CHAPTER ONE

Introduction

Among the many distinctive features of European state formation two have received particular attention—the invention of the concept of political representation and the development of a system of public credit. It is a matter of some debate whether Europe was unique in having a system of political representation—certainly rulers in other regions met with councils or assemblies—but it is probably not an exaggeration to say that this phenomenon initially advanced to its greatest extent in Europe. Likewise, while rulers in other regions developed mechanisms for deferring payment for goods or for receiving advances on tax collections, there seems little doubt that the most extensive early development of a system of public credit occurred in Europe. This parallel development of representation and credit suggests that a causal link might have existed between the two. Within Europe, states such as Venice or the Dutch Republic that are seen as models in the development of representative institutions can also be viewed as pioneers in the development of public credit, whereas polities such as France are considered as having trailed on both of these dimensions. Did the presence of an intensive form of representation facilitate access to credit for the former, allowing them to survive and their economies to prosper? If so, why did this intensive form of representation emerge in some places but not others? Finally, how did this joint development of credit and representation affect broader trends involving war, state formation, and economic growth? Despite the importance of these questions, no existing scholarly study examines these issues in a broad comparative context. This book is designed to fill that gap.

I will argue that the presence of an intensive form of representation characterized by an assembly that could monitor and modify expenditures was critical in facilitating access to credit by European states. But the existence of an assembly that would function in this manner was itself dependent on two underlying conditions. First, in an era of high communications and travel costs this intensive form of political representation could be maintained only in polities of limited geographic scale.[1] Second,

[1] The importance of geographic scale in conditioning the type of political representation that could be sustained in medieval Europe has been emphasized by the medieval historian Wim Blockmans (1998, 1978).

assemblies of this sort were more likely to take actions consistent with the interests of state creditors in polities where the same merchants who invested in government debt were also predominant among the political elite. These two underlying conditions were most frequently, but not exclusively and not always, met in city-states where assemblies could be convened by devices as simple as the ringing of a town bell and where the same merchants who purchased public debt also served as magistrates on town councils. In the territorial states of Europe, in strong contrast, geographic scale often proved to be a fundamental obstacle, making it costly to sustain a representative assembly that would meet frequently enough to monitor public expenditures. Assemblies in European territorial states could be powerful, but their influence was of a more passive form involving the ability to veto requests by monarchs for taxation. The social composition of territorial state assemblies was also fundamentally different from that of the city-states. Merchants—those who lent most frequently to government—played a more limited role within them, a fact that had significant consequences for the behavior of these institutions.

In making the above argument about representative institutions, I am not suggesting that the dominance of mercantile interests necessarily led to democracy within city-states.[2] Certainly, none of the city-states considered within this study had the full characteristics of either a modern representative democracy or an ancient direct democracy. But more importantly, even within the group of city-states considered here, I will show that those that were more oligarchical in form tended to have better access to credit than did those with more open systems of political representation. Both my broad sample statistical tests and my qualitative case studies suggest that having a merchant oligarchy was the best recipe for obtaining access to credit. In contrast, when popular pressures led to city-states adopting more open political systems in which those who were less likely to own public debt gained seats on city councils, then access to low-cost credit was less certain. This points to a trade-off: a certain set of political institutions could reinforce the credibility of debt repayment, but

[2]Authors have held very different views on this issue with some, such as Guizot (1838), seeing those who governed medieval cities as the ancestors of the French revolutionaries while many others following Pirenne (1910, 1925) have taken a more skeptical view. The subject of medieval and early modern city-states has been an issue of concern for a wide number of authors including Guizot (1838), Sidgwick (1903), Weber (1921), Clarke (1926), van Werveke (1963), Rokkan (1975, 1973), Tilly (1990), Tilly and Blockmans (1994), Spruyt (1994), and Finer (1995), to name but a select list.

these institutions were inherently undemocratic (even by the standards of the time), and, as I will argue, closed political institutions may in the long run have helped to stifle economic innovation.

My conclusions have implications for three debates involving state formation and economic development. The first debate involves the role of warfare in state formation, and in particular the proposition that as military technologies changed, the optimal size of a polity increased and the city-state became outmoded as a form of political organization. The second debate involves the sources of early modern economic growth and the question whether free cities were engines of innovation during this period. The third debate involves the question whether the adoption of representative or democratic institutions can helped solve commitment problems. I will first briefly introduce each of these debates before revisiting them in greater detail in the concluding chapter to this book.

In the first debate on war and state formation, conflict was according to a common narrative, the primary force driving state development within Europe. A key part of this argument is that exogenous changes in military technology—firearms, mass infantry, new styles of fortification—meant greater fixed costs in war-fighting, leading to an increase in the optimal size of states.[3] Many authors also suggest that war was a powerful force prompting rulers to alter the structure of their polity's political and bureaucratic institutions.[4] I will suggest that large size had both costs and benefits when it came to war mobilization, and therefore the effect of changes in military technology on the distribution and organization of European states was more muted than is commonly believed. As the size of armies required to engage in war increased, large states gained an advantage to the extent that they had large populations. However, in an era when armies were paid, rather than being conscripted, efforts to raise large armies also required the rapid mobilization of large sums of money. Access to credit was of the essence to meet this objective, and

[3]The clearest exposition of this argument can be found in Bean (1973), and his analysis was also adopted by North (1981). The same argument has been used by Boix, Codenotti, and Resta (2006) as a basis for their analysis. See Finer (1975) for an account of the relationship between state formation and what he calls the "format of the military forces."

[4]This has been emphasized at least since Hintze (1906) and more recently by authors such as Tilly (1975, 1990), Downing (1992), Ertman (1997), Mann (1986), and in a formal setting by Besley and Persson (2009, 2010). See Hui (2005) and Herbst (2000) for interesting accounts of the impact of war (or its absence) on state formation in other contexts.

here I will show that the smaller city-states had an advantage, because they established an intensive form of political representation in which merchants played a primary role. This same form of representation could not be maintained within the much larger geographic scale of a territorial state. It was arguably their better access to credit that allowed many city-states to survive far longer than we would expect, given the conventional "war and state formation" explanation. In the words of the noted German scholar Richard Ehrenberg (1928), "The credit of the cities therefore was accordingly their most powerful weapon in the struggle for their freedom."

The second debate with which this book engages concerns the sources of early modern growth.[5] Precisely because it is known that many economic innovations in Europe took place within politically autonomous cities, any explanation of how autonomous cities survived may aid our understanding of the political context for preindustrial growth. Discussions of city-states often emphasize their engagement in long-distance commerce. But many autonomous cities in Europe were also centers for technological innovation, and it may have been the case that political independence was necessary for this innovation to take place. One exposition of this idea is found in Mokyr (1995), who emphasizes that the initial development of Venice was attributable to its glassblowing industry, that other Italian towns were leaders in the production of textiles, that autonomous German cities were centers of instrument-making in the fifteenth and sixteenth centuries, and finally that Holland, in addition to being a trading state, was also an important site for invention.[6] Economic activity in autonomous cities may have been less subject to dynastic ambitions of a territorial ruler.[7] My study will not determine empirically whether autonomous cities did in fact experience higher average growth rates; instead my analysis of representation and credit will help account for the growth trajectory observed in many European autonomous cities—an initial period of innovation followed by one of economic stagnation. If those

[5]Acemoglu, Johnson, and Robinson (2005), Bosker, Buringh, and van Zanden (2008), Jones (1981), Mokyr (1995, 1994, 1990), North and Thomas (1973), North (1981), DeLong and Shleifer (1993), Epstein (2000), Voigtlaender and Voth (2009), Greif (2006), and Kohn (2008).

[6]See Hicks (1969) for an earlier expression of this idea with regard to the development of trade, and van Zanden (2006) as well as Bosker, Buringh, and van Zanden (2008) for empirical evidence. Many of the ideas about the economy of free cities can be traced back to Weber ([1921] 1958).

[7]Their institutions may also have facilitated enforcement of contracts for the reasons emphasized by Greif (2006). We should also recognize though that cities within territorial states also often had guild institutions or city councils that could have played a similar role.

cities that were the most closed and oligarchical in form had the best access to credit, then they may have been particularly likely to survive. Then again, oligarchical institutions may have created barriers to entry for groups or individuals with new innovations.[8] Over time, members of a sitting oligarchy may have shifted their investments from engagement in active commerce toward investments in lower-risk assets like land and government debt, prompting them to favor more inward-looking policies, again potentially leading to economic decline. Oligarchic politics may explain why, by the end of the early modern period, numerous autonomous cities continued to survive, but as rentier republics. These cities continued to have access to credit at excellent rates, but they were no longer engines of economic innovation.

The third debate for which my conclusions are relevant concerns the effect of institutions on commitment, and in particular the idea that one group or individual in society can concede a degree of control to another group and so solve a commitment problem. It has long been suggested that in the European historical context a strong representative assembly served as a commitment technology; it provided a guarantee against opportunistic actions involving the property rights of state creditors, or the property rights of private individuals more generally.[9] More recently, related arguments have been made about modern democracy being characterized by universal suffrage; it is viewed as a technology that allows commitment to a certain policy (in this case the economic policies preferred by the median voter).[10] Common explanations offered for why we do not observe such institutional solutions whenever a commitment problem emerges refer either to the power of vested interests or to the fixed costs involved in creating an institution. My conclusions remind us of a third possibility—maintaining an institution may also have important ongoing costs. If for exogenous reasons these costs are too high, then either the institution will not emerge, or emerge but fail to solve the commitment problem. In medieval and early modern

[8]This idea is nearly as widely expressed as is the argument that city institutions facilitated growth; see Mokyr (1995, 1990), Epstein (2000), and Hicks (1969). See Acemoglu (2008) for a formalization of this idea in a more general context and Dessi and Ogilvie (2004) and Ogilvie (2007) for considerations of the stifling effect of municipal guild institutions on growth.

[9]North and Thomas (1973), North (1981), Levi (1988), North and Weingast (1989), Delong and Shleifer (1993), and Acemoglu, Johnson, and Robinson (2005). This argument is not without its critics including Epstein (2000), Clark (1996, 2007), and Sussman and Yafeh (2006).

[10]Acemoglu and Robinson (2006, 2000).

Europe the ongoing costs of maintaining an intensive form of political representation were prohibitively high in large polities, given the state of communications and travel technology. Today, for much (but not all) of the globe, geographic scale is no longer as much of an obstacle as it once was, but the underlying point remains; for representative government to function effectively individuals need access to information, and acquiring information can be costly - in some cases prohibitively so.

As a final step before proceeding further, given that my analysis places heavy emphasis on the difference between territorial states and city-states, it is worth pausing to say exactly how I will define a city-state for the purposes of this book. In its medieval and early modern European form a city-state was a city that exerted a substantial degree of autonomy over its economic and judicial affairs while also playing a key role in organizing its own defense. A city state might control territory outside the city walls, but political rights were restricted to inhabitants of the core city (a key difference with the classical polis). While it is useful to have an abstract definition of a city-state, it is important to recognize that autonomous cities within Europe each had their individual characteristics and relationships with outside powers, and in practice cities had varying degrees of autonomy with respect to princely overlords. The question is at what point should we say that a city with a degree of autonomy should nonetheless not be included in my dataset because it lacked sufficient independence? In constructing my sample I have chosen deliberately to cast a wide net, including both cities such as Florence and Venice that had essentially total autonomy, together with several Flemish and other cities that had much autonomy in practice but also a degree of subservience to princely overlords. The motivation for this choice is to avoid a potential bias in which I draw a general conclusion while focusing only on a restricted set of cities that come the closest to approximating a city-state in its ideal form. I will also discuss how my statistical results change when those cities that lacked full autonomy are dropped from the sample. In practice this sample change actually strengthens the results in favor of my main arguments.

Representation, Scale, and Control

Before proceeding with the historical analysis, it may first be useful to describe the problem I seek to analyze in a more abstract fashion. In chapter 4, I will provide a very simple game theoretic formalization of

the following problem. Consider a polity in which an executive, who might be either a monarch or a ruling magistrate, seeks to borrow money to wage war, either of an offensive or defensive nature. In this polity some individuals hold liquid wealth that can be readily invested in debt. In order for these individuals to purchase debt, they need some expectation that once money is lent, any policy actions taken will be consistent with the goal of eventually repaying the debt. This could, for example, imply that the executive cannot use too much of the money for personal consumption, should not engage in overly expensive military engagements, and must raise sufficient revenues. Finally, it may also be necessary for the executive to alter policies in response to unforeseen events, such as a dramatic shortfall in revenues. A potential solution to this contracting problem between the executive and lenders would be for the lenders to specify in advance a full course of action that the executive should take. But even if such a contract could be enforced, the difficulty is that the ideal future course of action may not be known in advance.

Given the infeasibility of such a contract, one alternative might be for the executive to concede a degree of control over future policy to the lenders. In the event, for example, that there is an unexpected shortfall in revenues, then lenders would have an assurance that a corrective action, such as reducing military expenditures or raising revenues, would actually be taken. In the literature on corporate finance this is often referred to as granting a control right. Granting control rights can improve access to finance when investors anticipate that a manager would face incentives not to follow their desired course of action, yet investors do not know in advance precisely what action they prefer.[11] In the historical context that I am considering, a representative assembly that has a prerogative to monitor and modify public expenditures might serve this function. Without third-party enforcement, in order for such a system to induce individuals to lend they would need to anticipate that the executive would actually be willing to let an assembly exercise control in this fashion. This is perhaps the most obvious reason why conceding a control right might have

[11]On the importance of control rights in corporate finance two canonical contributions are Hart and Moore (1998) and Aghion and Bolton (1992). For recent text book treatments see Tirole (2006: ch.10) and Bolton and Dewatripont (2005: ch.11). As discussed by Tirole, the importance of control rights is often demonstrated by referring to a situation where contracts are incomplete, but this does not have to be the case.

little effect in facilitating access to credit. But there may also be a second obstacle that is equally important and that is less frequently recognized—it may be prohibitively costly to maintain the intensive form of political representation that would be implied by this arrangement. If the literature on corporate finance emphasizes that allowing monitoring increases access to finance, it also emphasizes that engaging in monitoring may be costly.[12]

In the historical context that I am considering, where travel and communications costs were substantially higher than they are today, there is ample reason to believe that geographic scale could be a fundamental obstacle to lenders exercising a control right. If lenders are geographically dispersed then there may be substantial costs involved in sending representatives to an assembly. Even if these costs could be overcome, for example, by paying representatives and by sharing this cost among a large number of people, there would remain the issue of monitoring the representatives. As long as representatives are subject to moral hazard, say because they can be bribed by the executive, then monitoring of this sort will be necessary. Nor would concentration of lenders in a country's capital necessarily solve the problem if the activities they need to monitor are geographically dispersed.

In addition to the costs imposed by geographic scale, the cost that lenders face in exercising a control right will also depend critically upon their relative influence within a representative assembly. Medieval and early modern assemblies sometimes resembled committees of state creditors, but in many cases they were instead dominated by other social interests. In large territorial states the more common phenomenon was to have an assembly in which those holding landed wealth were the preponderant element. In such cases merchants would find it costly or impossible to influence policy.

The above discussion leads to the following conclusion: a high cost incurred by a representative for exercising a control right, as brought about by geography, for example, will have three effects: (1) a lower likelihood of an intensive form of political representation, (2) higher interest rates on debt, and (3) less likelihood that debt will be issued. This book will test each of these three predictions empirically.

[12]For an example see Holmstrom and Tirole (1997) for a model where monitoring improves access to finance but monitoring is costly, and these costs are passed on to borrowers.

The Evolution and Importance of Public Credit

When considering medieval and early modern Europe, it is widely argued that imperatives of war drove states both to improve revenue collection and to seek access to credit. What presents a potential puzzle about public borrowing is that despite its general usefulness, some European states succeeded in establishing a public debt much earlier than others, and in addition, the relative cost of debt finance for different states varied enormously.[13] While the imperatives of war existed from an early date, European states before 1000 initially faced a constraint in that there were few private individuals or entities with liquid wealth that could be used to provide credit. Between 1000 and 1300, Europe experienced an economic expansion, accompanied by growth of commerce, that altered this picture. With some simplification, we can say that two forms of public borrowing then emerged.[14] Some states, especially territorial monarchies, began to contract loans directly from international merchants.[15] These loans had two main characteristics: they were short-term, and they were contracted at very high rates of interest. The loans from Italian bankers to Edward III during the Hundred Years' War provide a well-known example. Other states, especially city-states, succeeded in taking the further step of establishing a long-term debt. In the case of the Italian city-states, this involved forced loans that nonetheless paid interest, and for which an active secondary market soon developed. Outside of Italy, city-states obtained finance by issuing annuities (referred to as *rentes* in French or *renten* in Dutch and German). Strictly speaking, these were not loans. The contracts involved the permanent transfer of a specific sum to the "borrower" in exchange for the "lender" receiving a regular income stream, alternatively for one lifetime, several lives, or in perpetuity. One reason why this type of contract was preferred was that since the principal was never repaid, it did not run as easily afoul of usury restrictions as

[13]Hicks (1969), Parker (1974), and, more recently, Macdonald (2003) have also emphasized the idea that the timing of the establishment of a long-term public debt in different states presents an important empirical puzzle.

[14]See Usher (1943), Ehrenberg ([1928] 1963), Munro (2003), Tracy (2003), Homer and Sylla (1996), Fryde and Fryde (1963), and Macdonald (2003) for surveys of the evolution of public credit in Europe.

[15]Loans from Jewish lenders also served as a short-term high-interest source of loans for European monarchs. However, by the end of the thirteenth century, monarchs instead found it preferable to heavily tax, and eventually confiscate, Jewish assets.

was the case with conventional loans.[16] Contracts based on rentes also became a major source of finance for those seeking to make agricultural improvements, again based on the exchange of a sum in exchange for a future income stream. In what follows I will compare the rates at which governments could issue rentes against rates prevailing for private finance. The Northern European model of the rentes in fact became the model for public debt in Europe up to the end of the nineteenth century. Within city-states merchants were major purchasers of these long-term debts. It has been argued that after establishing themselves in commerce, merchants had an incentive to diversify their asset holdings by purchasing public annuities that would provide a regular stream of income.[17] It was also critical that merchants held wealth that was liquid and which could thus be swiftly converted into government annuities if a city-state suddenly needed to expand its level of borrowing.

While the idea of long-term public borrowing emerged at an early date, either following the Italian model or the annuities model, the speed with which European states gained access to this type of finance varied tremendously, as did the financial terms that states found it necessary to concede to lenders. We have numerous records of self-governing cities in Italy, the Low Countries, and northern France issuing debt starting in the thirteenth century, and cities or towns in Germany, Switzerland, and Catalonia in the fourteenth century. In contrast, among larger territorial states, Castile did not begin to issue long-term debt until the very end of the fifteenth century, and the French monarchy did not establish a long-term debt until 1522. In the words of Geoffrey Parker, "It was a surprisingly long time before princes were able to emulate their towns."[18] When they did establish a long-term debt, territorial states also appear to have paid significantly higher interest rates than did their city-state counterparts.

One possible explanation for this differential development is that there were greater legal and technical obstacles to the development of long-term debt in territorial states, but important studies by Ehrenberg ([1928] 1963) and Fryde and Fryde (1963) both argue that princes in medieval

[16]See Munro (2003) for an extended discussion of this point, as well as a review of other barriers to the development of markets for public annuities.

[17]See Postan (1952: 216–18) for an example of this argument, as well as the discussion in Kohn (1999).

[18]Parker (1974: 567). The significant time lag between the establishment of long-term debts in city-republics and in territorial monarchies has also been emphasized by Hicks (1969: 94).

territorial states had from a very early date evolved the principle of granting specific individuals a fixed income stream from their revenues in exchange for a service. Evidence reviewed by Usher (1943) demonstrates that the French monarchy was paying annuities to certain bodies as early as 1332, yet it took another two centuries before French monarchs used this same system to establish a long-term public debt.[19] So, it remains to be explained why princes were so slow to take the logical next step of granting a fixed income stream in exchange for a financial service. It also seems unlikely that princes would have preferred to opt for short-term borrowing, given the clear constraints implied by this type of finance, both in terms of its high cost and limited ability to leverage current resources. The more likely explanation I will pursue is that territorial rulers did not establish a long-term debt earlier because no one was willing to lend to them on such terms.

The financial advantage enjoyed by city-states had several important implications. The most direct of these was that access to credit allowed city-states to survive in an era of constant warfare and in the face of larger enemies. Access to borrowing was particularly important. Armies needed to be paid, because from an early date methods of raising forces through obligatory means—either feudal obligations or militia membership in cities—proved insufficient for the task at hand. The need for defense expenditures also often appeared suddenly and unexpectedly, and it was generally impossible to substantially augment tax revenues within a sufficiently short time frame.

Representative Assemblies in City-States and Territorial States

While the English parliamentary experience is the most frequently studied, it is now recognized that a very large number of medieval and early modern

[19]See Usher (1943: 162–63), who draws his evidence from de Boislisle (1875). In terms of legal obstacles, some authors also refer to the fact that credibility of the debts of city-states was reinforced by a principle whereby individual merchants within a city could be held personally liable by third parties and have their assets seized if their municipality defaulted on its financial obligations. However, as Greif (2006) demonstrates, this "community responsibility system" undergirded trade and commerce in a very wide number of medieval European communities. As a result, it was not specific to city-states. The unlimited liability principle also had less applicability when debts were held by a city's own residents, as was usually the case.

European political entities had representative assemblies that often had significant prerogatives. The period between 1250 and 1500 in particular is highlighted as having experienced a flowering of assemblies across Europe, both in self-governing cities and in larger territorial entities.[20] While territorial states tended to have a single assembly with varying procedures for selecting members, city-states often had a hierarchy of representative bodies, including a general city council made up of a broad membership, as well as one or more smaller bodies of magistrates chosen through a variety of means. Georges de Lagarde (1937, 1939) referred to this period as a "corporatist age" characterized by spontaneous action of different social groups seeking recognition from princes. For the period after 1500 until the end of the eighteenth century, scholars often point to a progressive weakening of representative institutions, in particular in the larger territorial states of Europe. Historians like de Lagarde (1937) have referred to this later era as the "age of the territorial state."

Historians have given much attention to the development of representative institutions in Europe during the two above periods, producing detailed studies of individual assemblies, general overviews, as well as studies comparing a small number of states. But there have been few attempts to provide a broad and systematic empirical picture of the evolution of representation in Europe. Drawing on existing historical work, this book presents a new dataset that provides systematic information about the prerogatives and level of activity of representative assemblies in a broad number of European states. These data help to show how representative institutions evolved over time, and how they varied across different types of states. They also allow us to examine specific prerogatives, such as the ability to refuse new taxes, to intervene in the administration of tax collection, or to monitor both state debt and expenditures. Finally, the data also provide some insight into the selection of members for an assembly and the representation of different social groups. Such information will be particularly important for distinguishing between those city-states that had more oligarchical institutions and those in which participation was more open. The data that I present certainly contain errors and misinterpretations for individual cases. I cannot pretend to be

[20]See Bisson (1973), de Lagarde (1937, 1939), Lousse (1937, 1966), Marongiu (1968), Major (1960), Blockmans (1978, 1998), Gilissen (1969), and Graves (2001). This pattern of representation has also been emphasized in more general treatments of medieval state development, such as the classic study by Strayer (1970). See also the fascinating recent study by Boucoyannis (2006).

a historian of medieval and early modern Europe, let alone a specialist of each of the 31 entities considered in constructing this dataset. Future observations by commentators may help to correct mistakes in my coding or spur efforts toward the collection of more detailed and accurate data. With this said, the evidence presented here still provides a broad and systematic picture of political representation of a sort that has not existed before. With regard to errors and misinterpretations of individual cases, the most important question to ask is whether they are pervasive enough to bias my broad conclusions.

The evidence I have collected demonstrates how representation within city-states took on a much more intensive form than was the case in territorial states. Representative bodies in city-states met frequently, and they played an active role in monitoring not only taxation but also public spending and borrowing. If a representative body is to exert a degree of control over public finances to this extent, then it seems plausible to suggest that the assembly will need to meet frequently. In larger territorial states it was rare to see assemblies meet even annually. A representative assembly that did not meet frequently could still play a powerful role, for example, by refusing to consent to taxation, but this power should be distinguished from the more intensive type of political representation found in city-states. Those territorial state assemblies that came the closest to city-state assemblies in terms of the prerogatives they exercised tended to exist in small polities.

While representative institutions in city-states had strong commonalities in terms of their control over public finances, there were also very significant differences within this group of states, with some cities having more open institutions and others having more closed, oligarchical regimes. Many city-states were dominated by merchant oligarchies. A small group of merchants held control of a city's key decision-making body, with this power often reinforced by a formal stipulation that members of this group should hold a preponderance, or even the totality of seats, on the council. In such cases representatives were often selected by a system of cooptation; an outgoing group of representatives would choose the incoming group, a procedure that tended to reinforce the dominance of one group. Other independent cities had more open constitutions where representatives were selected by a broader electorate of the citizenry and where rules of procedure stipulated that members of the craft guilds should also hold a significant share of positions, instead of reserving these predominantly for merchants. The structure of city-state constitutions was often a source of bitter conflict among these different groups. It was also

directly related to the question of public debt, because merchants tended to own debt whereas members of the craft guilds bore a significant part of the tax burden necessary to service this debt. One of the main conclusions I will arrive at in this study is that those city-states with more oligarchical institutions actually tended to have better access to credit than those with more open regimes.

Geographic Scale and Merchant Power

Ultimately, if representative bodies in city-states were more effective mechanisms in providing access to credit than were those in territorial states, this is not something that happened by accident. I will argue that it was an outcome dependent on two underlying conditions: the small size of these polities and the wealth composition of their political elite. My emphasis on the importance of the types of wealth held by a state's political elite fits closely with the arguments made in my earlier work on public debt and political representation in France and Great Britain during the eighteenth century (Stasavage 2003). But while my earlier work investigated the structure of political coalitions within two territorial states, the present book has as its goal to make a broader comparison between two different types of political entities that coexisted within Europe. By considering the importance of geographic scale, I also hope to shed light on the origins of representative institutions in a way that my earlier work did not.

Given premodern technologies for communications and transport, geographic scale posed a substantial obstacle to regularly convening a representative assembly. In this respect, city-states had an undoubted advantage over their larger neighbors.[21] Within many cities it was possible to have an assembly that was summoned by a simple device like a bell. So, for example, the General Council in thirteenth-century Siena was also known as the "Council of the Bell" for precisely this reason.[22] In a large territorial state this was obviously not possible. We have abundant historical evidence pointing to transport and communication costs as a hindrance to frequent meetings of premodern European assemblies. In chapter 3, I will present systematic evidence suggesting first that assemblies in city-states met more frequently than assemblies in territorial states.

[21]As noted above, the importance of scale in conditioning the development of representative institutions in Europe has been emphasized by Blockmans (1978, 1998).

[22]See Bowsky (1981: 85)

I will then show that within the group of territorial states, we also observe a strong negative correlation between state size and meeting frequency.

The proposition that either democracy or republican government is more likely to be sustainable in small polities is a very old one, and scholars who have subscribed to this argument have emphasized several different mechanisms, including the effect of scale on opportunities for participation, on the ability of citizens to know one another, and on the heterogeneity of a population.[23] In this study I make a more specific claim about the ability of members of a polity to sustain a representative assembly that exerts a degree of constitutional control over the actions of an executive, whether the executive is a ruling magistrate or a monarch. I also emphasize one specific mechanism: prior to the advent of modern technologies for travel and communications, the costs for representatives of attending an assembly in a far-off capital could prove prohibitive. Even if these costs could be overcome, geographic scale posed serious obstacles to the ability of constituents to monitor their representatives.

City-states also differed fundamentally from territorial states in a second way—the types of wealth held by their political elite. Historical work has long emphasized a distinction between city-states, where merchants predominated, and territorial states, which were dominated by a landowning and rural nobility.[24] This same body of work emphasizes that in most of Western Europe, members of the landowning nobility lived outside of the cities, breaking with a pattern set under the Roman Empire.[25] This broad distinction should not be overdone. Political elites in territorial states did not hold only land, and political elites in city-states did not have only liquid forms of wealth. There is evidence that the rich within city-states often had significant landholdings in addition to their financial and commercial investments. However, if we accept that land composed the vast majority of wealth in Europe at this time and that more liquid

[23] For examples in Rousseau's thought, see *Considérations sur le Gouvernement de Pologne* (Éditions Pléiade, 1964, *Oeuvres complètes* 3: 970–73) as well as *Du Contrat Social* (Éditions Pléiade, 1964 *Oeuvres complètes* 3: 386–87). For Montesquieu's views on the subject, see *De l'Esprit des Lois* (Éditions Pléiade, 1949, *Oeuvres complètes,* 2: 362–63). See Dahl and Tufte (1973) and Zagarri (1987) for general reviews of debates on size and democracy.

[24] Pirenne (1910, 1925), Guizot (1838), Weber ([1921] 1958), Sidgwick (1903), Van Werveke (1963), and Finer (1995).

[25] For the most recent authoritative discussion of this issue see Wickham (2005). For earlier treatments see Weber ([1921] 1958: 95), Pirenne (1910), Sidgwick (1903), and Van Werveke (1963). The principal exceptions to this pattern were northern Italy and sections of southern France.

forms of wealth were concentrated in cities, then it would seem difficult to dispute the idea that members of the elite within city-states were more likely to have wealth that could easily be invested in an asset like public debt. The composition of elite wealth had direct implications for the politics of public debt in city-states and territorial states. Within city-states there was a pool of potential investors in public debt, and the small size of these states meant that active representative institutions could be sustained that allowed creditors to exert a degree of control over public finances. Territorial states also had numerous individuals with liquid wealth, but given the overwhelming presence of landowners, these individuals made up a much smaller section of the political elite than they did in city-states. Even if a representative institution existed in a territorial state, owners of liquid wealth would have difficulty exercising influence within it.

Broad Sample Evidence

I will support my arguments by presenting and analyzing systematic data on public credit and political representation for 31 European states over the five centuries between 1250 and 1750. To collect the evidence on public credit, which is presented in chapter 2, I began by consulting the sources used by Stephan Epstein (2000). In an important study, Epstein constructed a comparative dataset of interest rates for his review of public debt in Europe over the long run. Consulting these sources and comparing them with all available alternative sources allowed me to construct a dataset that extends Epstein's work. This new dataset includes several new states; it covers a broader period of time for others; and it is more precise in several areas of measurement. The dataset distinguishes between different types of debt instruments (such as life versus perpetual annuities) and different methods that individual authors have used to calculate interest rates (such as recording nominal rates versus using a fiscal interest rate proxy).

In chapter 3, I present new systematic evidence on the evolution and prerogatives of representative assemblies in the same set of 31 states, and I will place this evidence in the context of long-standing debates about the emergence of representative institutions in Europe. For each state I use available evidence from secondary sources to assess whether a representative assembly existed, whether its consent was required for

new taxes to be implemented, whether the assembly played a direct role in administering taxes, and whether the assembly played a direct role with respect to the issuance and management of public debt. Finally, the chapter also presents evidence on who was represented within these assemblies, in addition to charting the frequency with which assemblies met. There is evidence not only that city-state assemblies met more frequently, but also that within the group of territorial states, there was a negative correlation between the geographic size of the polity and the intensity of representative activity.

Chapter 4 presents the results of my core statistical tests combining the evidence on the evolution of public credit with evidence on political representation. The goal here is to test three alternative hypotheses: (1) that access to credit depended on commercial and economic development, (2) that access to credit depended on the presence of active representative institutions; and finally (3) that access to credit depended on the differing underlying conditions in city-states and territorial states. I first consider the conditions under which a state was more likely to create a long-term public debt. This is followed by a consideration of the determinants of the cost of government borrowing. As one would expect, the data show a strong correlation between commercial and economic development and access to credit. Beyond this effect, there is also clear evidence from these regressions that the presence of a representative assembly, and in particular one that had a control-right over debt and expenditures, was associated with earlier creation of a long-term debt. However, once one controls for the difference between city-states and territorial states, this correlation between assemblies and credit disappears. One finds a very similar pattern with respect to the cost of borrowing. These results do not automatically imply that representative institutions did not matter. What they do mean is that if representation did matter, then it was, above all, the type of political representation found within city-states that favored access to credit.

The tests in chapter 4 identify a clear and consistent difference between city-states and territorial states. Based on these estimates, in any half-century period, a city-state that had not already created a public debt would be expected to have a 43% chance of doing so. A territorial state would have only a 5% chance of doing so. Comparing states that actually did borrow, I find that a city-state would be estimated to borrow at an interest rate two percentage points lower than a territorial state. The fact that a dummy variable for city-states is statistically significant in these

regressions may be capturing the effect of the two factors I emphasize, small geographic scale and merchant political power, but it may also of course simply reflect other differences between these two types of states. One way I guard against this possibility is to use an extensive set of controls for different levels of economic and commercial development, as proxied by urbanization rates.

Chapter 4 also presents a further analysis that examines variation within city-states, in particular between those with more closed institutions of selection where rules stipulated that merchant groups would dominate a representative body, versus those with more open constitutions that allowed significant participation for members of craft guilds. As explained earlier, we would expect these two groups to have potentially different views on debt servicing given that merchants tended to own public debt and members of the craft guilds tended to bear a significant share of the tax burden necessary to service debt. In a set of fixed effects estimates that focus on change within states over time, I show that the greater the percentage of city council seats formally reserved for merchants, the lower the cost of borrowing. Likewise, selection of representatives by cooptation was associated with significantly lower borrowing costs than was selection by election. Both of these findings are consistent with the case study evidence that I present in later chapters.

Origins of City-States

So far, while my story has emphasized the differences between city-states and territorial states, I have not considered why some European cities enjoyed a high degree of political independence while others were subject to control by territorial rulers. Nor have I broached the question of why city-states emerged in only some European regions. These questions are intrinsically interesting. Addressing them is also critical because of the potential implications for my core causal claims. It might be that initial economic, political, or social conditions allowed some cities to establish their political independence while simultaneously favoring the development of public credit. If I did not control for these initial conditions in my statistical analysis, it could lead me to overestimate the effect of representative institutions, and perhaps also the effect of geographic scale and merchant political power. Two main types of initial conditions come to mind. The first involves the possibility that, for idiosyncratic reasons, some cities had attributes that facilitated attempts by their populations to act collectively

to establish autonomy. Such attributes may well also have facilitated attempts to establish a public debt. The second possibility involves the initial level of economic development. Scholars have long observed that Europe's city-states emerged in a longitudinal band running roughly from northern Italy to the Low Countries. In recent decades Charles Tilly (1990) and Stein Rokkan (1975, 1973) have provided the leading explanation for this pattern of state development.[26] According to them, this region of Europe had a higher initial level of development (ca. 1000 A.D.) allowing cities to form, to establish their autonomy, and to resist efforts of territorial princes (or of other cities) to absorb them into larger states.

Rokkan and Tilly focus on prior economic events, but there were also prior political events in Europe that had a major impact on the subsequent pattern of state development. Historians have for many years emphasized that the lines of partition decided upon during the partition of the Carolingian Empire in the middle of the ninth century A.D. had long-lasting consequences for the political map of Europe.[27] By the signing of the Treaty of Verdun in 843, the Carolingian Empire was divided among three brothers into three kingdoms, each of which covered a longitudinal strip of Europe. The western kingdom covered much of modern-day France. The eastern kingdom covered much of modern-day Germany. The central kingdom, Lotharingia, covered a narrow longitudinal strip running between the other two. While the heart of the Carolingian Empire lay within Lotharingia, this central kingdom collapsed soon after its creation as a result of a series of idiosyncratic dynastic incidents; this collapse left Europe's central longitudinal band as a fragmented border region. I will use the division line laid out at the Treaty of Meersen in 870, which brought about the end of the middle kingdom, as a measure of location in this region. I will argue that the collapse of Lotharingia facilitated attempts several centuries later by cities within this zone to establish political autonomy. It should be emphasized that, I am certainly not claiming that the pattern of Carolingian collapse was the sole determinant of future city-state development in Europe, but it was an important determinant of this phenomenon and one that has not been sufficiently emphasized.

In chapter 5, I test the above two hypotheses about city-state origins while also considering several additional factors that may have favored

[26] See also Tilly's introductory chapter in Tilly and Blockmans (1994).

[27] See Pirenne (1936: 86–91) for an early example.

city-state development. The tests are based on the sample of 31 states used throughout this book, as well as on a much larger sample of 158 European cities. To my knowledge this is the first systematic test of the correlates of city-state development. The evidence does indeed suggest that city-states were more likely to emerge in areas with a high initial level of urbanization. But proximity to the Meersen dividing line appears to have had an even larger effect on the likelihood that a city would establish political autonomy. Proximity to the Meersen line continues to be a statistically significant predictor of city-state development even when multiple controls for initial urbanization are included in the specification. The reverse is not true. I conclude the chapter by presenting a set of instrumental variables estimates that use distance from the Meersen partition line as an instrumental variable for city-state development. This estimation strategy should be most effective at ascertaining whether my conclusions regarding the financial advantage of city-states are biased by the failure to control for idiosyncratic factors that lowered barriers to collective action in some cities. We should be considerably more cautious in suggesting that this estimation strategy also controls for the second endogeneity problem referred to earlier—that city-states simply emerged in areas that were more economically developed to begin with. This book presents a wealth of additional evidence that can be used to form a judgment on this latter issue. Finally, I should emphasize again that the primary goal of chapter 5 is not to develop an instrumental variable even more exotic than those that have gone before it. It is instead to launch an empirical investigation of why city-states emerged in some places but not others and to propose a new explanation that, while certainly preliminary, has clear empirical support.

Case Study Evidence

The case study evidence in chapters 6 and 7 complements the statistical evidence of the previous chapters by providing a much closer look at the mechanisms at play in individual polities. While I make no claim to expanding dramatically the knowledge of any of the individual cases considered in these chapters, I do also believe that the breadth of the comparisons presented here is novel in form. Chapter 6 considers three city-states: Cologne, Genoa, and Siena. All three of these cities had the sort of representative political institutions that could serve as an effective mechanism for creditors to exercise a degree of control over state finances.

All three cities also established public debt at an early date. The question is whether there was actually any causal link between these developments. Chapter 7 investigates the obstacles to public credit in three territorial states: France, Castile, and the Dutch Republic.

The city-state cases in chapter 6 provide further evidence that the city-state advantage in borrowing was dependent not only on the presence of merchants; it was also dependent on them having political control. In fact, it was those city-states with the most closed and oligarchical political institutions, dominated by merchants, that enjoyed the best access to credit. City-states with more open, democratic institutions with broad participation often found access to credit more difficult. In Cologne, Genoa, and Siena public debt, and in particular the taxes required to service debt, were a subject of frequent and sometimes violent political contestation. With some risk of simplification, we can speak of an underlying conflict between mercantile groups who held public annuities, and who sought to ensure that taxes would be levied to service these obligations, and other social groups who protested against heavy indirect taxes on common consumption goods. Disputes about public finances were often coupled with conflict over the structure of representative institutions in each city and with the question of which social groups should be represented on city councils. Should these bodies retain an oligarchical form with a small number of individuals in control, or should they instead be opened to other groups and in particular craft guild representatives? When uprisings were successful in at least temporarily overthrowing existing regimes, this had direct negative consequences for public credit. Such shifts in government triggered unilateral interest rate reductions, partial defaults, or adverse swings in market prices for government debt.

Cologne presents a prototypical example where a political elite with a significant engagement in commerce invested heavily in public annuities while simultaneously retaining an oligarchic control of the city's political institutions. Cologne was also a particularly long-lasting city-state. It retained a high degree of political independence through the end of the eighteenth century. The case of Cologne provides particularly fascinating evidence about the importance of creditor interests controlling the city council, because creditors did temporarily lose political power as a consequence of a revolt in 1513, and one policy consequence of this change in regime was a partial default on public debt.

Genoa was atypical among the city-states considered in this study in that after 1407 management of both its debt and revenues was delegated

to an independent corporation, the Casa di San Giorgio. I will argue that while the establishment of the Casa di San Giorgio may have been crucial for Genoa's subsequent financial success, the Casa was not an institution that somehow insulated Genoese public finances from Genoese politics. As emphasized by Jacques Heers (1961), the success of the Casa was instead ultimately dependent on the fact that mercantile interests held prominence both within the Casa and within the institutions of the Genoese Republic itself. In other words, the Casa di San Giorgio existed and prospered because Genoa had a dominant mercantile elite that controlled Genoese political institutions.

Siena, as the third city-state to be considered, provides a contrast to the examples of financial success presented by Cologne and Genoa. During the years between 1287 and 1355, Siena was ruled by a merchant oligarchical regime that bore many resemblances to the regimes in the other states considered here. Siena also provides an example of how a popular uprising could result in an enduring change of regime with negative consequences for public finances. After a revolution in 1355, a series of regimes ruled the city, many of which had a significant element of popular control, and none of which was characterized by the dominance of a merchant oligarchy. After 1355 Siena experienced a period of unstable public finances to match its political turmoil. Siena attests to the significance of merchant political control for public credit, precisely because this is an instance where a merchant elite lost power.

Among the three territorial states considered in chapter 7, France and Castile have traditionally been referred to as lacking creditworthiness while the Dutch Republic has been seen as a model in the development of public credit. One common way to explain this variance in outcomes is to refer to institutional differences; the Dutch Republic succeeded because it was a republic with a strong representative assembly, whereas the rulers of France and Castile were "absolute" monarchs facing few institutional constraints. I will argue that there were more institutional similarities between these three cases than is commonly realized. Executives in all three states were subject to significant institutional constraints on their authority. The difference was that in the Dutch Republic, small geographic scale made it possible for representatives of an assembly to monitor executive actions intensively. In France and Castile, by contrast, geographical scale was much more of an obstacle.

My investigation of France will focus on an interesting aspect of the French monarchy's attempts to create a long-term public debt. France's national representative institution, the Estates General, met very

infrequently, and there is little evidence that its members demonstrated sympathies for state creditors when it convened. Though France lacked an active national assembly, at the municipal level in Paris a system for issuing public annuities developed from a very early date, and it was by making use of this system that the French monarchy first established a long-term debt in 1522.[28] As remarked by Cauwès (1895) this system of issuing *rentes sur l'Hôtel de Ville* bore a very close resemblance to the practice in states where active representative assemblies controlled public debt. The problem was that the system of rentes sur l'Hôtel de Ville failed once an attempt was made to expand its scale so that the magistrates of Paris were expected to monitor revenue collection in more distant locations. The problem was not that France lacked the right institutions; it was that France was simply too big.

For consistency, in my broad sample statistical analysis I have classified the Dutch Republic as a territorial state, but whether one decided to call it a city-state, a territorial state, a league of cities, or some other hybrid form, the more fundamental point is that the experience of the Dutch Republic strongly supports the core argument of this book. As numerous scholars have emphasized, the Dutch Republic during the sixteenth century was essentially a confederation in which individual cities remained politically predominant, and the governing bodies of these municipalities were run by merchant oligarchies who themselves invested heavily in public credit. The Dutch Republic was also characterized by a high intensity of representative activity, but there was nothing revolutionary about this development. There is evidence that from a very early date, well before the Dutch revolt against Habsburg rule, representative activity at the regional level in the Low Countries was favored by the geographic proximity of major cities.

As a final case, I consider developments in Castile during the sixteenth century in light of events in the Dutch Republic. Recent historical work undermines the existing argument about absolutism and the Spanish monarchy's difficulties in obtaining credit. First, the Spanish monarchy's debt behavior prior to 1598 was less disastrous than received wisdom suggests, although for the period after 1598 this was not the case.[29] Second, in formal terms, representative political institutions in Castile actually had striking similarities with those in Holland. Much like

[28]This episode has also been considered recently in a fascinating study by vam Malle-Sabouret (2008).

[29]Drelichman and Voth (2008 a, b).

the States of Holland (the most prominent provincial assembly in the Dutch Republic) by the sixteenth century, the Cortes of Castile was dominated by urban representatives chosen from a fixed set of towns. It also had very significant prerogatives with regard to the approval of taxation and the administration of revenue collection. Unlike the States of Holland, however, the Cortes never succeeded in establishing itself as an effective monitor of public spending, despite efforts to the contrary. One prominent reason for this failure may have involved the fact that the Spanish crown had another source of revenge—imports of precious metals from the New World—there by reducing its dependence on Cortes.[30] I will suggest that geographic scale presented a further fundamental obstacle to the establishment of a more intensive form of political representation in Spain.

Plan of the Book

In this chapter I have presented the questions I address, my core argument, and the evidence used to support it. The remaining chapters proceed in the following fashion. Chapters 2 and 3 discuss the importance and evolution of public credit, and consider the emergence of representative institutions in Europe. In these chapters I present the data I have collected covering a sample of 31 states. Chapter 4 then presents an econometric analysis using this data, and it tests my argument about geographic scale and merchant political power against the alternatives. Chapter 5 pursues the next logical step by considering the origins of city-states. Chapters 6 and 7 then present the case study evidence. Chapter 8 concludes by discussing the implications of this study for debates about state formation, institutions, and development.

[30]This effect has been emphasized by Drelichman and Voth (2007).