸⁴ Nevertheless between the French and Spanish invasions of Italy in 1494 and the Treaty of Munster in 1649, governments managing fiscal systems in Iberia, France, the Netherlands, Tuscany, Venice, the Austrian Empire

⁸³ The data behind this graph represents an attempt to estimate total taxes received by the state or central government of the realm. (England to 1707 and Britain thereafter). It is fully referenced in O'Brien and Hunt, *England 1485-1815*.

⁸⁴ Bonney *Economic systems and state finance*, pp. 577-79.

and several German princely states had almost certainly raised taxes and accumulated debt on a greater scale than monarchs ruling England and Wales, Britain and Ireland.⁸⁵ When a European wide base of fiscal data is constructed, the numbers should demonstrate and underpin suggestions from historians of geopolitics that when Europe's wars of religion gave way to peace at Westphalia, the taxable wealth, incomes, economies and populations of several more fortunate European powers, particularly Britain (but Prussia, Denmark and Piedmont as well) carried relatively low burdens of taxation and debt and a potential to fund the future growth of larger and more aggressive states.⁸⁶ Around that time Louis XIII commanded five times the revenues available to Charles I.⁸⁷ Baseline ratios of taxes collected to potentially taxable income and shares of taxes already allocated to service outstanding debt conditioned every European state's fiscal and financial development between 1648 and 1815 more strongly than either differential growth rates in national income and/or changes in the organization of production and the distribution of national incomes.⁸⁸

In short, although economic growth continued to matter for fiscal purposes, the two can never be correlated in any simple way.⁸⁹ Over the period 1648-1815 the English state may well have ruled over the most rapidly growing of Europe's national economies.⁹⁰ That fiscally useful development almost certainly carried whole sections of society over thresholds of income and promoted patterns of expenditure whereby purchases by households on goods and services taxed by English governments began first to contribute and (as private expenditures rose

⁸⁵ O'Brien, 'Great Britain and its European rivals', pp. 344-73.

⁸⁶ Downing, *Military revolution*; Tallet, *War and society*; Holsti, *Peace and war*.

⁸⁷ Bonney, 'Struggle for great power status', pp. 315-91; Bonney, *Economic systems*.

⁸⁸ Ardant, 'Theory socialologique de l'impôt'.

⁸⁹ Vide my debate with Michael Mann in O'Brien, 'Contentions of the purse', pp. 341-73.

⁹⁰ Van Zanden and Horlings, 'Rise of the European economy'.

and diversified) to augment public revenues from indirect taxes. Indeed, throughout Europe, the concentration of households and producers in towns and regions not only increased taxable outputs flowing through organized markets but also rendered the imposition and collection of such taxes easier to administer. Larger and denser zones of production, together with established and regular circuits for distribution and exchange (which accompanied the growth of industrial market economies) are prerequisites for the collection of more revenue in the form of indirect taxes.⁹¹

Nevertheless, the fact that Britain's national product probably rose by a factor of three (in real terms) between the Glorious Revolution and the Treaty of Vienna, while tax receipts at the Exchequer multiplied around fifteen times, degrades any suggestion which purports to explain Britain's fiscal success as a straight forward product of economic growth. Rising agricultural productivity, industrialization, urbanization and the relocation and reorganization of production must be regarded as contributory and not as major forces behind the upswing in revenues from taxes and loans.⁹² The dramatic rise of a strong fiscal state which many liberal historians, following Adam Smith, have failed to recognize can be positive and functional for the growth of domestic economies) occurred for several reasons which are best exposed by way of comparisons with other European powers – especially Spain, Portugal, France and Holland. These western states (as well as the Ottoman, Mughal and Qing empires to the east) ultimately lacked the fiscal and financial capacities required to compete with Britain in struggles for hegemony at sea, for colonies and for dominant shares of international trade in commodities and services.

⁹¹ Ardant, *Histoire de l'impôt*.

⁹² Sinclair, *History of the public revenue*; O'Brien, 'Formation of a mercantilist state'; White, 'France and the failure to modernize macroeconomic institutions', ch. 3.

That “weakness” certainly delayed their transitions to industrial market economies.⁹³

Even before its republican interregnum 1642-60, the English state already possessed several of the political, institutional and economic prerequisites required to jack up taxation (and the contingent capacity to borrow on the national and European capital markets). Looking from offshore at the mainland England’s kings (its lord protector) their ministers and intellectual advisers certainly appreciated that the accumulation of debt on the security of tax revenues had already matured into a commonplace practice that long been resorted to on a grand scale by major powers on the continent like Venice, Spain, France and Holland.⁹⁴ At that time in European terms English national their debts looked puny. Furthermore, during Tudor and Stuart reigns (and apart from the rather minor episode of a “stop” on the Exchequer in 1672) the record of English monarchs and parliaments in dealing with the relatively slow accumulation of a royal debt could not be represented, moreover, as any kind of serious deterrent to investment in the paper promises (bonds) of the English state.⁹⁵ Investors in public securities could hardly be anxious about their assets in the late 17th century – a conjuncture in the realm’s history when the debt – servicing ratio could have been as low as 15% and when the “tax take” even during war years with the United Provinces (1665-67 and 1672-74) hardly rose above 5% of national income.⁹⁶

After the Civil War, fears of revolts and strikes against taxes receded when Ministers of the Crown reluctantly abandoned a tradition of attempts to make taxes levied upon income and wealth more productive, either by effectively valuing and updating the base upon which they were

⁹³ Vries, *Via Peking and back to Manchester*.

⁹⁴ Caselli, *Government debts*.

⁹⁵ DeLuna, ‘English sovereign borrowing’.

⁹⁶ O’Brien, ‘Political economy of British taxation’, pp. 1-32.

assessed or by extending the range and numbers of household brought into the Government's net for direct taxation. Policies designed to expose and to measure the wealth of counties, cities, towns, villages, hundreds and households (as envisaged in the efforts by Charles I to extend ship money across the kingdom and exemplified by regular universalistic and more equitable assessments undertaken by troops under the Commonwealth) had left behind a social memory and a heritage of popular and parliamentary antagonism to any system of direct taxation based upon regular and accurate assessments of income and wealth, either of the households and/or the parishes and counties liable for taxes payable to kings and their deferential parliaments in London.⁹⁷ Only traditional forms of direct taxes collected as quotas assessed on counties and towns, in relative proportions that had hardly changed since the Middle Ages, remained acceptable to taxpayers. These stereotyped quotas, together with control by local elites over their assessment and collection, formed the basis for a "negotiated" land tax, which persisted in virtually unaltered form from 1694 to 1798.⁹⁸

Meanwhile all other and widely resented experiments with "graduated" poll and hearth taxes (assessed under the later Stuarts and by William III in the 1690s) disappeared after 1697.⁹⁹ No new and potentially controversial direct taxes emerged before Pitt's income tax came onto the statute book in 1799. Before that basic innovation appeared, kings and parliaments could prescribe and legislate, but freeborn propertied Englishmen insisted on keeping the state ignorant about the real levels of their incomes and wealth.¹⁰⁰ Furthermore, they set terms for cooperation and compliance by retaining control over the

⁹⁷ Brooks, 'Public finance and political stability', pp. 281-300.

⁹⁸ McArthur, *Financial and political facts*.

⁹⁹ Douglas, *Taxation in Britain since 1600*; Congleton, 'Royal to parliamentary rule', pp. 261-84.

¹⁰⁰ Ward, *English land tax*

administration of the land and all other forms of directly assessed taxation.¹⁰¹

To circumvent political constraints which had become inflexible and to avoid any further threats to the stability of monarchy implicit in policies designed to reform direct taxes, the ministers of Charles II and their advisers turned towards the improvement of the legal, institutional and administrative frameworks required for collecting rising proportions of revenue in the form of customs and excise duties.¹⁰² In effect the evolution towards that fiscal strategy began in the early seventeenth century, but received strong impetus from the Civil War and Interregnum.¹⁰³ It came fully on stream over the century after 1713 when something like three-quarters of tall tax revenues received by successive British governments took the form of indirect taxes and when most of the increment to the state's income from taxation consisted of excises and stamp-duties, levied upon the domestic production of goods and services.¹⁰⁴

Predictably (and in line with centuries of fiscal and financial developments on the mainland) over this final phase of European warfare and mercantilism, the accumulation of England's national debt mounted in line with the state's augmented capacities to tax and pay interest on loans from extra revenues derived from indirect taxes. Thus, from a ratio of 24% during that brief interlude of peace (1698-1702) the share of the total tax receipts allocated to service debt mounted, conflict after conflict, to reach some 60% after the Revolutionary and Napoleonic Wars.

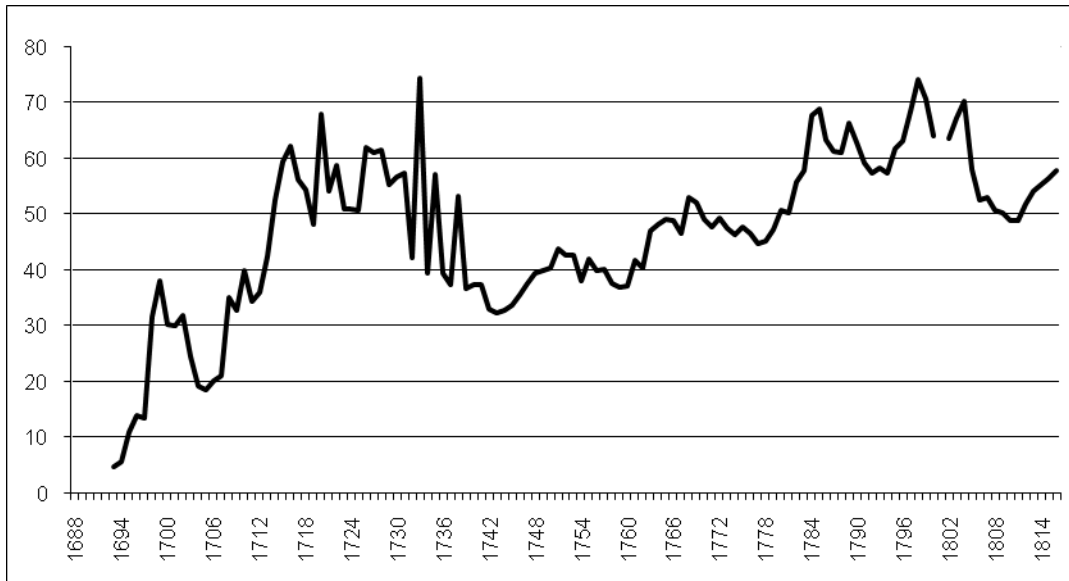
¹⁰¹ Brand, *Alterations of the constitution*

¹⁰² Gill, 'Treasury and the excise and customs commissioners'; Jones, *Restored monarchy*.

¹⁰³ Chandaman, *English public revenue*; Smith, *Stuart parliaments*.

¹⁰⁴ O'Brien, 'Political economy of British taxation', pp. 1-32.

Figure 2. Debt Servicing Ratios as a Percentage of Total Taxes, 1688-1814¹⁰⁵



Notes: In current prices from data on receipts and issues from the exchequer

War after war, as the Hanoverian state exploited its growing potential to borrow funds to support a far more aggressive stance in great power politics, Britain moved from the foot to the apex of the European league table for government indebtedness.¹⁰⁶ Again following histories of its European rivals, who had participated more actively in geopolitics and colonization during the sixteenth and seventeenth centuries, Britain's fiscal and financial system passed through but weathered four fiscal and financial crises of the state (with greater ease and more rapid recovery than France and Spain). First and least serious came the infamous South Sea Bubble.¹⁰⁷ The second occurred in the wake of the American War of Independence, 1776-83, when Pitt the Younger re-introduced a sinking

¹⁰⁵ O'Brien, 'The formation of a mercantilist state', pp. 177-99; O'Brien and Hunt, *England 1485-1815*, pp. 53-100.

¹⁰⁶ Dickson, *Financial revolution in England*.

¹⁰⁷ Neal, *Rise of capital markets*.

fund designed and accepted by parliament as a permanent commitment to systematically redeem the national debt – which by then had accumulated in the perceptions of the political elite, to dangerous levels (subsequently measured at around double the national income) which threatened the fiscal system, the stability of the constitution and the prosperity of the economy.¹⁰⁸ Similar manifestations of despondency accompanied the renewed and even more rapid accumulation of public debt during the war against revolutionary France from 1793-98. To preserve the financial system while providing funds to meet the rising costs of a potentially protracted war waged to defeat threats to property from Britain's revolutionary foe across the channel. Pitt persuaded parliament to accept his novel strategy of paying for considerably higher proportions of military and naval expenditure from the proceeds of the nation's first real income tax.¹⁰⁹ Sixteen years later, and after the most costly conflict in Britain's history (and despite the clear success of Pitt's taxes) the nominal value of national debt had risen to nearly three times the national income. Lord Liverpool's administration then began the task of rebuilding trust in the fiscal constitution, basically by repealing the hated income tax and by taking initial steps to roll back the state in the name of *laissez-faire*.¹¹⁰

To borrow money and accumulate debt at the rates achieved during ten wars fought by Britain between 1651 and 1815, it was vital to raise more and more taxes. Unfortunately (for them) the realm's major European rivals managed fiscal systems that had already exhausted more of their fiscal potential several decades before 1648.¹¹¹ Although many tried, no other state succeeded in accumulating debt or raising

¹⁰⁸ Ehrman, *Younger Pitt: the years of acclaim*.

¹⁰⁹ O'Brien, 'Triumph and denouement of British fiscal state'.

¹¹⁰ Daunton, *Trusting leviathan*.

¹¹¹ Bonney, *European dynastic state*.

taxation at anything like an English rate., basically because political constraints on the implementation of policies designed to widen and deepen fiscal bases for taxation and establish embryo capital markets for loans, remained altogether stronger in France, Spain, Holland, Austria and elsewhere in Europe than they became in Britain.¹¹² Over the long eighteenth century the fiscal constitution of the English/British state turned out to be much less open to rent seeking for private gain and less amenable to the diversion of the revenues towards local purposes than systems elsewhere on the mainland. The reasons why that was the case are basically path-dependant and their elaboration exposes core features of England's fiscal exceptionalism.¹¹³

4. Path Dependence

Europe's monarchs, princes, ministers and their advisers, defined fiscal bases in two ways. First, they defined them demographically – as societies of subject households, potentially liable for taxation. Secondly, they conceived of them in territorial terms – as the villages, towns, cities, counties, provinces and estates, as well as former medieval kingdoms and ecclesiastical domains, moving juridically and fiscally under more centralized control. To widen a fiscal base geographically meant extending taxes to include territories, domains, places and assets, as well as populations located beyond recognized and established boundaries for taxation. To deepen any fiscal base demographically and socially involved the promulgation by sovereigns of universal criteria for liability; coupled with the establishment of countrywide, effectively monitored or centrally controlled administrations for the assessment, collection and

¹¹² Caselli, *Government debts*.

¹¹³ O'Brien, 'Taxation for British mercantilism', pp. 295-356.

dispatch of taxes to capital cities and courts where revenues became available for expenditures by rulers and their ministers.¹¹⁴

Throughout the period 1648-1815, most European states contrived to widen their taxable dominions by conquest of territories, assets and populations that had traditionally been outside their sovereignty.¹¹⁵ To detail the taxable wealth and populations annexed by European powers in wartime (that they often relinquished again at subsequent peace treaties) will not be necessary because temporary gains from plunder made less difference to long term fiscal capacity than the formal incorporation of assets and incomes into political unions.¹¹⁶ For example, for tax purposes, Silesia became part of Prussia in 1740. Scotland and Ireland became liable to send taxes to London after unions with England in 1707 and with Britain in 1801.¹¹⁷

Of greater significance was fiscal deepening or penetration which occurred whenever European monarchs and oligarchies managed to centralize and enforce claims to higher taxes from households and places already located within particular empires, realms and republics, but which had been taxable only under a frustrating variety of long-established legal and institutional arrangements, exemptions and arrangements for localized expenditures. The astonishingly diverse range of fiscal constitutions in *ancien regime* Europe reflected the origins and formation of states through political compromises required and renegotiated through time to hold diverse cultural, religious, ethnic, economic and territorial units within the boundaries of the continent's competing empires, composite kingdoms and republics.¹¹⁸

¹¹⁴ Ardant, *Théorie sociologique de l'impôt*

¹¹⁵ Porter, *War and the rise of the state*.

¹¹⁶ Reinhard, 'Growth of state control, pp. 163-94.

¹¹⁷ pp 1868-69, *Accounts of income and expenditure*.

¹¹⁸ Webber and Wildavsky, *History of taxation*.

At one end of a spectrum representing fiscal “decentralization” stands the case of a relatively transparent and stable system, designed to provide the revenues required to sustain collective concerns for good order, internal trade, international commerce and above all for external security required by Seven United Provinces that formed the Dutch Republic in 1579.¹¹⁹ Once the Estates General of that essentially “religious confederation” (dominated and in large degree funded by Holland) had agreed on the level of expenditure required to implement some common policy for defence or aggression, most of the liabilities were divided among its seven estates according to proportions that remained virtually stable between 1579 and 1792. At subsequent stages of the republic’s fiscal process, the system provided for further and more elaborate agreements concerned with sub-quotas payable by political units within provinces; the selection of direct as compared with indirect levies; the composition of customs and excise duties; their modes of assessment; and times for collection.¹²⁰ The implementation of fiscal policy then passed down the line and became the responsibility of regional, city, town, village and communal authorities.¹²¹

During its golden age and decline, the fiscal system of the Netherlands combined local autonomy and delegated administration for funding the army and navy in unique but effective ways.¹²² For more than a century the shares of national income appropriated as taxes and the tax burden per capita levied on citizens may well have been the highest in Europe.¹²³ Compliance with the Dutch states’ voracious demands for taxation looks impressive, but that success can be related, above all, to the presence of Catholic enemies (first Spain and then France) on the

¹¹⁹ Fritchy, ‘Public finances in the Netherlands’, pp. 249-92.

¹²⁰ Fritchy, ‘Long term trends in fiscal history of the Netherlands’, ch. 6.

¹²¹ tHart, *Financial history of the Netherlands*.

¹²² Davids and tHart, ‘Navy and rise of the state’.

¹²³ Fritchy, ‘Taxation in Britain, France and the Netherlands’, pp. 57-99.

republic's borders and the English royal navy offshore, as well as the decentralised and politically sensitive institutional arrangements designed to calibrate the social and economic incidence of taxation in ways that united the provinces, discouraged evasion and circumvented fiscal crises.¹²⁴

England emulated several features of Dutch taxation and finance including the hypothecation of taxes to service a national debt when radical changes to its foreign policy led to a sharp jack up in expenditures on the army and navy under the House of Orange from 1688-1702.¹²⁵ Nevertheless the more centralized nature of the English fiscal system stands out in clear contrast not only to the Netherlands, but even more clearly to the “negotiated” imposition of taxes on the ancient Spanish kingdoms of Aragon, Valencia and Catalonia; to fiscal relations between Austrian Habsburgs and Bohemia; to the privileged positions occupied by Hungary and other parts of that conglomerated empire; to the status of Pays d'État within Bourbon France and the favoured position of Norway within the kingdom of Denmark and other “federal” fiscal constitutions on the mainland.¹²⁶

Kings and parliaments in London enjoyed legal sovereignty and a degree of executive control over what may be represented as virtually the most “absolutist” fiscal system in Europe.¹²⁷ After the “lessons” of a Civil War and a Republican Interregnum, 1641-1660, the House of Commons acceded, usually without real demure, to demands for “supply” from monarchs and their ministers. At the beginning of reigns (and after the accession of William III on an annual basis) members formally legislated for: types of taxes (direct or indirect), for levies on an ever increasing

¹²⁴ Israel, *Dutch republic*; O'Brien, 'Mercantilism and imperialism', pp. 469-501.

¹²⁵ Stasavage, *Public debt*.

¹²⁶ These contrasts are spelled out in detail in all collections in comparative fiscal history – the references are cited in fn 30.

¹²⁷ Henshall, *Myth of absolutism*.

range of goods and services produced and/or consumed within the realm, for modes of administration for assessment and collection and for the rapid despatch of revenues to the Exchequer in London.¹²⁸

Once parliamentary sovereignty over taxation had been constitutionally reaffirmed (which took a decade after the Dutch coup d'état in 1688) the Commons became quiescent and the powers of the English courts to intervene on points of law remained circumscribed.¹²⁹ To the dismay of democrats and compared with political systems on the mainland, provincial estates and courts hardly figured in the realm's fiscal process – except trivially in that after 1707 specified proportions of the unrealistically small amounts of revenue collected in Scotland were, by convention, retained to support civil governance “north of the border”.¹³⁰ Furthermore English kings and their ministers never forgot the failed attempt to convert Britain's domestic fiscal constitution into an imperial system by compelling American colonists to pay at least something towards their own defence, which led to the famous and most successful tax revolt against the king in parliament in the history of the realm.¹³¹ Americans and their radical supporters (vide Cunningham cited below) refused to recognize and inverted the respect the kingdom's ancient tradition of “no representation without taxation”.¹³²

English counties possessed and for centuries continued to assert a status analogous to Europe's quasi-autonomous fiscal estates in relation to direct forms of taxation. While royal advisers designed and Parliaments agreed to the modes of assessment and collection of taxes levied upon the wealth and incomes of households, executive responsibility for the

¹²⁸ Hoppit, *Land of liberty*.

¹²⁹ Horwitz, *Parliaments and politics*; Congleton, 'Royal to parliamentary rule', pp. 267-84.

¹³⁰ Stevens, *Royal treasury of England*.

¹³¹ Marshall, *Making and unmaking of empires*.

¹³² Cunningham, *History of custom, aids, subsidies etc.*

entire process remained under the control of an amateur elite of propertied country gentlemen and urban merchants.¹³³ As commissioners they were serviced by “parish” assessors and collectors to whom they paid pittances to negotiate at the most sensitive points of contact between the state and its subjects in the towns and villages of the kingdom. Burdens on undervalued land and notoriously under-reported commercial and industrial profits were, however, contained within prescribed limits by tax rates that fluctuated between peace and war within a fixed range of 5% to 20% and their incidence was ossified (well recognized at the time) by the inflexibilities built into traditional and local valuations, as well as county quotas, which, in relative terms, remained virtually unchanged for centuries.¹³⁴ After a turbulent period of experimentation and militarized assessments during the second quarter of the seventeenth century, direct taxation settled down to a long spell of decentralized, self-assessment operating under rules prescribed by parliament, but supervised and administered by the propertied classes in the shires.¹³⁵

Meanwhile tax revenues (allocated to service a national debt accumulating to preserve the security of the realm and to carry the state and national economy to positions of naval, imperial, commercial and industrial hegemony) emanated in the largest part from excise and customs duties. Again (and merely in formal constitutional terms) the selection of these all important indirect taxes, the rules prescribed for their assessment and collection and the ultimate control over the departments responsible for the implementation of the laws covering all duties levied on commodities and services came after 1698 under the “sovereignty” of

¹³³ Ward, *English land tax*.

¹³⁴ Brand, *Alteration s of the constitution*.

¹³⁵ Daunton, ‘Politics of British taxation’, ch. 8; Brooks, ‘Public finance and political stability’, pp. 281-300.

parliaments.¹³⁶ In operational terms the annual provision of funds for forces of the Crown (particularly when British armies and navies were at war) as well as the legal, administrative and other institutions that on a day-to-day basis managed the business of acquiring ever-increasing inflows of revenue into London, remained virtually under the control of an aristocratic oligarchy of ministers reporting to Stuart, Orange and Hanoverian monarchs.¹³⁷ With the kingdom so often at war, parliament almost never refused supply or rarely enforced cuts on royal demands for money.¹³⁸ To the dismay of democrats before and again after the Glorious Revolution neither the House of Commons nor the courts played anything other than entirely circumscribed constitutional roles in the formulation and execution of the country's strategic, foreign, imperial and contingent fiscal objectives that cost British taxpayers so much to bring to a more or less successful conclusion.¹³⁹

In a European context the measure of “compliance” secured from British taxpayers in support of their state's aggressive stance in external policy looked remarkable and requires far deeper analysis than the mere list of potentially relevant contrasts briefly elaborated here in order to display the “contours” of British fiscal exceptionalism.¹⁴⁰ First of all (and except for the symbolically important but, in terms of total revenue, increasingly insignificant case of the land tax) provincial, regional and local quotas for taxation had virtually disappeared from the British system before the turn of the eighteenth century. In European perspectives, English ministers and their advisers reporting to monarchs also exercised

¹³⁶ Jones, *Country and court*; Roberts, ‘Constitutional significance’; Horwitz, *Parliaments and politics*.

¹³⁷ Reitan, ‘From revolution to civil list’, pp. 571-881; Hoppit, ‘Checking leviathan’, pp. 267-94.

¹³⁸ Jones, *Country and court*; Roberts, ‘Constitutional significance of the financial settlement of 1690’, pp. 59-76.

¹³⁹ Ralph, *Use and abuse of parliaments*.

¹⁴⁰ Fritchey, ‘Taxation in Britain, France and the Netherlands’, pp. 57-99.

“real” authority over the timing, form and implementation of legislation, formally passed by parliaments, for all other categories of taxation, including: taxes assessed upon the ownership and/or use of houses, windows, carriages, riding horses, servants and dogs; taxes imposed as tariffs upon imports; and on taxes levied as excise and stamp duties upon a widening range of domestically produced goods and services.¹⁴¹ Above all, the island state looked singular in that taxes designed by ministers of the Crown operated as liabilities prescribed under laws that would be *universally* applied throughout the kingdom. The short list of essentially trivial territorial, social, ecclesiastical, corporate and personal exemptions from liability would represent nothing more than tiny percentage losses of revenue potentially available for funding Britain’s growing and increasingly effective naval and military machine.¹⁴²

On the continent, systems of direct (and indirect) taxation continued to allow for inflexible regional quotas, local “contributions” as well as widespread social privileges and exemptions. Divisions of fiscal sovereignty on the mainland deprived many so-called absolutist states of serious amounts of revenue. Decentralized, virtually unchangeable and continuously renegotiated arrangements for taxation remained as contentious and counter-productive features of European fiscal constitutions, within which most hard-pressed Ministers of Finance operated between 1648 and 1815.¹⁴³ Old kingdoms, provinces, estates, ecclesiastical domains, privileged cities and corporations, as well as noble families included in empires, composite monarchies and city states on the mainland, maintained medieval defences against the imposition of more centralized, universal, equitable and potentially more productive

¹⁴¹ Hoppit, ‘Checking the leviathan’, pp. 267-94..

¹⁴² Mathias and O’Brien, ‘Taxation in England and France’, pp. 601-50.

¹⁴³ This is the core thesis of contributors to: Bonney, *Economic systems and state finance*.

systems of taxation and finance.¹⁴⁴ Variations across the spectrum of Europe's fiscal constitutions and administrative arrangements for taxation and borrowing are difficult to evaluate in terms of efficiency, let alone stability and equity. Although the quotas and contributions for Habsburgs and Bourbon kings and Austrian emperors operated more by way of negotiated ceilings on sums that aristocratic elites or particular territorial units could be persuaded (or coerced) to part with than the more transparent apportionment of fiscal and financial responsibilities for the defence of Genoan, Venetian, Swiss and Dutch Republics.¹⁴⁵

Another major administrative contrast between the British and most other fiscal and financial systems was the strength and costs of tax farming on the mainland, despite well-recorded histories of failed attempts by a succession of able European finance ministers to implement sensible policies for the reform (and/or abolition) of privatised revenue collection.¹⁴⁶ Before the era of the French revolution, which effectively brought about closure to "fiscal feudalism" across Europe, the process of tax assessment remained under private management that was monitored by central governments but franchised to firms, syndicates of nobles and notables under a complex variety of temporary, as well as virtually permanent, contractual arrangements that had evolved over centuries into tenured regimes resistant to reform. The farming (or leasing) of sovereign rights to assess and collect taxes had developed initially to secure political compliance from local elites, and evolved into accessible modes of management and institutionalized channels which facilitated stable more or less rapid flows of credit and longer term loans into coffers of monarchs and princes. Over time the defects of relinquishing more

¹⁴⁴ Ertman, *Birth of the leviathan*.

¹⁴⁵ Vide essays on European republics in Hoffman and Norberg, *Fiscal crises* and Yun Casalilla, *formation and efficiency of fiscal states*.

¹⁴⁶ Bonney, 'Failure of French revenue farms', pp. 20-34.

and more control over tax revenues to private enterprise became clear as a succession of *ancien regime* finance ministers sought to constrain rising costs, administrative charges, rents, profits and interest “appropriated” by tax farmers and “owners” of hereditary fiscal offices for their services in managing taxation and supplying rulers with credit and loans.¹⁴⁷ In theory the costs to European states of raising taxes and borrowing money might be defined (and potentially measured) as the gaps between total receipts from taxes collected by franchised and private administrations and the amounts of annual revenues that they handed over for the disposal of central governments. Sovereigns received “their” revenue *net* of payments for management, and after interest on advances for credit and loans and profits, had been deducted by the plethora of tax farmers, local aristocrats and notable families who, in many realms and republics managed – but in France and Spain virtually owned – rights to assess and collect taxes on behalf of nominally “sovereign” and pretentiously absolute rulers of Europe’s empires, realms and republics.¹⁴⁸

From the end of the Middle Ages (which in European fiscal history can be marked by Valois and Habsburg invasions of Italy in 1494) all rulers endeavoured to impose universal and acceptable systems of taxation upon the territories, assets, economic activities and social groups under their dominion.¹⁴⁹ By the close of the seventeenth century some European states, particularly England (and under more “democratic” arrangements) the Netherlands, the Swiss Confederation and the Venetian republic had clearly moved closer to the universal end of the spectrum of fiscal sovereignty than, say, Bourbon France, Habsburg Spain, Sweden and the Austrian and Danish Empires, whose monarchs seem to have been engaged in almost permanent “negotiation” over the

¹⁴⁷ Kiser, ‘Markets and hierarchies’, pp. 284-315.

¹⁴⁸ Bonney, *Economic systems and state finance*, pp. 423-506; Doyle, *Venality*.

¹⁴⁹ Major, *Renaissance monarchy to absolute monarchy*.

taxes levied and collected from kingdoms, territories, economies and nominally subject and subjected populations.¹⁵⁰

Resistance to and evasion of taxes remained particularly tenacious in relation to taxes levied on the wealth and incomes of a sovereign's "subjects". To raise more revenue and to maintain plausible degrees of compliance with demands for taxes in political circumstances which made the construction of more equitable systems of direct taxes virtually impossible to implement, ministers everywhere attempted to shift the structure of taxation towards indirect taxes levied on the outlays by households on goods and services. Their room to effect real changes in the balance between politically contentious direct forms of taxation and less visible forms of duties on expenditures remained constrained, however, by ratios of marketed to total national consumption; by the scale and concentration of units of production supplying accessible and regular markets located in towns and cities; and (after 1648) by the degree to which that strategy had already bumped up against local resistance and reached margins of diminishing returns and political resistance.¹⁵¹

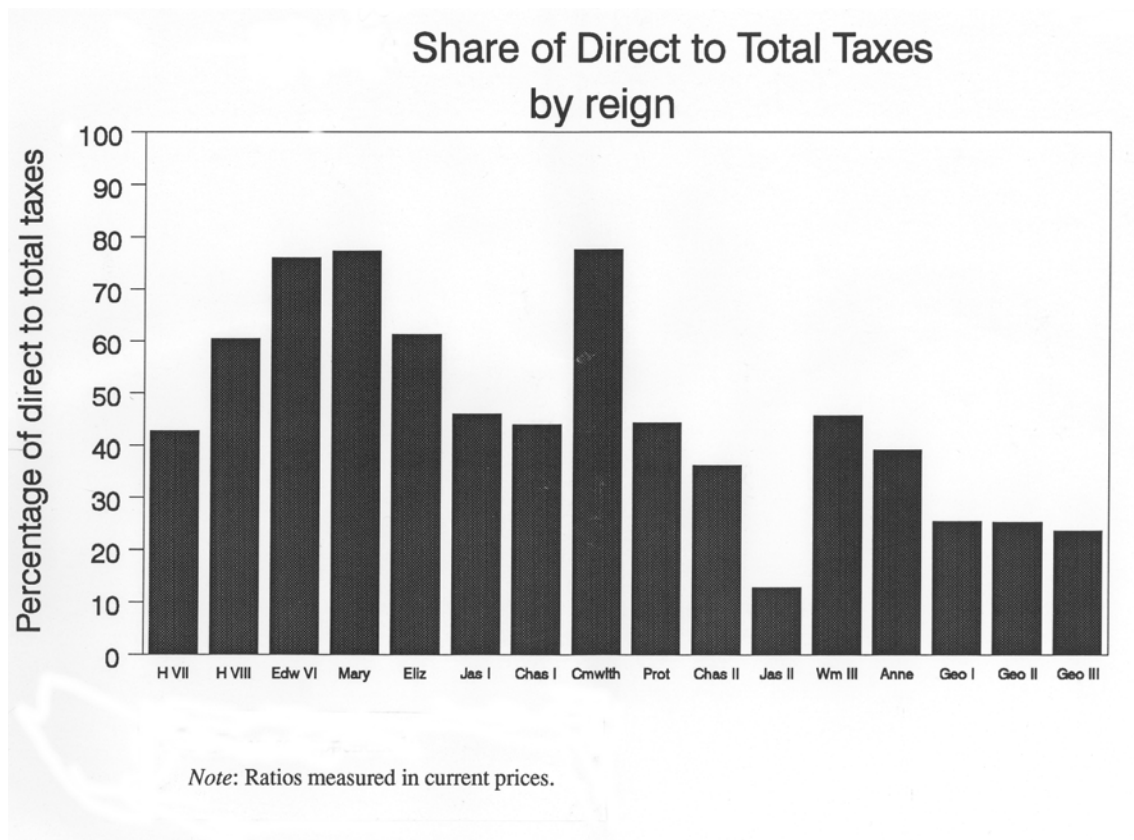
In contrast to the mainland, and after an interregnum of Civil War and Republican rule had created a political consensus for a larger properly funded state, England's government ministers in charge of their Dutch and German monarchs' revenues could contemplate the prospect not simply of an under-exploited and expanding fiscal base, but one with considerably more potential than that available to their European counterparts also trying to re-balance structures of taxation in favour of less contentious assessments levied on the consumption of goods and services through customs, excise and stamp duties.¹⁵²

¹⁵⁰ Zmera, *Monarchy, aristocracy and state*.

¹⁵¹ Hoffman and Rosenthal, 'Political economy of warfare', pp. 31-56.

¹⁵² Kiser and Linton, 'Determinants of the growth of the state', pp. 411-48; Hoffman and Norberg, *Fiscal crises, conclusion*.

Figure 3: Share of direct to total taxes by reign¹⁵³



The net gains from making the structural shift towards indirect taxes also depended upon minimizing the total costs of collecting revenue from taxes assessed upon domestic production and upon imports. In England and after an interregnum of experiments, promoted by warfare and to support a republic after the Restoration the Ministers of Charles II and James II had managed to construct a legislative and administrative framework for the assessment and despatch of customs, excise and stamp duties to the Exchequer that gradually replaced tax farming with departments of state that look in several important respects more professional and efficient than any of the systems established for central

¹⁵³ The data is referenced in O'Brien and Hunt, *England 1485-1815*.

monitoring over private and politically appointed administrations responsible for the collection of indirect taxation on the continent.¹⁵⁴ Almost everywhere in *ancien regime* Europe, the traditional machinery in place for the assessment and collection of taxes was perceived at the time (and has been represented by historians since) as corrupt, oppressive, venal and above all as inefficient – in the sense that the gap between net revenues received and taxes assessed (under a plurality of complex leasing and ownership arrangements) remained unacceptably wide and thereby deprived states (especially France, Spain, Portugal and Austria) of “considerable” (alas unmeasurable) amounts of revenue.¹⁵⁵ Reforms from the centre usually produced little more than another corruptible layer of royal monitors put in place and paid handsomely to countervail the inherent rent-seeking activities of tax farmers. The latter’s perfectly rational objectives were to equate the private marginal costs, that they incurred to collect extra revenues, with the marginal returns that accrued to them as private profits while maintaining their own securities of tenure.¹⁵⁶ Their aims were certainly not to maximize the revenues despatched into the exchequers and coffers of sovereigns in order to fund geopolitical and mercantilist policies pursued by emperors and kings. Their patrimonial interests in royal franchises, the ownership of public offices, the rights to use privately controlled force and coercion to collect the sovereign’s revenues alienated taxpayers and intensified the widespread proclivity of Europeans to evade, resist and to eventually revolt against taxes.¹⁵⁷

In the aftermath of a Civil War also (occasioned by the most significant tax revolt in the history of England) and during an interlude of

¹⁵⁴ Rosveare, *Financial revolution*; Webber and Wildavsky, *Taxation and expenditure*.

¹⁵⁵ Bonney, ‘Revenues’, pp. 423-506.

¹⁵⁶ Doyle, *Venality*

¹⁵⁷ Kiser and Kane, ‘Revolution and state structure’, pp. 183-223.

fragile political stability and rather low levels of expenditure (1660-84), the English state managed to abolish tax farming and put in place – *not* a national, incorruptible, efficient Weberian-type bureaucracy for the assessment and collection of indirect taxes – but rather an embryo system of administration for the monitoring and management of the realm's all important fiscal affairs that looks in many of its essentials discernibly superior for state formation and the effective pursuit of geopolitical and mercantilist objectives than anything operating on the mainland outside the Netherlands.¹⁵⁸

Compared to rival regimes, that reconstruction occurred at a late and fortuitous stage in the process of state building when the powers of the Stuart realm's ancient kingdoms, feudal aristocracies, ecclesiastical corporations and privileged cities had been shaken and reduced by civil war and when England's domestic economy began to generate the kind of accelerated commercialisation, colonization, urban concentration and proto-industrialization that facilitated the collection of duties on domestic production and imports. The reconstruction of a fiscal state by the restored Stuart regime could not, moreover, be frustrated by the bloated royal bureaucracies, costly franchised administrations and venal offices of the kind widely utilized to collect revenues on the continent.¹⁵⁹ By 1648 many of Europe's fiscal systems had become riddled with entrenched property rights to hereditary and tenured positions, with corruption and with the tenacious defence of private and aristocratic interests built up in circumstances of geopolitical and religious rivalry that had marked the formation of all major European powers between 1494 and 1648. Incessant warfare and dynastic competition had led the monarchs, princes and oligarchies of early modern Europe down a path of

¹⁵⁸ Holmes, *Making of a great power*; Van Creveld, *Rise and decline of the state*.

¹⁵⁹ O'Brien and Hunt, 'Excises and rise of a fiscal state', pp. 198-224; Roseveare, *Treasury*.

dependence on patrimonialism, clientalism and privatised administrations that virtually controlled the process of providing them with indispensable (and always urgent) means (taxes conjoined with loans) for their renewed engagements in interstate rivalry.¹⁶⁰

Treaties signed in 1648-49 at Munster and Osnabruck in Westphalia did not bring peace. Conflict continued.¹⁶¹ Over the final phase of mercantilism concluded by the Treaty of Vienna in 1815, finance ministers usually had more urgent tasks to attend to than reforming their fiscal systems. Their priorities were to supply states with funds to maintain armies in the field, navies at sea, and a presence in imperial ventures overseas. In any case their attempts to tamper with the constitutions of composite states and empires or to confront the powerful and deeply vested interests of fiscal bureaucracies and franchise of administrations usually failed.¹⁶²

5. England's Exceptional Fiscal State and Precocious Industrial Revolution

Fortuitously expelled in 1453 from imperial ventures on the mainland, as a semi-detached island realm, England came late to participation in European power politics and to the construction of a large standing navy for the defence of the realm and colonization and commerce overseas. After a destructive interlude of civil war and republican government came the Glorious Revolution which placated a propertied and unrepresentative parliament. The kingdom's Dutch and German kings (combined with the island's aristocratic ruling elites) then entered with a vengeance into great power politics unencumbered by

¹⁶⁰ Blockmans, *History of power*

¹⁶¹ McKay and Scott, *Rise of great powers*; Downing, *Military revolution*.

¹⁶² Genet and Le Mené, *Genese de l'état*.

debt and with an under-exploited fiscal base at their disposal.¹⁶³ Although the realm's monarchical and hereditary elite can be represented as the closest approximation to a businessman's government in Europe, its kings and aristocratic rulers also maintained a strong degree of autonomy in the formulation of strategic, commercial, imperial and fiscal policies. Before 1832 successive British cabinets remained relatively autonomous from a kingdom of taxpayers and aloof from their dispersed and heterogeneous bodies of creditors even while they taxed and accumulated debt on an extraordinary scale.¹⁶⁴

Edmund Burke once famously remarked that "revenue is the chief occupation of the state. Nay, more it is the state". In this domain (the "sinews of power") British exceptionalism had some discernible, but rather tenuous connexions with a reassertion of parliamentary sovereignty over revenue (not expenditure) and an insubstantial uplift in the security of property rights that supposedly flowed from the Glorious Revolution of 1688. Over-impressed with supposedly benign connexions between the parliamentary commitment of an *ancien regime* to private enterprise, North American whigs might reflect on the tax revolt their ancestors led against their king in Parliament in 1776.¹⁶⁵ Secure property rights go back a long way in English history. The fiscal and financial outcomes of that revolution, or Dutch coup d'état was closely linked to the prior formation of a consensus among the elite about the nature of the state and its fiscal constitution which were forged during a bloody civil war and republican rule.

There then followed a Restoration of Monarchical and Aristocratic Government, which reconstructed a fiscal administration that became in

¹⁶³ Black, *System of ambitions*; Horn, *Great Britain and Europe*; Jones, *Britain and the world*.

¹⁶⁴ Prest, *Albion ascendant*.

¹⁶⁵ Weingast, 'Constitutions as governance', pp. 286-312; Marshal, *Making of empires*.

European terms a proto-professional and relatively effective system for the assessment and collection of ever-increasing amounts of revenue in the form of indirect taxes. Customs and above all, excise duties, together with the deference and compliance that the realm's *ancien regime* secured from a body of chauvinistic tax payers towards the state's strategic naval, commercial and imperial objectives, allowed for an uplift in taxation and an unprecedented accumulation of public debt.¹⁶⁶

Between 1641-88 and after the expanded royal navy violently displaced Dutch hegemony in international commerce, a painfully restructured state moved the realm onto a path that carried the nation and its mercantilist ambitions through seven wars to reach a pinnacle of power and wealth that the United Kingdom enjoyed throughout a golden age of Victorian and Edwardian liberal capitalism.

In retrospect, most of the advantages enjoyed by monarchs and aristocrats who took over the state after the deposition of James II, look path dependant. They flowed from geographical endowments; the long interlude of virtual detachment of the Tudor and Stuart regimes from geopolitics on the mainland, the unintended consequences of civil war and above all from the fiscal sclerosis that afflicted most of Britain's major rivals between 1649 and 1815. Fortunately the inexorable onset of that very same disease (that clearly infected Britain's fiscal and financial system as ministers struggled with debt servicing problems for several decades after Waterloo) did not seriously compromise the state's exercise of British hegemony for more than a century before the Great War of 1914-18 – basically because the final struggle against Revolutionary and Napoleonic France had exhausted the will and fiscal

¹⁶⁶ Colley, *Britons: forging the nation*.

capacities of Britain's rivals to challenge its imperial, economic and geopolitical position in the world economy.¹⁶⁷

It remains easier to expose and explain the evolution and nature of England's exceptional fiscal state than to connect that narrative systematically to the economy's precocious transition to an industrial market economy.¹⁶⁸ Clearly and unlike their counterparts ruling numerous polities on the mainland the English elite in charge of an Island kingdom established a fiscal constitution that provided the funds required to support four indispensable public goods including: consistently preserved external security, sufficient political stability and effective coercion to safeguard property rights for private investments in the domestic economy and (most significantly of all) protection for trade and assets located way beyond the coastlines of the realm.¹⁶⁹

Histories of early modern state formation in the West lend strong support to the findings of economists analysing with the same process in modern Africa, Asia, the Middle East and South America.¹⁷⁰ They recognize that elites ruling polities without benefit from fiscal constitutions that facilitate flows of revenue to provide an indispensable array of public goods for economic development will form weak states that often compel them to act in counter-productive ways towards property rights and other institutions designed to lower transaction costs.¹⁷¹ By design and aspiration most early modern and modern states were not and are not simply predatory. When provided with sufficient revenues to maintain external security and political stability, it could be rational even for greedy elites to invest some proportion of their revenues in extending fiscal

¹⁶⁷ O'Brien, 'Security of the realm', pp. 49-73.

¹⁶⁸ Mokyr, *British industrial revolution*.

¹⁶⁹ Rodger, *Command of the oceans*.

¹⁷⁰ Herbst, *States and power in Africa*.

¹⁷¹ Rodrick, D., 'Institutions for high quality growth: what are they and how to acquire them', NBER Working Paper 7540 (2000); Chang, *Institutional change and economic growth*; Acemoglu, 'Politics and economics', pp. 546-79.

bases by promoting the coordination and integration of commodity and factor markets.¹⁷²

For the English case historical research is making it clear that the gains from overseas trade and colonization that began to cumulate from the mid seventeenth century onwards followed from the creation of conditions for the reconstruction of the realm's fiscal constitution and a massive uplift in expenditures by the state upon a standing navy during an interregnum of republican and restored monarchical rule, 1642-1684. These conditions along with all the other factors that economic historians working from below (often without reference to an exceptional state) helped in mercantilist terms to carry the economy through a first industrial revolution.

Now that this "British" Industrial revolution has been provincialized and so many of the factors leading the economy to a plateau of possibilities for precocious industrialization have been downsized, perhaps it is time to take much more notice of what our other parent discipline (history) has been exposing about the exceptional nature of the Island's state?

In escaping from a liberal tradition that has asserted that constitutions for liberty and democracy are synonymous with constitutions for economic growth, a modern historiography for English history has revealed a set of political arrangements that secured an effective level of compliance with rising levels of taxation, coupled with the rapid accumulation of debt, while meeting demands from the realm's landed, mercantile and industrial elites for external security, internal order and the protection of property rights.¹⁷³ Both before and long after the Glorious

¹⁷² Menard and Shirley, *Handbook for new institutional economics*; Mokyr and Nye, 'Distributional coalitions', pp. 27-63.

¹⁷³ Hoppit, *Land a liberty*; Langford, *Polite and commercial people*; Winch and O'Brien, *Political economy*.

Revolution the kingdom's constitution was anything but democratic.¹⁷⁴ Nevertheless, the state sustained institutions for governance including a parliament of and for notables, a legal system heavily biased towards the wealthy elites and an effective apparatus of coercion against the lower orders who transgressed property rights.¹⁷⁵ Over the course of a precocious industrial transformation the kingdom's institutions simultaneously solved several problems that are beginning to preoccupy a growing minority of economists who consider that effective and properly funded states have long been necessary for economic growth.¹⁷⁶ This branch of economic theory recognizes that states supply public goods that embody familiar characteristics that differentiate them from commodities and services purchased and sold on free markets. Public goods are indivisible, carry significant externalities and their supply is generally separated in time and space from demand and payments up-front in the form of taxes and loans.¹⁷⁷

For governmental institutions to operate benignly there has to be a Sovereign authority with the coercive and administrative capacities to appropriate required levels of taxes and loans to anticipate and fund stable supplies of public goods necessary to sustain an uplift in the rate of economic growth over the long run.¹⁷⁸

Secondly, some kind of centralized institution and constitution should be in place to coordinate the level range and quality of public goods supplied by states with the preferences of those who are paying taxes or advancing loans and credits for their future provision.¹⁷⁹ Modern

¹⁷⁴ Clark, *English society*.

¹⁷⁵ Langford, *Property rule, Albion's people*.

¹⁷⁶ Caplan, *Myth of the rational voter*; Wolf, *Markets or governments*.

¹⁷⁷ Oakland, *Theory of public goods*, ch. 9.

¹⁷⁸ Migdal, *Strong societies weak states*; Lizzeri and Persico, 'Provision of public goods', pp. 221-35.

¹⁷⁹ Persson and Tabellini, Economic effects of constitutions; Battaglini and Coate, 'Inefficiency in legislative policy making', pp. 118-49.

post industrial forms of democracy were almost certainly not required to sustain Britain's protracted transition to an industrial market economy in 1642, 1660 or 1688.¹⁸⁰

The British state and its institutions that evolved out of the kingdom's bloody civil war seems in retrospect to have been more fit for purposes of that transition than for social welfare and thereby took a geopolitical and economic leap forward over its rivals on the mainland, which provided the country with security, stability and hegemony down to 1914.

¹⁸⁰ Tao and Xin, 'Theory of the efficiency of public finance'.

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