Chapter 1

Markets and States

Historians of early modern Europe have to explain at least two exceedingly far-reaching phenomena. The first one turned people who had thought about themselves as the citizens of a town or the subjects of an estate or village—be it seigneurial or royal—slowly but surely into subjects and eventually citizens of a nation-state. The second one, less often appreciated but equally important, was that Europeans' livelihoods became subject to changes in markets that were a long way out of their local or regional reach. By the eighteenth century almost all people in Europe, even in relatively remote areas, had become subject to the risks and opportunities of "national" markets, "international" competition, and intercontinental trade.[1] These twin developments and the cultural and social transformations they embodied are the theme of national historiographies under such titles as "The Making of Modern Country X," be it France, England, or even the more controversial cases of Germany or Italy. It is a sign of the difficulties in accounting for these twin processes in Spain that there is no "The Making of Modern Spain" to the best of my knowledge.

The nation-state with a domestic, nationwide market has proven surprisingly long-lived even in today's global age. However, historiographical scholarship has reached a consensus that this national focus has its limitations and pitfalls; this book is written in that spirit. Any sense of the national complemented rather than substituted for local and regional allegiances, while at the same time it was shaped by new global interactions.[2] The outlook on life of fishermen in a Basque village remained shaped by local factors, even if conflicts between the Spanish Crown and European competitors in far-flung Atlantic waters might threaten their livelihood. Language, rituals, religiosity, and traditions continued to be locally determined in most places. This is probably truer in Spain than elsewhere in western Europe. Yet there is a danger of getting lost in the marvelous idiosyncrasies of the local and losing sight of the fundamental changes that were taking place at the same

[1] Debates about formal attempts to date the onset of the age of globalization are hardly of any importance in this context. See Osterhammel, *Geschichte der Globalisierung* versus O'Rourke and Williamson, "Once More." The mechanistic search for a "breaking point" somewhere in the early modern period from which onward global rather than local, national, or European markets existed seems largely ahistorical given that intercontinental contact developed in typical slow and piecemeal fashion.

[2] For a fascinating study of this process on the Spanish-French borders, see Sahlins, *Boundaries*.

time. By the early nineteenth century the European nation-state was a well-articulated bureaucratized apparatus that was more powerful than all of its predecessors. It was also governing over a territory that was considerably more economically integrated in the interior and often more integrated on the outside with neighboring countries, colonial offshoots, and faraway consumers and producers.[3]

Economic development was largely "Smithian" in the premodern era: it depended on the process of market expansion and deepening so aptly described by Adam Smith in the late eighteenth century.[4] This is not to downplay the importance of the contribution of intellectual developments, as well as science and technology. Yet even into the early phases of the Industrial Revolution economic growth derived predominantly from the benefits of increased division of labor made feasible through specialization and exchange.[5] Exchange fostered specialization; specialization improved skills; skills underpinned innovation.[6] Innovation led to new and cheaper consumer goods; new and cheaper consumer goods were an incentive to increase income; increased income raised demand; demand fostered further exchange.[7] The process is almost trivial and could be declined up and down in slightly altered sequences. Nonetheless, it was remarkably powerful. Integrated markets were no guarantee for economic growth. But without them, technological change, human capital improvements, and other potential sources of productivity gains were less likely to occur, and where they did happen, their impact on economic growth was seriously circumscribed.

Without integrated markets the fiscal base of the state was hard to establish and expand, too. Thus the relationship between emerging states and integrating markets worked both ways. For its survival and military protection the modernizing state depended increasingly on its subjects' economic well-being and its own ability to tax. The rise of the nation-state and the rise of nationally integrated markets was a dual but simultaneous process. It has attracted a lot of attention from various quarters including historical economics, sociology, and the study of nationalism, identity, language, and social habitus.

This chapter, however, concentrates on the dominant political economy models that try to explain the relation between markets and states in Europe's early modern economies. Placed into the context of Spanish history, some of the main assumptions of the model turn out to be highly problematic

[3] The creation of nation-states had, however, two contradictory economic effects on international integration. On the one hand, larger domestic markets often gave an impetus for international integration. On the other hand, increased consolidation of the nation-state increased border effects. See, for example, Engel and Rogers, "How Wide Is the Border?"

[4] Smith, *Wealth of Nations*.

[5] Epstein, *Freedom and Growth*.

[6] North and Thomas, *Rise of the Western World*, 93.

[7] For the role of demand in Europe's economics development, see de Vries, *The Industrious Revolution*.

and in urgent need of revision. A lopsided focus on the state as predator has distracted economists and economic historians from trying to understand better how states became jurisdictionally and economically integrated units in the first place. The void has been filled by a number of poorly historicized references to concepts borrowed from historians and historical sociologists such as "absolutism" and "patrimonialism." These concepts were supposed to delineate the development of European states from fragmented sovereignty to unified nation-states. Thus a particular kind of modernization theory was applied that could conveniently latch onto the idea of the "early modern period" as an era in which political and economic institution-building passed through a number of transformations that paved the way from a "premodern" to a "modern" world. Polities that failed to take the prescribed route hence became "failed" states. These terms, whether premodern or modern or failed, are all highly suggestive, but they are also per se perfectly empty of meaning.

Political Economy: What Sort of State Is Needed for Growth?

Historical political economy approaches the relationship between states and markets from a normative perspective by asking what kind of state and governance was conducive to the growth of private markets. Since the 1970s, institutional economics (often referred to as "new institutional economics," or NIE) has integrated the role of the state explicitly into neoclassical economics and has radically altered the way economists think about the state. Unlike Marxist or neo-Marxist theories, institutional economics does not see the state as an embodiment of power and class relations, and thus as the origin of markets. Instead NIE holds that markets largely (though not exclusively) emerge spontaneously out of Adam Smith's famous "propensity to truck and barter and exchange."[8] Exchanges of goods in the market are beneficial but not costless. They are subject to transaction costs associated with getting goods to and from the market, information gathering, protection against cheating, changing currencies or measures, and a whole litany of other costs.[9]

From the NIE point of view, economic growth depends on low transaction costs or, put another way, on efficient economic organization. In 1973 North and Thomas expressed in one succinct sentence what has become a credo for economists ever since: "Efficient economic organization entails the establishment of institutional arrangements and property rights that create an incentive to channel individual economic effort into activities that bring

[8] See Polanyi, *The Great Transformation* as opposed to North, "Markets and Other Allocative Systems."

[9] The importance of transaction costs was first discussed by Ronald Coase, who asked why firms used internally non-market allocation mechanisms. See his "Nature of the Firm."

the private rate of return close to the social rate of return."[10] Put simply, Adam Smith's invisible hand only develops to its full potential if institutions support secure property rights.[11] Greif more recently reformulated the link between institutions and markets as the "fundamental problem of exchange": for transactions to occur and the market to function, those involved need to commit ex ante and comply ex post. In plain English: economic agents need to trust their business partners before making a deal and be forced if necessary to fulfill their side of the bargain by some higher authority after they have agreed on a transaction.[12]

In many cases private order institutions can provide trust and enforcement based on common religious or ethnic backgrounds, or contractual agreements among their members.[13] Merchant guilds, like the Castilian, Basque, and Catalan *consulados*, were a case in point. Through social pressure and sometimes commercial tribunals, they kept members on the straight and narrow.[14] Yet the single most important "third party enforcers" were, and are, political rulers, be they town councils or kings.[15] The problem is that from a political economy point of view the role of power and the ruler is highly ambiguous. As the protector of individuals' lives and property, the ruler needs to be strong and have a monopoly of violence.[16] But as a strong actor with a monopoly of violence the state itself can become a predator that endangers personal property and safety.[17] Thus for states to be conducive to growth they need to protect subjects' or citizens' private property rights from threats at the hand of their fellow subjects or citizens without in turn becoming a threat to those very same property rights.

The specter of the predatory state has led historical political economy to produce an extraordinarily large corpus of research on the question of how to "tame" the state in its role as a potential threat to property rights. By contrast, the discipline has spent much less time trying to understand how states became autonomous, powerful actors that were able to extend protection in the first place. It has done so at its peril. What had begun as the important

[10] North and Thomas, *Rise of the Western World*, 1.

[11] North's view on this issue is not accepted by everyone. See, e.g., Grossman, "The Creation of Effective Property Rights."

[12] Greif, "Fundamental Problem," 254.

[13] The definition of "institution" is a vexed issue in this literature. For the purpose of this debate I will define them as socially determined conditional incentives and consequences to actions. Since they are parametrically given to every individual they create the structure of incentives in a given society. For a formal definition, see Aoki, *Toward a Comparative Institutional Analysis*, 26.

[14] For a discussion, see Gelderblom and Grafe, "Merchant Guilds."

[15] North and Thomas, *Rise of the Western World*. North initially distinguished between "institutions," essentially sets of social norms, and "organizations" such as the state but later relaxed that distinction.

[16] This part of Weberian thinking about the state is largely unquestioned. Weber, *Wirtschaft und Gesellschaft*.

[17] Greif, *The Path to the Modern Economy*, 91.

realization that markets needed states quickly became a study of how the state as the enemy of the market could be constrained.[18]

The Early Modern State as a Predator

Economists and economic historians have sidelined the question of state-building by referring to a set of assumptions derived from historical sociology that provide a parsimonious and supposedly uncorrelated, but problematic, prime mover for European state-building. The argument is that military competition between European rulers created a binding exogenous constraint on fiscal decision making in the early modern period. A "military revolution" necessitated the creation of a "fiscal-military state."[19] Competition between rulers for territory and subjects was undoubtedly a central feature of European political development in the Middle Ages. When exogenous changes to military technology, especially firearms and artillery, began to shift the advantage from defense to offense, this in turn necessitated large new investments in urban defense and other costly strategic changes.[20]

The increased size of European armies in the early modern period bears witness to some of these changes. Castile had 20,000 soldiers under arms in 1470; the "Spanish" army had 150,000 in 1550, 200,000 in 1590, and 300,000 in the 1630s at its peak.[21] Large numbers of mercenaries had to be paid with some regularity lest they join the enemy. Alternatively soldiers might choose to pay themselves and embark on looting campaigns that civilian populations in Italy, the Germanies, and the Netherlands came to fear more than anything else.[22] While Habsburg Spain built up the largest infantry seen in Europe since the Roman Empire, the Netherlands and Britain began to expand professionalized navies, substituting the earlier strategy of impressing merchant vessels into service.[23]

[18] Empirically it is not obvious at all that the fear of the predatory state was the single most important driving force of institutional development as is often assumed. For an attempt to place this fear in the context of several other possible factors, see Gelderblom and Grafe, "Merchant Guilds."

[19] See, e.g., Bonney, *The Rise of the Fiscal State*; Brewer, *Sinews of Power*; Braddick, *The Nerves of the State*; Braddick, *State Formation*; Tilly, *Coercion*; and Crouzet, *La guerre économique*. For a recent very perceptive account of the term's evolution, see Torres Sánchez, "Triumph," 14–21, and Storrs, *The Fiscal Military State*.

[20] Parker stresses in particular the *trace italienne,* an extremely costly structure for urban defense that converted military conflicts even more from open-field battles into siege warfare. Parker, *Military Revolution*.

[21] Yun Casalilla, *Marte Contra Minerva*, 44.

[22] The Spanish Habsburgs repeatedly suffered the political backlash from such mutinies, for instance, after Carlos V's German protestant troops sacked Rome in 1527 or Philipp II's *tercios* looted Antwerp in 1576.

[23] The Spanish Armada of 1588 was still largely comprised of impressed merchant vessels, but Spain also changed policy soon thereafter. Grafe, "Spanish Shipping"; Rodríguez-Salgado, "The Spanish Story."

Political economists have thus argued that a change in military technology and strategy and the impetus it gave to European state formation created an inescapable constraint on early modern rulers. Since military activity is subject to indivisibilities—larger armies are cheaper per capita—the optimum size of the state increased, and this fostered a territorial consolidation process.[24] In this phase of "mergers and acquisitions," roughly from the mid-fifteenth to the early nineteenth century, mere survival as a minor state was not an option most of the time.[25] Instead, states had to consolidate into larger units with larger fiscal potential to survive. Size alone, however, was no guarantee of success. The external constraint imposed by military contest also implied that rulers in any given polity had to push hard for fiscal resources.[26] That required a strong state. The ultimate winner of this contest was England, but there were second prizes. France, Sweden, Denmark, Spain, the Netherlands, and a number of smaller territories managed to hang on to independent statehood, something lost by most small territories, principalities, and city-states.

Military competition and the need for a strong state that it created, however, also meant that the state had a strong incentive to increase its revenue through predation.[27] Rulers were of course aware that expropriating their subjects and lenders through taxes or debt defaults was damaging to their reputation as borrowers in the longer run. But, faced with a threat to the survival of their rule, any concern about the future was supposedly heavily discounted.[28] States could thus become in Olson's famous phrase "stationary bandits."[29] Unless one argues that long-term economic development is ultimately the outcome of a cruel geographical lottery that favored some regions and limited others, institutions, chief among them the state, are the most likely source of differential growth paths across countries.[30] Having accepted (often implicitly) the supposedly overwhelming pressure for revenue, the question became how polities could maximize revenue while minimizing the threat to property rights domestically. With this the focus immediately shifted to domestic constraints on rulers' revenue raising and rules for spending.

[24] Bean, "War"; Parker, *Military Revolution*; Roberts, *The Military Revolution*.

[25] Mann, *Sources I*, 490ff.

[26] Brewer, *Sinews of Power*; O'Brien and Hunt, "Rise."

[27] It should be noted that some have argued that military campaigns sometimes could feed "off the land." Also, in some cases war stimulated taxable economic activity. For a case study of Dutch frontier towns, see Vermeesch, *Oorlog*.

[28] North and Weingast, "Constitutions and Commitment," 807.

[29] For the concept of the "stationary versus roving bandit" and an attempt to show formally that an autocrat will extract higher rents than will a majority coalition, see McGuire and Olson, "Economics of Autocracy," especially 93–96.

[30] Geography might have an impact through a variety of channels, such as resource endowments, climatic conditions, or disease environment. See, e.g., Easterly and Levine, "Tropics"; Diamond, *Guns, Germs and Steel*; and Engerman and Sokoloff, "Colonialism, Inequality, and Long-Run Path." On the burden imposed by disaster control and welfare, see Jones, *Growth Recurring*, 133–34, 144, and passim.

Political economy has argued that the existence or absence of "parliamentary representation," a political regime that tied rulers' decisions to the approval of a larger group of subjects or citizens, was the single most important variable in explaining long-term economic performance. The distinction between rulers, kings, princes, or modern autocrats who were not constitutionally constrained and those who were became the central causal element believed to explain the growth potential of early modern states.[31] In a seminal 1989 article, North and Weingast argued that the way in which the English Glorious Revolution improved the state's ability to finance itself demonstrated empirically the virtuous effects of such representation. Before the Civil War, Parliament's refusal to vote taxes for the Tudor monarchy had limited the Crown's foreign policy. Its credit was poor, and sovereign interest rates were high. Exactions, defaults, and forced loans provided a stopgap, but by expropriating its subjects and lenders, the Crown ruined its reputation among potential financiers even further.[32] By contrast, after Parliament's victory over the Crown, the government was able to borrow much larger amounts at significantly lower interest rates. Using sovereign interest rates as their indicator, North and Weingast concluded that investors evidently felt that the risk of the new (Dutch) rulers of England not honoring their commitments was considerably lower now that they were constrained by Parliament's "power of the purse."

A state that could finance itself more easily had less need to resort to tax hikes, defaults, monopolies, or other ways of reaching into its subjects' pockets. This benefited private investment. North and Weingast also argued that lower interest rates paid by the new Crown and Parliament and improved capital markets for public debt helped lower interest rates elsewhere in society and thus fostered investment and growth. Alas, there is little historical evidence that public and private interest rates were in fact integrated in the way North and Weingast assumed.[33] In addition, the authors argued that the new unwritten constitution of England, in which the Crown committed to respecting Parliament's rights to grant taxes and control expenditures, had created a system in which taxation was predictable and Parliament guaranteed

[31] De Long and Shleifer, "Princes or Merchants"; North and Weingast, "Constitutions and Commitment."

[32] Braddick, *The Nerves of the State*; Schofield, "Taxation and the Political Limits"; North and Weingast, "Constitutions and Commitment."

[33] Clark has shown that investors in early modern England knew to distinguish between private property rights, which were secured by a functioning legal system since the Middle Ages, and public property rights to taxation, which were not until the consolidation of the nation-state. Clark, "The Political Foundations"; Stasavage, *Public Debt*; and for Europe generally, Epstein, *Freedom and Growth*, 60. We will see in chapter 7 that Spanish private interest rates would support that argument. Note also that others have argued that the survival of usury laws was the main reason why private interest rates were kept low despite rulers' fiscal improbity. Hence credit rationing, rather than higher interest rates, restricted private investment but could direct more capital into public debt. See Temin and Voth, "Credit Rationing and Crowding Out."

that random expropriations would not occur. As a consequence, from the late seventeenth century through the eighteenth century, resistance to taxation decreased, and government's income became more predictable, providing a secure foundation for debt financing. Taxation levels could remain lower because taxation was more equitable and efficient.

The argument put forward by North and Weingast has become a paradigm that centers on the dichotomy between "absolutist" and "parliamentary" political regimes. The former are identified with extractive institutions and predatory states that hinder the optimum development of markets through exploitation of subjects' property or labor in forced labor regimes.[34] Political entities (medieval city-states, early modern parliamentary systems, modern democracies) that developed an institutional setup that restrained rulers from preying on their own people took part in the accelerating economic development; the others (medieval princes, early modern absolutist monarchies, modern dictatorships) were left behind.

The Ability to Tax of Early Modern European States

North and Weingast's formulation of the divide between "absolutist" and "constitutionally constrained" rulers simply suggests that the former were not encumbered in their ability to appropriate; when faced with military necessity, they infringed on their subjects' private property rights at will. Thus, "absolutist" regimes were supposed to be large but inefficient states. Here the lack of a theory of state-building, or power more generally, soon became apparent. The early NIE model was predicated upon an assumption that the state—in this case the early modern one—already *had* power that it abused to prey on its subjects. Hence, it could only be kept in check by parliament.[35]

Research on early modern fiscal systems, however, quickly demonstrated that the advantage of parliamentary regimes was not that they appropriated a *smaller* share of the national product in the form of taxes but that they were able to appropriate a *larger* share. Modern economists measure this burden as the ratio of the national income (GDP) that is being paid to the government in taxes. For historians national income is an elusive concept and should be handled with care even for the later eighteenth century.[36] English estimates

[34] Levi, *Of Rule and Revenue*; McGuire and Olson, "Economics of Autocracy"; North, Weingast, and Summerhill, "Order, Disorder and Economic Change"; Knack and Keefer, "Institutions and Economic Performance"; Rodrik, Subramanian, and Trebbi, "Institutions Rule"; Acemoglu, Johnson, and Robinson, "The Colonial Origins"; Acemoglu, Johnson, and Robinson, "Reversal of Fortune."

[35] See also Epstein, "Rise of the West," 234.

[36] See an interesting attempt to approximate something approaching a Castilian national income as early as the sixteenth and seventeenth centuries through urbanization rates and back extrapolation undertaken by Alvarez Nogal and Prados de la Escosura, "La decadenza spagnola."

are probably the best because England was politically, administratively, and fiscally far more centralized than its continental neighbors. The English state of the late eighteenth century took about 12 percent of national income in peace time, closer to 18 percent in war, according to O'Brien. Corresponding estimates for France are 11.5 percent, and for Spain I have elsewhere estimated a share of around 10.5 percent.[37] The latter figure meant a lower share than a century earlier (1660 = 12 percent) but a slightly higher one than in the late sixteenth century (1580 = 8 percent).[38] These estimates suggest that *overall* Peninsular Spanish subjects were not particularly hard-pressed, quite contrary to what a Northian view of "absolutist" governance would have suggested. England's state was able, and willing, to extract a much larger share of the "national product" than the French or Spanish states.

The focus thus shifted from the "protection against predation" side of the North and Weingast argument to the "reliability of taxation" feature also contained in it: where elites were represented in parliament, and thus involved in decision making over taxation, they were willing to pay more on a more equitable basis.[39] In this way of reading the constitutional divide, the problem with "absolutists" was not that they ruined the economy through extraction but that they were faced with corporatist power that severely restricted their ability to raise taxes. They engendered a weak state not because their greed cut short economic growth, as North and Weingast claimed, but because their subjects distrusted them and hence evaded and avoided taxation. The problem was jurisdictional fragmentation. "Absolutists" were anything but absolute; in fact, they shared sovereignty with elites represented in corporate bodies, and this undermined their ability to raise revenue. In Epstein's words, "Jurisdictional fragmentation . . . gave rise to multiple coordination failure. [This coordination failure] rather than autocratic rule was the main source of institutional inefficiency of 'absolutism' before the 19th century."[40]

The ability to tax of early modern European monarchical states has been studied most thoroughly for the case of France, and the French mirror has been extrapolated to view other European "absolutists." Velde and Weir have pointed out that the inability of eighteenth-century French finance ministers to bring down the cost of borrowing reflected investors' expectations and inbuilt constraints, not poor management. The fundamental problem was "a political system that completely separated the privilege of spending from

[37] O'Brien, "Political Economy"; Weir, "Tontines"; Daudin, *Commerce et prospérité*; Merino Navarro, *Las cuentas*. See also Grafe and Irigoin, "Stakeholder Empire," table 1.

[38] Thompson, "Castile: Polity," 176. Thompson cautions against over-interpreting these figures. Notwithstanding the large margin of error, however, the trends of increasing burdens toward the later seventeenth century and some relief for taxpayers in the eighteenth seem to coincide with other evidence. The relatively moderate share of GDP taken as taxes relativizes the notion of a more predatory state in the early modern period.

[39] O'Brien and Hunt, "Rise." See also Stasavage, *Public Debt*, 57.

[40] Epstein, *Freedom and Growth*, 15.

the obligation to pay taxes."[41] The Crown had full sovereignty over only a limited set of taxes, sharing jurisdictional control over all others with various corporate players invested with their own authority. These could only be raised in negotiation with the Church, or some of the provincial *états*, or the noble estate, or the mighty cartels of French tax farmers. The French Crown was thus far from absolute on the revenue side of the public accounts. By contrast, it had full executive decision over expenditure, that is, to start a war. The lack of a central budget added to the lack of transparency; the French kings (like their Spanish cousins) rarely knew what their disposable resources were or how much they had spent.[42]

The fundamental incongruence between decision making over revenues and expenditure created a dynamic that led to both lower revenue and higher risks of default. As Rosenthal has shown, negotiation between the elites and the Crown over taxation resulted paradoxically in the lowest revenue whenever the power to tax was shared almost evenly between elite and king.[43] The underlying logic of this insight is that of a prisoner's dilemma.[44] Crown and elite could have maximized their returns (the total taxes extracted) if they had cooperated. Alas, depending on how much power each side had, either one or both had an incentive to defect and free-ride on taxation raised by the other party. The outcome was a suboptimal lower overall payoff: less revenue.

The French Crown attacked the problem in two different ways but was eventually unable to overcome it. Before 1720 the Crown tried to expand its control over taxation at the expense of the elite and at the same time predated on economic activities by manipulating currencies, changing tariff rates, and selling offices and titles. After the 1720s, however, it increasingly tried to align elite interests and Crown policy by selling its debt to the general public rather than corporate bodies, which "brought to the Crown a clientele of lenders who were largely disenfranchised."[45] In addition, the Crown began to use those of the provincial estates (*états*, such as Provence or Languedoc) that had retained tax-raising abilities as intermediaries that raised debt for the Crown based on their better reputation as creditors. However, reform was incremental at best because the Crown was unwilling to negotiate its total control over foreign policy–related expenditure with the "elite."

Thus the increasingly desperate search for revenue pushed the Crown to levy prohibitive taxes on the few areas where it faced less organized opposi-

[41] Velde and Weir, "Financial Market," 6, 36.

[42] Storrs, *Resilience*, 108.

[43] Rosenthal, "Political Economy," 73–74.

[44] Rosenthal's model is more sophisticated, however, in that it can account for varying shares of power being given to elite and Crown.

[45] Rosenthal, "Political Economy," 68, 82. Michael Kwass has argued that the Crown alienated landowners in the *pays d'elections* and officeholders everywhere especially through the tighter application of the *taille* and the introduction of the *dixieme* and *vingtieme,* a process that might explain the anti-absolutist stance of a surprisingly large share of the French elites in the run-up to the revolution. Kwass, *Privilege*.

tion and to raise loans of the more expensive kind, such as life annuities. This aggravated the economic consequences of such a relatively weak political regime; though the extraction of resources from the economy was not excessive, marginal rates in some fiscal areas led to huge distortions.[46] The argument advanced by O'Brien that "absolutist" states suffered from poor tax compliance is thus pushed one explanatory step further. The inconsistency between the power to spend and the power to raise revenue in "absolutist" states ultimately forced the Crown into giving up more power to the elites whom it had to co-opt in a patrimonial way by offering offices and sinecures.[47] Jurisdictions that were shared and fragmented between Crown and "elite" made sudden tax increases (like those after 1635) or particularly large tax hikes extremely difficult to accomplish without threatening the cooperation between Crown and elites. This in turn undermined the long-term viability of the system. It limited France's ability to increase taxation quickly when war loomed and creditors demanded to know how their up-front loans would be serviced in the short and medium run, thereby handing a decisive advantage to its main contender, England. At least some historians would also still (or maybe again) argue that it contributed to the revolutionary challenge against the monarchy.[48]

Spain in the French Mirror

From the beginnings of NIE, attempts to identify what sort of state institutions supported or thwarted market growth in early modern Europe assumed that the French case could be extrapolated to construct a model of the political economy of early modern "absolutists." North, for example, states that the "similarities between the French and the Spanish political developments [in the early modern period] are striking."[49] Yet even a cursory look reveals a number of difficulties with this comparison, which result mainly from the lack of a proper historicization of the system of governance. Where power was located in Spain (in contrast with France), how it was legitimized, and how it was exercised shaped the relationship between subjects and Crown, corporate bodies and Crown, territories and towns, and so on. A central argument of this book is that these differences, rather than a simplistic distinction between "absolutist" and "parliamentary" political regimes, determined the complex outcome of state- and market-building.

[46] Hoffman and Rosenthal, "Political Economy." See also Weir, "Tontines."

[47] Hoffman, "France."

[48] Although socioeconomic explanations for the French Revolution have been out of vogue, a number of historians have begun to reconsider their impact within a larger sociocultural context. See, e.g., Kwass, *Privilege*.

[49] North and Thomas, *Rise of the Western World*, 127. See also North, *Structure and Change*, 152.

Military Necessity and Revenue Pressure

The first problem arises from the underlying assumption that military necessity created an exogenous constraint that forced all rulers to push for maximum revenue extraction. For political economists this is a convenient deus ex machina that identifies a prime mover of state institution-building that is an exogenous rather than an endogenous variable. But this view of the origins of the European nation-state is contested. To begin with, it is not clear that military technology was really an independent variable and the exogenous trigger of this development, as most economists and sociologists imply.[50] Military pressure pushed rulers to improve state institutions, but at the same time the increased technical and political capacity of states to raise taxes drove the scale and scope of war. Early modern philosophers and modern economists and sociologists alike have seen the creation of nation-states as a means of ending "the war of all against all," or at least of noble bully against noble bully. However, the process escalated the level of violence against individuals and certain populations, at least in the short run, with detrimental consequences, for example, for those engaged in long-distance trades.[51] Institution-building was as much a source of violence as a consequence of violence; and war and market integration were almost certainly negatively related in the short and medium term.[52] Yet,without question, once a European competitive state system had come into existence, military might was needed to guarantee survival, and the fiscal well-being of the state was a necessary if not sufficient condition for a functioning army and navy. Military expenditure everywhere was—as has often been pointed out—the single largest rubric of early modern state spending. Direct and time-deferred exenditure (that is, paying off the war loans) always exceeded two-thirds of the budget, rising to 90 percent during campaigns.[53]

Still, the case of Spain shows clearly that the fiscal imperative has been overdrawn in comparative studies of European fiscality, in large part because the French mirror has distorted the picture.[54] The general argument is that the recurrent defaults and/or failures to service the debt of the Spanish Crown, especially in the Habsburg period (1557, 1560, 1575–76, 1607, 1627, 1647, 1652, 1660, 1662, 1688) but also under the Bourbons (1727, 1739/1748), were obvious signs of the incompatibility of revenue and expenditure policies in Spain in ways that were comparable to what happened in France.[55]

[50] See Mann, *Sources I*, as opposed to Epstein, "Rise of the West," 247–49.

[51] Gelderblom, "Violence and Growth."

[52] O'Rourke, "Napoleonic Wars."

[53] Grafe and Irigoin, "Stakeholder Empire."

[54] See, e.g., the large comparative effort in Bonney, *Economic Systems*.

[55] See Artola, *La hacienda*, 219, 314, for the 1688 partial renegotiation and the claim that changes to the debt payments in 1729 equaled a partial default. See González Enciso, "Moderate Absolutism," 123–24, for the unilateral lowering of the interest rate in 1727 and the 1739/48 suspension of *juros* servicing that lasted till the reign of Carlos III.

As in all "absolutist" regimes, without constraints on spending the Crown was said to pursue a foreign and imperial policy it could ill afford and that wrecked its finances.[56]

But the evidence is not as straightforward as it once appeared. It is now widely accepted that the Castilian *cortes* (estates), which consisted of delegates from the most important towns, were far from powerless.[57] Throughout the sixteenth and early seventeenth centuries, they constrained the Crown fairly effectively.[58] Though they had no formal legislative initiative, they exerted increasing control. The share of royal revenue subject to grants by the *cortes* increased from a quarter in the 1560s to 70 percent in the mid-seventeenth century; and around 1600, empowered by the votes of a very important new tax, the *millones*, they acquired de facto legislative initiative.[59] This increase in the power of the estates in Castile was mirrored in some of the other territories of the Spanish monarchy, notably Navarre and the Basque Provinces.[60] The Crown stopped calling the Castilian *cortes* in 1665 out of its own weakness rather than strength.[61] Even so, the consent of the towns represented in the *cortes* was still required for regular prorogations of taxes, and the Crown shifted toward bargaining with individual towns rather than exerting central revenue-raising powers. The *cortes*-voting towns renewed the *millones* in 1667, 1673, 1679, 1685, 1691, and 1697 but only after negotiations with the *sala de millones*.[62]

Though historians have argued that the Crown under Carlos II (1665–1700) had effectively locked in the fiscal system by refusing to call the *cortes* so that no new taxes could be voted, it is now also clear that it not only renegotiated existing taxes but also agreed upon new taxes with the *cortes*-towns on several occasions.[63] Similarly, the towns were still powerful enough to reject fiscal changes. As late as 1712 the new Bourbon monarch Philip V called the deputies of the principal towns of Castile and Leon for their views on a radical shifting of the fiscal burden from local trade and consumption taxes to customs as suggested by the Count of Bergwyck.

[56] For the most eloquent statement, see Yun Casalilla, *Marte Contra Minerva*.

[57] Towns represented were in Old Castile (Leon, Burgos, Salamanca, Valladolid, Madrid, Guadalajara, Zamora, Toro, Soria, Segovia, Avila), in New Castile (Toledo, Cuenca), in the southeast (Murcia), and in Andalusia (Cordoba, Jaen, Seville, Granada).

[58] Thompson, "Absolutism in Castile"; Thompson, "Crown and Cortes"; Thompson, *War and Government*.

[59] For the *millones*, see Lovett, "Millones," and MacKay, *Limits of Royal Authority*, 45–46. See also Thompson, "Castile: Polity," 171.

[60] In Navarra the Cortes increased their power with the introduction of the *servicio extraordinario* in the 1650s. Solbes Ferri, *Rentas Reales de Navarra*, 81. For the Basque Country, see Bilbao, "Provincias exentas," 75–77.

[61] Fernández Albaladejo, "Monarquía"; Thompson, "Castile: Absolutism," 191.

[62] Storrs, *Resilience*, 175–82; Fernández Albaladejo, "Cities and State," 178–79; Fernández Albaladejo, "Monarquía"; Thompson, "Absolutism in Castile," 82.

[63] For the revision, see Storrs, *Resilience*. For an earlier view on the freezing of the tax structure, see Artola, *La hacienda*, 209–10. Cremades Griñán, *Borbones*, 101–3.

The towns could not agree on a common position and effectively blocked the plan.[64]

The fiscal situation of the Spanish Crown, at least in the sixteenth and eighteenth centuries (though not in the seventeenth), was also less dramatic than is often assumed. Twenty years ago Rodríguez-Salgado showed that the 1557 "default" was essentially a renegotiation.[65] Thompson has suggested that "defaults" in the sixteenth century should largely be interpreted as a rescheduling of debts within the existing contracts, which implied a consolidation of the public debt by converting loans from large banking houses into negotiable undated bonds, essentially a rights issue. In his view the restructuring brought the hacienda back onto a sustainable path. Drelichman and Voth go further by showing that up to the last decade of the sixteenth century the Crown's debt was in fact sustainable. Even after defaults the terms and conditions of new loans did not change significantly, illustrating that "defaults" were an anticipated part of the contract that was managed thanks to short-term lending.[66] Renegotiations continued in the seventeenth and eighteenth centuries as mentioned above, and not just in Castile. For instance, Catalonia had to renegotiate with its debtors in 1670.[67] But these measures were not unilateral defaults in the strict sense. Instead they were bi- or multilaterally sought solutions to recurring but fundamentally manageable fiscal problems. The sharp modern distinctions drawn between sovereign defaults caused by either insolvencies or debt repudiations on the one hand and renegotiations on the other are unhelpful in understanding how early modern monarchs and their creditors dealt with short-term liquidity issues in order to preserve medium- and long-term solvency.

Indeed, most of the time the Crown's creditors did not consider the situation too dramatic. The standard measure to gauge their concern is of course the interest rates the central hacienda had to pay on its debt. Figure 1.1 offers a first attempt to chart public rates in the sixteenth through eighteenth centuries. The Crown successively lowered the nominal interest rate (the "cupon rate") for its most important consolidated debt instruments, the *juros*, from 10 percent in the 1550s to 2.5 percent after 1728.[68] Yields are harder to come by; it is much more difficult to find information on the actual return investors realized from the *juros*, which reflected both the market price of the

[64] Matilla Tascon, *La única contribución*.

[65] Rodríguez-Salgado, *Changing Face of Empire*.

[66] Thompson, "Castile: Polity," 160–61; Drelichman and Voth, "Sustainable Debts"; Drelichman and Voth "Serial Defaults."

[67] In the process the interest rate was cut in half. Thus renegotiations were obviously not costless for the debtors. But they were still different from defaults, and Fernández de Pinedo argues that in the Catalan case at least capital holders were chasing few investment opportunities, thus enabling the Catalan *Corts* to lower the interest rate. Fernández de Pinedo, "Hacienda catalana."

[68] For the official rates, see *Novissima recopilación*. Legal changes implied that the rate was lowered to 3 percent in 1705, but the new rate was not applied until 1727. See Artola, *La hacienda*, 314, and Toboso Sanchez, *Deuda*, chapter 7.

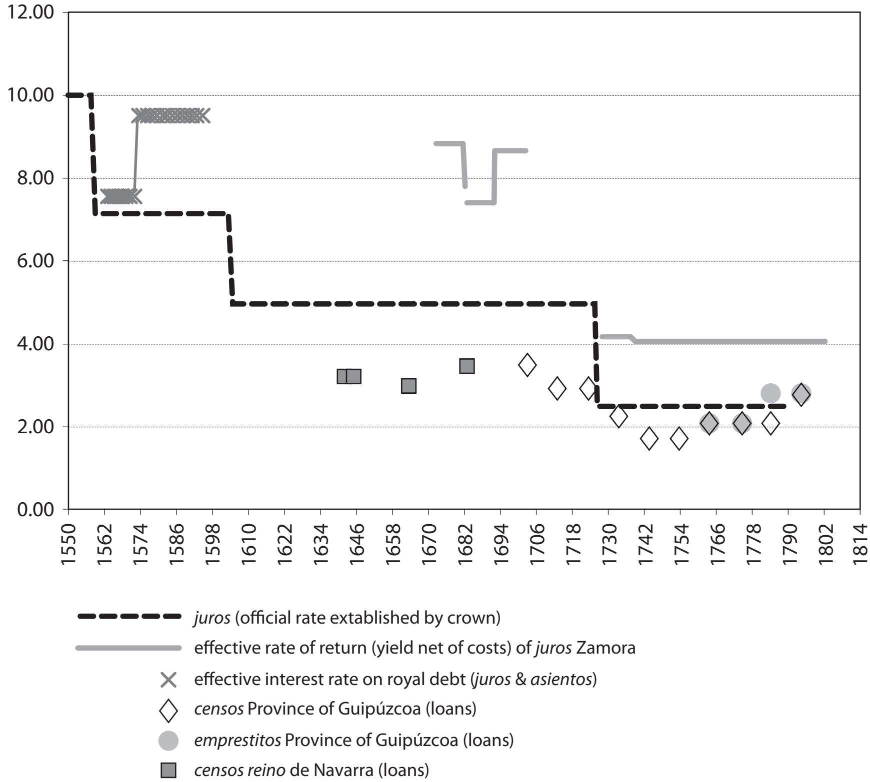

Figure 1.1

Public interest rates (1550–1830). *Source*: My own elaboration based on Alvarez Vázquez, *Rentas*; Drelichman and Voth, "Borrower"; Toboso Sanchez, *Deuda*; Solbes Ferri, *Rentas reales de Navarra*; and Mugartegui Eguía, *Hacienda*.

bond (as opposed to its face value) and the nominal interest rate paid on the face value. For the sixteenth century, some published data are available. The principal of the *juros* increased from about 2.3 million *ducados* in 1504 to 80 million in 1598, and the Crown defaulted (read renegotiated) three times in this period. Yet, in contrast to the NIE model, Drelichman and Voth's data suggest only a modest rise of the interest rate of the royal debt from about 7.6 to 9.5 percent for *juros* and *asientos* (loans from large banking houses) (see figure 1.1). An earlier alternative estimate by Ruiz Martín (not included in figure 1.1) argued that the effective interest rate actually fell from 10 percent to 5.8 percent over the same period.[69]

[69] Ruiz Martín, "Credito y banca"; Drelichman and Voth, "Sustainable Debts." In fact the rise in the rate is largely a composition effect caused by a change in the amount of long- and short-term debt in the portfolio, not by rate rises. I would like to thank Joachim Voth for making me aware of this. For a recent account of the surprising fiscal efficiency in the sixteenth century, see Yun Casalilla and Comín, "Spain."

Either figure is well within the range of rates paid by most European polities in the sixteenth century if we leave out the exception of Italian city-states that reaped the benefits of much more developed financial markets and therefore paid less, as Epstein has pointed out.[70] Spain's supposed early turn to "absolutism" and "orderly despotism" apparently had only a small effect on the Crown's "credit rating."[71] In light of recent research by Sussman and Yafeh showing that institutional reforms had only limited impact on sovereign interest rates in England and elsewhere, this is probably less surprising than once thought.[72]

No data on yields are available for the early seventeenth century. But figure 1.1 presents a first series for the later seventeenth century and much of the eighteenth using the returns on royal debt (*juros*) reported in Alvarez Vázquez's work on the Cathedral Chapter of Zamora (Extremadura). Like most sizable ecclesiastical institutions, the chapter engaged in large-scale financial transactions. Though its income depended mostly on the agricultural economy, the chapter's dealings illustrate the increasingly large role of ecclesiastical institutions in Spain in providing banking services; this is something that financial historians have paid too little attention to but it is reflected in a great many studies that focus on monastic communities.[73] Over time the ledgers reflect "the transformation of the money loan (or, acquisition of perpetual rents) to mortgages and modern credits for a fixed term; the change from a bond as a feudal rent of the twelve and thirteenth centuries to the redeemable mortgage bond in the sixteenth and the fixed term credit of the nineteenth."[74] Thus, the Chapter of Zamora, not a particularly rich institution, managed, on average, loans and credits of 500,000 to 800,000 *reales* at any one time.

The data presented here reflect the yields the chapter realized from the *juros* net of all collection costs, taxes, and discounts that were imposed on them. *Juros* came in all kinds and shapes; they generally stipulated against what (local) revenue they were to be charged and thus the rates presented here are an average of a number of locally traded instruments. In that they reflect much of the Spanish public debt. Most historians agree that from the 1630s onward public finances were indeed on an unsustainable path and the dire straits of the Spanish Crown in the late seventeenth century are clearly visible. Yield rose to between 7.4 and 8.6 percent, twice the nominal interest rate. Since the interest on face value was fixed, the high net yield thus implies that the paper traded at a massive discount in the very active secondary

[70] The other exception was England, which paid very high rates in the sixteenth century and most of the seventeenth because it was fiscally backward. Epstein, *Freedom and Growth*, table 2.1, 16ff.

[71] North and Thomas, *Rise of the Western World*, chapter 10.

[72] Sussman and Yafeh, "Institutional Reform."

[73] See, e.g., Izquierdo Martín et al., "Corte." There is also some very good work on the Spanish Americas; see, e.g., Lavrín, "Nunneries," and Quiroz, "Credit."

[74] Alvarez Vázquez, *Rentas*, 24.

markets, an observation that is entirely consistent with most of the historiography.[75] These rates are lower than those estimated by some historians who have suggested on the basis of more scattered data that the real interest rate on the *juros* occasionally reached 14 percent in this period.[76] In any case, the lenders were getting nervous.

Surprisingly, however, no new *juros* were issued from the later seventeenth century onward.[77] In 1727 the Crown and its Councils brought down the legal interest rate on annuities from 5 to 3 percent.[78] González Enciso argues that this unilateral lowering of interest rates constituted an "aggressive [policy] against the financiers," essentially an expropriation.[79] Throughout the eighteenth century the Crown repeatedly changed the terms of the remaining *juros*, lowering their return. Yet it also retired substantial amounts through redemptions of its legacy debt.[80] This apparently did wonders for the secondary market value of annuities over which the Crown had little control. Thus, in the absence of new debt issues and after a monetary stabilization in the 1680s that ended the rampant inflation affecting small coin (*vellon*), the yield realized on the old *juros* of the Chapter of Zamora hovered around 4 percent in the eighteenth century. The rate had stabilized and the annuities were now trading much closer to face value, exceeding the legal interest rate by only 1 to 1.5 percent. Meanwhile, new central treasury debt largely took the form of short-term credit from suppliers that was available at low interest rates and apparently without constraints, suggesting that the Crown's "credit rating" was actually rather good.[81] As several fiscal historians have pointed out, the Crown's reluctance to raise debt either domestically or internationally was not a consequence of investors' unwillingness to lend.[82]

After the 1770s Crown finances worsened and moderate amounts of debt were issued again. Spain raised some capital for canal building in the Amsterdam market.[83] In the 1780s the hacienda gave out new domestic debt instruments for the first time in almost a century. The *vales reales*, a monetized bond issued via the Banco de San Carlos, drove up indebtedness dramatically by earlier standards.[84] The financial position then deteriorated quickly in the

[75] See, e.g., Garzón Pareja, "Carlos II."

[76] González Enciso, "Moderate Absolutism," 123. That *juros* were paid out of specific revenues means that it is perfectly possible that the range of yields for nominally identical paper increased when finances became more strained in the seventeenth century.

[77] The Council of the Indies in Madrid also stopped the sale of *juros* to the American possessions. Andrien, "The Sale of Juros."

[78] See footnote 68 above.

[79] González Enciso, "Moderate Absolutism," 123.

[80] For a detailed account, see Toboso Sanchez, *Deuda*, chapter 7.

[81] González Enciso, "Moderate Absolutism," 124.

[82] Ibid.; Torres Sánchez, "Possibilities."

[83] Riley, *International Government Finance*, 165–74. I would like to thank Christiaan van Bochove for making me aware of this.

[84] Tedde de Lorca, "San Carlos."

1790s and early 1800s when debt issues increased by a factor of five between 1782 and 1794. Yet even on the eve of the French war in 1793, Spanish "national" debt per capita was barely 5 percent of British debt per capita.[85] In 1800 investors in Amsterdam still trusted Spain's ability to raise revenue sufficiently to lend at 4.5 to 5 percent, the same rate paid by Britain in these years.[86] By 1800 Spain's financial position was without a doubt critical after continuous wars with first France and then Britain. A last massive issue of *vales* in 1799 doubled the outstanding debt and the paper depreciated drastically.[87] However, at this point Spain was hardly alone in this predicament among European states.

The point is not to paint too rosy a picture of the finances of the Spanish monarchy. In fact, its credit rating was worse than that of some of the Spanish historic territories, such as Guipúzcoa and Navarra, which ran independent fiscalities. This, too, is shown in figure 1.1. They were able to borrow at lower rates than the Crown, never paying more than 4 percent and at times less than 2 percent. Yet this comparison sets a challenging standard; these provincial interest rates were below the best rates enjoyed by the republican-minded Dutch Provinces in the seventeenth and eighteenth centuries.[88]

The surprising probity of the royal hacienda in the face of the low interest rates paid for much of the century on sovereign and provincial debt sets Spain apart in eighteenth-century fiscal history in Europe. Spain's central treasury hardly spent on sovereign debt after the 1710s and the crisis of the War of the Spanish Succession (1701–14, known in North America as Queen Anne's War). During a century in which the likes of Britain and France were spending about one-third to half of the annual budget on servicing their state debt, and the Netherlands between 40 and 70 percent, the expenditure of the Spanish central treasury on debt service was a mere 7 percent on average, and only reached 12 percent during the 1780s, when the issues of *vales* multiplied.[89] The French Crown's increasingly desperate and ultimately failed attempts to finance its gigantic debt in the eighteenth century could not have been more different from what happened across the Pyrenees.[90] Here, the

[85] Torres Sánchez, "Triumph," 44.

[86] Stein and Stein, *Edge of Crisis*, 337. Overall, Spain's borrowing abroad was very modest until the nineteenth century.

[87] Tedde de Lorca, "San Carlos," 515, appendix 511.

[88] I would like to thank Joost Jonkers and Oscar Gelderblom for sharing their unpublished data on the Dutch Provinces with me.

[89] British expenditure on interest and principal was around 30 percent in wartime and 56 percent in peace in the late eighteenth century. In France interest and capital consumed just under 50 percent. Grafe and Irigoin, "Stakeholder Empire," table 5. For the Netherlands, see Fritschy, "West European Trajectory," graph 4. Spain's estimate based on data by Jurado Sánchez, *El gasto*, table V.1. Though Spain stopped servicing its debt between 1748 and the 1760s, rates remained low when it restarted payments. Estimating the total debt is almost impossible. It should be noted that the American colonies had even lower levels of debt in the late eighteenth century. Grafe and Irigoin, "Stakeholder Empire," table 5.

[90] Rosenthal, "Political Economy"; White, "Financial Dilemma."

Spanish Bourbons almost balanced their budgets even in war years, at least before the last decade of the eighteenth century. Evidently all "absolutists" did not behave in the same way. Nor was the military fiscal imperative quite as dramatic as political economists have suggested.

Empire: Outsourcing the Problem?

The strongest argument of the accusation in the case of "NIE v. early modern Spain" has always been that Spain's system of governance was one that infringed more or less sytematically on its subjects' property rights in the Castilian heartland and even more so in the other territories of the composite monarchy. The one thing that set Spain apart from "absolutist" France in the minds of economists, economic historians, and sociologists was the empire, or at least the size of the imperial possessions. The Castilian Crown, on the one hand, supposedly had the power to extract revenue from the Netherlands, the Italian possessions, and of course the Spanish territories in America and, on the other, was intent on maximizing its revenue under (almost) any circumstance.[91]

The historiography, however, has clearly shown the limits of such revenue transfers from European possessions in the sixteenth and seventeenth centuries, when the European empire was at its height. Indeed, it is generally acknowledged that more often than not Castile cross-subsidized military and administrative activities elsewhere in Europe. Tracy has shown that the Netherlandish Estates at no point consented to vote revenue that was not to be spent within the Netherlands. When Charles V needed to raise troops for conflicts between the Dutch Provinces and one of their eastern neighbors, the Duchy of Guelders, money was voted for this strictly local purpose.[92] Beyond that, the Estates were unyielding. The ill-advised attempt of the Duke of Alba to create the infamous "tenth-penny" sales tax in 1569 and enforce it in 1571 in all of the Netherlands served as a rallying cry for the advocates of confrontation with Spain, as is well-known. It was resisted precisely because the Netherlands had never conceded any contribution to what Philip II considered the "common expenses" of the Habsburg monarchy.[93]

Even after the successful Dutch Revolt, the Army of Flanders to the south, like the Army of Catalonia and various armies in Italy, was subsidized by Castile until the end of the seventeenth century.[94] A Catalan document from the second half of the seventeenth century claimed that in Catalonia "there would not be a *doblon* [i.e., money,] if it was not for what the troops spend in

[91] North and Thomas, *Rise of the Western World*, 127–28; North, *Structure and Change*, 151.

[92] Tracy, *Holland under Habsburg Rule*.

[93] Ibid.

[94] Storrs, *Resilience*, 113.

Catalonia, exhausting all of Spain in their keep."[95] The situation was slightly easier for the Crown in Naples, but here, too, the resources that the Parlamento was willing to procure for non-local purposes were limited.[96]

In the Iberian Peninsula the three Basque Provinces of Guipúzcoa, Vizcaya, and Alava, the Kingdom of Aragon (comprising Catalonia, Aragon, Valencia, and Mallorca), the Kingdom of Navarra, Portugal (between 1580 and 1640), and even Galicia were all subject to separate processes of granting money to the Crown, which had negotiated with each of them on a case-by-case basis. Historians and economists have often singled out strong "republican" traditions in Catalonia as the counterpart to supposed Castilian "despotism."[97] We will return to this issue time and again. In terms of its constitutional structure, the Kingdom of Aragon was one of the European territories with the strongest parliamentary representation until 1707/14.[98] Extracting revenue from Aragon for military campaigns outside the *reino* proved next to impossible during the Habsburg period and difficult thereafter. Although Aragon's constitutional position changed radically after 1707/14, the Crown still found it quite impossible to tax the territory throughout the eighteenth century beyond a short-lived initial tax hike.[99]

More than in its Peninsular and European territories, however, the Crown supposedly extracted resources and disrespected the property rights of its subjects in the overseas empire. Commentators from the sixteenth to the nineteenth centuries were convinced that the Spanish Crown and its hacienda extracted fabulous riches from the Americas in particular.[100] Adam Smith famously thought that Spain alone had derived substantial benefits from its colonies, while the colonies of all other European nations were "a cause of expense and not of revenue for their respective mother countries."[101] For nineteenth-century historians and state-builders in Latin America, colonial exploitation served as an important device to explain the abysmal developmental trajectory of their countries.[102] Meanwhile, historians of Spain liked to interpret the alleged windfall from the Americas as another sign of how a corrupt and incompetent monarchy had quite literally squandered the family silver.[103] However, Prados's groundbreaking study of the impact on Spain

[95] Cited in Fernández de Pinedo, "Hacienda catalana," 219.

[96] Tracy, *Emperor Charles*. However, Naples contributed to wars fought in Lombardy and campaigns to recover Messina in the later seventeenth century. Cf. Storrs, *Resilience*, 114–15.

[97] North and Thomas, *Rise of the Western World*, 85–86.

[98] Elliott, *Catalans*.

[99] See chapter 5.

[100] It is generally accepted that the Asian possessions were unprofitable for the Crown, leading, in the case of the Philippines, to a somewhat peculiar notion that here colonization was completely focused on Christianization. See Bauzon, *Deficit Government*; Alonso, "Financing the Empire"; and Phelan, *Hispanization of the Philippines*.

[101] Smith, *Wealth of Nations*, 90.

[102] Adelman, "Imperial Revolutions."

[103] This is the theme of much of the "decline of Spain" historiography. See Elliott, "Decline of Spain"; Kagan, "Prescott's Paradigm"; and Kamen, "The Decline of Spain."

of the loss of the American territories between 1811 and 1825 suggests that the shock was regionally concentrated and severe in the short run but hardly devastating in terms of the national product.[104] This casts doubts on the importance of the American territories before this date.

From a strictly fiscal point of view, the direct extraction of resources from the Spanish Americas is easily overestimated. In the second half of the sixteenth century, the fabulous riches of first Upper Peruvian and then Mexican silver deposits were already systematically mined, and commerce with an increasing but still dependent immigrant population in Spanish America flourished. At this point in time, the Americas contributed on average 18 percent to the revenue of the Spanish central treasury, though the year-to-year fluctuations were huge. That was to remain the highest average ever; according to Yun, the American contribution to the Madrid hacienda was less than 10 percent in the seventeenth century. For much of the eighteenth century it accounted, according to my estimates, for about 5 percent before reaching 12 percent again in a few of the dire years of the late eighteenth century and after much effort of the Crown to increase income from the Americas.[105]

This was not a negligible share, especially in the early colonial period. But considering the size of the Spanish American economy, it was far from the extractive capacity that foreigners imagined. The foremost Spanish American fiscal historians TePaske and Klein have repeatedly pointed out that the overwhelming share of American revenues was spent in the colonies.[106] Indeed, Irigoin and I have calculated that by the late eighteenth century transfers to the metropolis made up only just over 5 percent of Spanish American revenue. Or to put it another way: 95 percent of taxes raised in the Spanish Americas were spent in the Spanish Americas.[107]

These figures suggest that the idea of the Spanish Empire as a centralizing and/or extractive machine needs to be revised, even if it is still widespread among social scientists and Latin Americanists. It has recently been argued that Spanish Peninsular finances were only saved from an even earlier collapse in the late eighteenth-century wars by a massive increase in revenue extraction and borrowing from New Spain (colonial Mexico).[108] American income clearly became more important for the Spanish treasury in the war periods; when revenue from the Peninsula collapsed after the French invasion

[104] Prados estimates that the loss shaved off about 6 percent of Spain's GDP. Prados de la Escosura, *De imperio a nación*, 67–94, 242.

[105] The sixteenth-century estimate is the arithmetic mean of annual shares during 1555–96 reported by Drelichman and Voth, "Borrower," table A1. For a slightly lower estimate, see Yun Casalilla, *Marte Contra Minerva*, 337. Seventeenth-century estimates are from Yun Casalilla, "The American Empire." The eighteenth-century estimates are based on Merino Navarro, *Las cuentas*, Cargos al Tesorero General. High percentages in some years in the last decade were in part explained by the complete interruption of transfers in others.

[106] Klein, *The American Finances*, 103–10.

[107] Grafe and Irigoin, "Stakeholder Empire."

[108] Marichal, *Bankruptcy of Empire*; Stein and Stein, *Edge of Crisis*.

of 1808, it turned into the only lifeline for independent Spain.[109] But the implicit assumption that the situation in the 1780s to 1810s reflected the fiscally extractive nature of Spanish governance in the Americas over several centuries is misleading.[110]

Spain's colonial fiscal apparatus was based on an expanding network of regional treasury districts, the emergence of which accompanied the imperial expansion until there were around eighty of them in the late eighteenth century.[111] The administration of revenue and expenditure was largely locally based and subject to local decision making and negotiation among local, colonial, and metropolitan authorities. By the eighteenth century about one-quarter to one-third of revenues collected in American treasury districts were fed into a system of intracolonial, interregional redistribution via the so-called *situados*.[112] These transfers in turn were largely privately managed, and they articulated the commercial links between the large Atlantic and Pacific ports and the hinterland. Spanish American colonial rule left plenty of room for local initiative.

The way Spanish imperial rule was organized on the ground was not compatible with the objective implied by economists and many Latin American historians, namely a simple maximization of revenue extraction. Instead, local involvement was used to organize the rolling out and maintenance of the empire, supported by regionally administered interregional transfers of revenues within the Americas (and to the Spanish Philippines). Widespread local control naturally led to a reinvestment of revenues in some of the colonies' key export sectors: commercial agriculture (tobacco, sugar, cocoa, and hides) and mining.[113]

Even in the sixteenth and seventeenth centuries, the impact of revenue from the Americas on policymaking in Spain was largely indirect. Spain's expansionist foreign policy during these centuries was not financed through actual income from the Indies but owed to credit. When debt secured against Peninsular revenue was insufficient to keep the sixteenth-century war machinery going, the large bankers who were called in demanded their loans to be secured against future colonial receipts.[114] The Crown could leverage future liquid income from Spanish America in financial transactions with its financiers. But its capital-raising capacity seems to have benefited at least as much from the myth of American riches as from actual remittances.[115] In

[109] Merino Navarro, *Las cuentas*.

[110] Spain, like any other European country, was increasing its fiscal share across all its territories, not just in the Americas. The treasury also increased collection across all sources of income, including, for example, monies taken in from the Church.

[111] Klein, *The American Finances*; Grafe and Irigoin, "Legacy"; Irigoin and Grafe, "Bargaining for Absolutism"; Grafe and Irigoin, "Stakeholder Empire."

[112] On the *situados*, see, e.g., Grafe and Irigoin, "Legacy"; Irigoin and Grafe, "Bargaining for Absolutism"; and Marichal and Souto Mantecón, "Silver and Situados."

[113] Grafe and Irigoin, "Legacy," 255.

[114] The standard reference is still Ehrenberg, *Das Zeitalter der Fugger*.

[115] Drelichman and Voth, "Sustainable Debts"; Elliott, *Imperial Spain*; Yun Casalilla, *Marte Contra Minerva*.

the same way, the really devastating fiscal situation of the mid-seventeenth century was aggravated by the fall of American income that could be used as collateral to appease the Genoese lenders to the Crown. Hence, as the century progressed, the Crown regularly demanded extra payments from the corporations involved in the Indies trade under various pretexts, all of which translated into extraordinary taxation.[116]

During much of the eighteenth century, however, the moderate overall transfers of colonial monies to Spain, together with the Spanish treasury's refusal to use its potential lines of credit despite fairly low interest rates, suggest again that the Crown applied restraint. This is inexplicable in the standard neoclassical political economy model that relies on the supposedly inescapable logic of military-fiscal competition. The modest rate of transfers from the Americas could probably be explained away by "soft" constraints that were embedded in the jurisdictional fragmentation of the empire, even though they were not the kinds of "constitutional commitment" that early NIE stressed. Yet there is no evidence that the Crown was subject to any constraints, formal or informal, that kept it from raising debt. It had done so before the 1670s and returned to the markets in order to borrow again after the 1780s. In the interim, however, it kept well below its ability to borrow, relying instead on credit mainly to smooth over the unavoidable temporal differences in revenue collection and expenditures.

Evidently, revenue maximization was not the only game in town for early modern emerging nation-states, even if it was undoubtedly a very important one.[117] The central conclusion has to be that the exogenous constraint imposed by military competition, the bottomless pit of sovereign treasuries through the ages, was far less binding than commonly asserted. That is especially true if we consider that Spain did not match its newfound financial prudence with a successful strategy to stay out of military engagements. Though Spain had ceased to be a serious contender on the European military stage in the mid-seventeenth century, it was at war for as many years in the eighteenth century as France and England, and built up a respectable navy in the mid-eighteenth century almost from scratch.[118] It also kept its huge transoceanic empire intact in the face of obsessive attacks from its European competitors, not a small feat in itself.[119] However, while England clearly pushed revenue raising to the limits of what was economically, politically, and socially possible, and France famously pushed beyond that boundary, relatively low interest rates in combination with a strategy to reduce the public debt suggest that the Spanish Crown applied deliberate restraint for most of the century.

This in turn reveals a degree of agency and choice within European fiscal-military states that has often been overlooked. Within the current NIE

[116] Storrs, *Resilience*, 137–43; Bernal, *Proyecto inacabado*, 187.

[117] The same conclusion emanates from the fiscal system in Spanish America. Irigoin and Grafe, "Response," 243.

[118] Britain was at war 46 years between 1700 and 1814, France 45, and Spain 51. For Britain and France, see Mathias and O'Brien, "Taxation," 603n601.

[119] Grafe and Irigoin, "Stakeholder Empire."

paradigm a constitutionally unconstrained, increasingly "absolutist" monarchy would have been expected to spend freely and then figure out whom to expropriate to recover revenue, or simply refuse to pay for the debt and expropriate its creditors.[120] Spain's eighteenth-century trajectory contradicts the one assumption that underlies NIE models of the need for governments' constitutionally anchored credible commitment to property rights, namely that rulers had no choice but to maximize revenue collection. Indeed, Spain chose not to in the eighteenth century.

This raises two questions: First, what explains Spanish rulers' apparent (self-)restraint in the absence of formal constitutional rules of the type that much of the NIE literature has stressed? Second, what does it mean for our understanding of the links between the process of nation- and market-building in early modern Europe more generally if we considerably relax the assumption that the early modern European fiscal-military state had little choice but to press its subjects fiscally as much as possible? In Spain, the Crown was apparently susceptible to much "softer" commitment devices. A continuous process of bargaining with the corporate holders of sovereignty evidently kept it on the straight and narrow in fiscal terms for much of the eighteenth century without the need for "formal" constitutional commitments à la North and Weingast, while it also successfully precluded the descent into fiscal chaos.

Recently Greif and his coauthors have explored one way to conceptualize an alternative path toward explaining how "coercion-constraining institutions" could evolve and under what conditions they could become self-sustaining.[121] They suggest that powerful administrators rather than parliamentary control over the state's finances made "constitutions" in medieval and early modern Europe self-enforcing. In this view, rulers who had to compete with overlapping jurisdictions could be effectively stopped from infringing on their subjects' rights. In other words, a distribution of administrative capacity could restrict abuse. Greif, González de Lara, and Jha point out, however, that a full model of such an alternative path toward self-enforcing constraints on the ruler is hard to develop at the moment. Institutional economics, political science, and sociology do not provide adequate models for the power relation between administrators and rulers or, for that matter, how an equilibrium between these two parties would affect economic growth.[122]

Nevertheless they provide some empirical consideration as to why in certain polities a self-enforcing equilibrium was achieved while elsewhere it was not. The path chosen here follows this strategy through in much more depth. It aims at constructing an alternative model from the bottom up through empirical analysis. Spanish history offers empirical evidence that should lead

[120] Rosenthal, "Political Economy."

[121] González de Lara, Greif, and Jha, "Administrative Foundations"; Greif, "Commitment, Coercion, and Markets."

[122] González de Lara, Greif, and Jha, "Administrative Foundations," 108–9.

us to reject the notion of the binding external constraint imposed by military competition. In fact, there is no theoretical reason why a monopolist—and the early modern state did largely succeed in capturing the monopoly of violence—should necessarily raise its price, that is, maximize taxation. As Hirschman has argued, most political monopolists would probably adjust the quality of their output downward rather than the price upward.[123] This is a possibility that neither historical sociology nor political economy have seriously explored thus far.

Instead, scholars have armed themselves with a whole array of apparently incontestable quotations attesting to the supposed inevitability of military-induced revenue maximization. The Milanese Gian Giacomo Trivulzio allegedly told Louis XII of France in 1499 that in wars "three things are necessary: money; more money; and still more money"; Edmund Burke quipped that "Revenue is the principal preoccupation of the State. Nay more it is the State." The Conde Duque de Olivares, the powerful *valido* of Philip IV, evinced a more sophisticated understanding when he argued in 1637 that war required "men, money, order and obedience."[124]

Revenue was a necessary but not sufficient condition for the survival of rule; by the seventeenth century, rulers did not *buy* an army any longer, states had to be able to *mobilize* resources. Alas, in a vector that also included men, order, and obedience, in addition to money, those three might only be available if the state were willing to forego some revenue (read money). Olivares famously lost his position when attempting to square this particular circle. But he had understood the constraints on his government more clearly than do most present-day political economists. What is missing from the theories so far is a more appropriate concept of governance that goes beyond the simplistic notions of predation and constitutional regimes. It has to be able to capture a variety of organizational and institutional solutions to the problems of rule, representation, and commitment to public and private property rights within the context of the premodern European state, which was not on a linear trajectory to more state autonomy everywhere, as it turns out.

Jurisdictional Fragmentation and Market Integration

Political economy has today, by and large, moved beyond the North and Weingast notion of the all-powerful, centralizing, expropriating early modern monarchs. Instead, it acknowledges that "absolutist" rulers were bound at every turn by the traditional freedoms and liberties that corporate entities and historic territories enjoyed. Epstein demonstrated the negative effects of

[123] Hirschman, *Exit, Voice, and Loyalty*.

[124] Trivulzio and Olivares are quoted in Glete, *War and the State*, 126–27. Burke is quoted in O'Brien, "Nature and Historical Evolution."

jurisdictional fragmentation in the case of the Italian city-states and came to the conclusion that political freedom was either unconnected or possibly negatively related to economic growth.[125] Hoffman and others have discussed the limits imposed on the French Crown. Winkelbauer has made the same case for Austria-Hungary.[126] Dincecco has shown that in a cross-country growth comparison jurisdictional unification was far more important for growth than political regimes before 1789.[127] However, substituting "jurisdictional fragmentation" for "political regime" as the main potential force thwarting the development of markets—and thus economic growth—in the early modern period just replaces one one-size-fits-all approach with another. Jurisdictional fragmentation is clearly now a more promising concept to explain what determined early modern European comparative economic development than a supposed dichotomy between political regimes. Yet it has so far largely remained a black box.

What forms of jurisdictional fragmentation obtained in European societies? National and regional historiographies have tended to stress both challenges to centralizing authorities and cooperation with the center almost everywhere. However, historians have said little about how and to what extent either development affected the exercise of power in a comparative trans-"national" perspective. The remarkable differences across Europe in the degree, form, and foundations of jurisdictional fragmentation, or how they were overcome, have barely been historicized in a comparative context, especially in terms of the economic consequences that resulted from these differences.[128]

The historical political economy literature has treated all types of jurisdictional fragmentation as essentially the same, that is, as an obstacle to rulers' control over currencies and taxes, measures and languages, legal systems, and military levies. This is obviously correct, but it leaves half of the story untold. What forms of jurisdictional fragmentation obtained made a crucial difference. Different forms of jurisdictional fragmentation—or to put it another way, where power was located, how it was legitimized, and how it was exercised—shaped economic development in the long run and most specifically patterns of market integration. The argument is simple: the historical context has to be taken much more seriously than most economists are willing to do.

It might be a forgivable simplification to argue that there were two main sources of persistent jurisdictional fragmentation in the emerging early modern European nation-states. On the one hand, corporate groups, the estates (as a social group, not necessarily as a representative institution), guilds, and

[125] Epstein, *Freedom and Growth*, 34; Epstein, "Cities."

[126] Hoffman, "France"; Winkelbauer, *Ständefreiheit*.

[127] Dincecco, "Fiscal Centralization."

[128] The best comparative account of the political and social variations across polities is undoubtedly Reinhard, *Staatsgewalt*. However, the author is not concerned with the economic consequences.

the Church held sovereign power. On the other, such rights and duties could be located in territorial units, historic territories that became part of the emerging nation-states or towns that held sovereign rights. In the former the struggle took place fundamentally between groups of social actors defined by status. In the latter it was defined by location.

In practical terms the question is: Was sovereignty contested between the Crown and a somehow-defined social group, let us call it "elite" or estates (as a social group)? Or was it mostly defined across territorial units? The most simplified version of this argument can be conceptualized through Hirschman's concept of *exit* and *voice*. Where the contest over sovereignty developed more along the lines of an elite or aristocracy versus Crown conflict the only viable option of protest against an encroaching Crown was, to use Hirschman's terms, *voice*. Hence, strategies of co-optation, enlargement of the nobility, and a little court-based power play were likely to render reasonable results for the Crown. Territorial conflicts, by contrast, always included an *exit* option of territories breaking away. Therefore, they shaped and delimited the exercise of power in very different ways.

Jurisdictional Fragmentation and Patrimonialism

Jurisdictional fragmentation is often identified with another important but ill-defined *-ism*: patrimonialism.[129] In the classic two-by-two matrices favored by political scientists, Ertman complements the economists' one-dimensional space of political regime from "constitutionally constrained" to "absolutist" with a second vector representing the character of their state infrastructure. Some polities, such as Britain, Sweden, Denmark, and the German territorial states, developed a technology of governance that was tending toward a bureaucratic state. Others, like Poland, Hungary, France, Spain, and much of Italy, employed a patrimonial structure.[130] But does this Weberian concept of the "patrimonial" state resolve the problem of the different paths of state-building, and in particular, does it adequately capture the problem of jurisdictional fragmentation?[131]

Again the influence of economic historians of France and their focus on the role of political and bureaucratic elites in strengthening or undermining the power of the monarchy has been decisive. In the absence of a proper theory of where power was located, how it was legitimized, and how it was exercised in early modern European societies, economists once again looked to historical sociology and political history for clues. In the French literature, implicitly or explicitly, the "elite" who were supposed to be the Crown's

[129] The classic sociological definition of patrimonial rule is the absence of an administrative body that is directly controlled by the ruler, who therefore has to rely on the willingness of his "associates" to obey. See Weber, *Wirtschaft und Gesellschaft*, section 7a.

[130] Ertman, *Leviathan*.

[131] Weber, *Wirtschaft und Gesellschaft*, 130–39.

counterpart are often equated with the aristocracy or with landed interests against capital holders.[132] This argument is underpinned by a notion that the rise of the modern nation-state implied the suppression of aristocratic power, either through an authoritative absolute rule of one, that is, an absolutist monarchy, or through a parliamentary regime.[133] According to Ertman, Spain, like much of Latin Europe, became patrimonial rather than bureaucratic because its *cortes* were allegedly "structurally weaker, status-based Estates which ultimately proved unable to resist the steady advance of royal power."[134] The monarchy pushed the "estates" (read the nobility) out of the way and undertook an increasing "irrationalisation" (Ertman's term) of governance through an alienation of state functions, which in turn limited royal prerogative. Ironically, neoclassical economists and historical sociologists alike formulate the problem in essentially Marxist terms.

Yet the traditional story of the creation of the modern state as dependent on the demise of the aristocracy is problematic to say the least.[135] Conflict between the Crown and the aristocracy was always the exception, not the rule.[136] The aristocracy placed important investments in the state and had become entrepreneurs in their own right. As states became more complex organizations, investment opportunities multiplied from military service, to lender, to officeholder, to tax farmer. The relative success of state-building in early modern Europe depended crucially on states' ability to co-opt their elites while defending their own autonomy, as historical research on the nature of absolutism has shown. The advantages of co-optation were obvious.

> A state that could co-ordinate its own interests with the authority and patronage that traditional local elites enjoyed among the common people had easier access to local resources. It could raise taxes or conscript soldiers and seamen with greater efficiency and less local resistance. The elite group might trade their local authority for increased influence over the central state, or they might use this authority in the interest of the state in exchange for even more local power guaranteed by the fiscal-military state.[137]

Spain is referred to as a quintessentially patrimonial state, that is, a state that loses domestic authority to elite groups within society in return for their

[132] This is, e.g., the formulation by Stasavage, *Public Debt*.

[133] In the English case this refers to the historiographical debate about the Whig-Tory competition, especially in the late seventeenth and early eighteenth centuries, which traditionally saw Tories as a threat to the credible commitment of the government. Alas, it should be noted that England did not default in 1710/11 and arguably the Tories established a sound fiscal basis for decades to come.

[134] Ertman, *Leviathan*, 155.

[135] For France, see Beik, "Absolutism." For a European overview, see Scott, "Consolidation."

[136] Glete, *War and the State*, 3–5.

[137] Ibid., 3.

allegiance and fiscal contributions.[138] Elites were brought into the new, larger state through the sale of civil, ecclesiastical, and military offices, sinecures, and participation in the fiscal system as tax farmers.[139] This alienation of functional parts of sovereignty checked the contravening efforts at centralization of the monopoly of power embodied in the Crown's push against seigneurial rights. Driven by the need to increase income, the Crown permanently alienated important offices and rights to privileges and monopolies. In a patrimonial polity the pursuit of private interest was incompatible with "collectively positive outcomes in the political sphere."[140] In economic terms, private and social rates of return were poorly aligned. Public and private, the office and the officeholder, state and private finances were indistinguishable.

How, then, were some states able to create a bureaucracy and co-opt the elites without being co-opted in turn? If the suppression of early modern estates was not pushed through by the Crown against the elites but with their cooperation and participation in return for a new kind of contractual relationship that offered elite members a share of the new and larger pie, why did local elites not become "accomplices" of the state everywhere?[141] The prime piece of evidence cited for a move toward patrimonial structures is the sale of offices and sinecures on the one hand and the alienation of power to corporatist bodies with monopolistic economic rights, such as guilds, on the other. Yet again, a juxtaposition of the French and Spanish cases illustrates that the latter is hardly the mirror image of the former.[142]

The French institutionalization of the fiscal charges on the sale of offices through the *paulette*, an annual tax on officeholders worth around one-sixtieth of the offices' income, infamously removed restrictions on the inheritance of offices and thus strengthened the property rights of the officeholder vis-à-vis the state.[143] In Castile, by contrast, there was never a legal basis for the sale of offices, and receipts from the *media anata secular*, a one-off payment for offices, were never of fiscal importance.[144] The sale *por juro de heredad* (as hereditary property) was outlawed at the Cortes de Toledo of 1480, and the prohibition was reiterated in the two most important legal collections, the Recopilaciones of 1567 and 1805.[145] Castilians and their kings found ways around this, to be sure. The price for an office was labeled officially "a donation" (*donativo*), and the transfer, which became common, was disguised as

[138] For a recent example, see Stein and Stein, *Silver*, 102–5. The authors argue that silver imports were the driving force behind patrimonialization.

[139] For the states' attempt to redistribute via salaries and offices in Spain, see Solbes Ferri, *Rentas Reales de Navarra*, 53, and Kamen, *Succession*, 37–38.

[140] Ertman, *Leviathan*, 154.

[141] Glete, *War and the State*, 7.

[142] For France, see Doyle, *Venality*.

[143] Mousnier, *Institutions*, 2:27–77.

[144] Ecclesiastical offices were subject to a similar due, the *media anata eclesiastica*.

[145] The following draws strongly on Tomás y Valiente, "Ventas," and Tomás y Valiente, *Gobierno*, 152–76.

a resignation in favor of someone else (*resignatio in favorem*). However, the prohibition helped limit the role of the sale of offices in some key positions.

As a consequence, very different rules applied to the distinct types of offices. It is important to dig a little deeper into this ill-researched field of Spanish history in order to understand the way it differed from the better-known French case. Tómas y Valiente suggests thinking about three categories: offices of the "quill," of "power," and of "money."[146] The first describes offices of notary publics and scriveners, who were generally subject to sale against a fixed fee but also to quality control, that is, the owner of the office had to demonstrate that the officeholder (not always the same person) had the necessary qualification. The most important offices in the second group of "power offices" were at no point subject to sale in the Peninsula. The highest royal offices in each district, the *corregidor* and the *intendencias* created in the eighteenth century, were never for sale in Castile, nor were judicial positions. Likewise, military posts were very rarely sold.[147] The legal heritage ring-fenced all judicial and the highest royal positions in the Peninsula in stark contrast to French practice.

Holders of these offices received a salary and had to fulfill minimum conditions of training. The relative importance of training, personal connections, having passed through the Colegios Mayores of the main universities, and other socioeconomic factors in determining access to posts in the administration changed.[148] The bureaucracy was obviously not a meritocratic, professional force; salaries were often inadequate, and there is evidence that indirect payments were made for offices that could not be legally sold.[149] Only in the later eighteenth century do we see the emergence of a clearer career path that stressed education beyond the formal degree and favored experience over socioeconomic factors.[150]

Yet the system was corrupt and an insider game rather than venal in the classic sense. Using Root's juxtaposition of nepotism and corruption, we can see that it was closer to a corrupt system that was open to market forces like Britain's than to a French-style nepotistic (that is, non-market) one.[151] The Francophone traveler Antoine de Brunel was puzzled by what he witnessed in Spain in the late seventeenth century. He was at pains to point out that the French system of venality was preferable since it guarded against the unhealthy Spanish habit of promoting social inferiors.

[146] Tomás y Valiente, *Gobierno*, 158.

[147] The intendent system was fashioned on French precedents. However, its introduction was haphazard and the officeholders never became remotely as powerful and important as their French counterparts. See also chapter 5.

[148] Kagan, "Universities in Castile"; Windler, *Lokale Eliten*, 23.

[149] Sánchez Belén, *Política fiscal*, 292. See also Storrs, *Resilience*, 123–24.

[150] Scholz, "Amt als Belohnung."

[151] Root argues that a corrupt system, such as the English, is economically preferable to a nepotistic one, such as the French, because it is receptive to economic incentives and thus more efficient in allocative terms. Root, "Redistributive Role."

> Neither Governments, nor Military, nor Civil Charges are here [in Spain] sold, which is not altogether so commendable as it seems at first sight; for unworthy persons (if well looked on by Favorites) may more easily attain them than if they paid for them, and several of antient [*sic*] extraction and great abilities are willing to lay out their money to put themselves in a condition to serve their King with honour: neither in Countreys where Charges are most vendible, are they so to all Chapmen; but to Gentlemen only, and such as are qualified for them.[152]

Among "power offices," the only important ones that were subject to sale were the *regimientos* (aldermanships) and other municipal offices, especially in the second half of the seventeenth century.[153] Town councils were very powerful and aldermanships a sought-after prize in large towns where the town itself, and not the Crown, possessed in principle the right to suggest the officeholder. Yet even here the Crown could, and sometimes did, refuse the *resignatio in favorem,* and it also expanded their numbers to increase income, thus lowering their value. Contrary to French officeholders who had agreed to pay the *paulette* in return for guarantees of venality and the creation of fewer new offices, Castilian officeholders had at best the somewhat shaky right to the usufruct of an office but never full alienable property rights.[154] Spanish officeholders also obtained fewer benefits from their status. Tax exemptions, a major attraction of offices in France, were limited and often meaningless. The Spanish tax system relied heavily on indirect consumption taxes rather than direct land or wealth taxes. Thus exemptions were often unenforceable. By the eighteenth century, the municipal market for "power offices" was stagnating.

"Money offices," mostly related to tax and customs farms, were regularly sold, but holders generally had to post sureties for their office. Thanks to the need for upfront investments, the market for these became the most competitive and was entirely driven by supply and demand. Offices such as scriveners were sold against a fee to trained lawyers but this hardly constituted an alienation of fundamental functions of the state. Similarly, Spanish tax farms were essentially an agreement between a local, regional, or central authority and an individual investor, what we would call a public-private-partnership (PPP) today. Economists are unlikely to consider that a prejudice against state autonomy, though sociologists are more sensitive in this regard.

From a historical economics point of view, we might wonder if tax farming was the most efficient economic solution to tax collection. Yet, given the state of administrative technology, even in the eighteenth century it is likely

[152] Brunel and Aerssen, *Journey*, 29–30. The French edition was first published in Amsterdam or Cologne in 1655 and the text has been attributed by some to the Fleming François Van Aerssen or his grandson of the same name.

[153] The sale of town offices started in earnest as part of the negotiations between the Crown and its Genoese financiers, who were given blocs of offices to be sold off to the candidates of the towns. Drelichman has started to work on pricing these loan agreements properly. Drelichman and Voth, "Borrower," 12n11.

[154] Mousnier, *Institutions*.

that a fiscal system based mostly on local trade and consumption taxes, as in Spain, would have been impossible to administer directly.[155] The literature often refers to tax farming and the advance payments to the Crown it entailed as dangerous methods of non-market "inside finance" that empowered the lenders.[156] Yet in Spain they were largely a result of urban autonomy. Urban power and its impact upon the prevalence of indirect taxation, something we will return to in some detail, rather than the alleged patrimonialism of the governance system determined administrative structures. Even in the Americas, where the sale of offices had been legal since 1606 and widespread, the overall outcome was closer to a PPP than a classic patrimonial pattern, as Irigoin and I have argued elsewhere.[157]

All of this underlines that while sales of offices existed in Castile and the other Spanish territories, as in most other European states, important nuances in the practice reveal the problematic use of the concept of patrimonialism as a catchall phrase for bureaucratic failure or even jurisdictional fragmentation in Spain. The Spain of the seventeenth to late eighteenth century was never subject to conflicts between venal officeholders and the Crown in the same way as France was to that of the *noblesse de robe* and the monarchy, a fact ignored by much of the comparative literature on European state-building. The inevitable conclusion is that jurisdictional fragmentation should not simply be equated with patrimonialism and the implied creation of powerful elite groups with common interests.

Power and Markets

There are two main problems in the existing historical political economy model of the relationship between the creation of the nation-state on the one hand and market development on the other hand in early modern Europe, and they are intimately linked. First, systems and exercise of governance are poorly historicized. Second, the recourse to the supposedly inescapable exogenous constraint imposed on rulers by the "military revolution" (i.e., revenue maximization at almost any cost) is an elegant way of avoiding the problem of having to endogenize the impetus to state-building in the model. However, it is neither empirically nor theoretically convincing.

The key to providing a more accurate model of early modern state formation and its impact on market integration is to understand how different forms of jurisdictional fragmentation interacted with the exercise of power and thus through which channels the impact on market development occurred. The central hypothesis of this book is that the seeming self-restraint

[155] Hoffman makes this point for France even though indirect taxation was much less important there. Hoffman, "France," 232.

[156] On internal or inside finance, see Stasavage, *Public Debt*, 65–66.

[157] Grafe and Irigoin, "Stakeholder Empire," challenges the classic interpretation by Burkholder and Chandler, *Impotence to Authority*.

exercised by Spanish rulers was rooted in a system of governance that implied that most of the devolved power that limited the Spanish monarchy was territorial rather than a cleavage between the estates or an "elite" and the Crown. At least in the Castilian heartlands, the aristocracy (as an estate, not as individuals) was a relatively minor player in the development of political organization.

To be certain, there was conflict between the Crown and the aristocracy, and between towns and their seigneur, or their often noble oligarchies. Marxist historians of the 1970s argued that Spain had become particularly absolutist early on because the Crown had beaten the aristocracy into submission by the sixteenth century, especially in Castile. Compared to a much more powerful aristocracy in France or England the *grandes de España* were undoubtedly little more than a select group of royal servants, often placated with non-political positions at the court.[158] Even in high Church positions they were not favored in Spain, and the only sphere where they were systematically privileged was high military office.[159] The conflict over a reassignment of political and economic power in Spain, however, was never predominantly a conflict between the aristocracy, or even a more widely defined elite, and the Crown in the first place. Nor did the aristocracy exercise the same economic power as elsewhere. Like those of the officeholders—and officeholding and nobility often went hand in hand—their fiscal privileges were worthless in many areas of economic activity. In Castile, both nobility and clerics likely ended up paying more taxes than their peers elsewhere in Europe—possibly the best indicator that as a group neither nobility nor officeholders as a corporate order were the main bargaining partner of the Crown.

By contrast, territorially based jurisdictional fragmentation survived in Spain to an unusual degree. That early modern Spain never overcame its heritage of a composite state of historic territories is a well-known fact and has been stressed by historians from Elliott to Nader.[160] Spanish monarchs faced the possible "exit" option in much stronger forms than did their peers in other large European states. Governance thus remained about negotiation between the *reinos* and the monarchy long after a consolidation of territorial power into a more hierarchical centralized structure occurred elsewhere. Spanish history illustrates this vividly. Portugal was de facto lost in the 1640s (*de iure* 1668); the price for reintegrating Catalonia into the Spanish composite monarchy after an uprising and short interlude as a French satellite in the 1650s was half a century in which the Crown largely refrained from meddling in regional affairs, even after the territory had been used openly as a power base to challenge the Spanish succession in the late seventeenth-century

[158] Windler, *Lokale Eliten*, 24.

[159] Fraser, *Napoleon's Cursed War*.

[160] See Elliott, "A Europe of Composite Monarchies"; Nader, *Liberty*; but also Fernández Albaladejo, "Cities and State," and Yun Casalilla and Comín, "Spain," as well as a large literature on individual territories and towns.

crisis of the Habsburg monarchy.[161] There were important reasons for the survival of strong elements of sovereignty in the historic territories rooted in the constitution, in the German sense of *Verfasstheit*, not *Verfassung* (i.e., the way, in which society is constituted rather than the Anglophone written or unwritten constitution), as we will see.

Spain continued to grapple not only with the strong historic territories but also with a very large number of powerful semi-autonomous municipalities especially in Castile, as many historians have shown. This feature was rooted at least in part in two peculiarities of the political organization of Castile when seen in a European comparative context. First, Castile had no medieval tradition of feudal serfdom to speak of; personal freedom was a given, and labor services were largely unknown by the high Middle Ages, with the notable but limited exception of Galicia in the northwest.[162] Thompson has called Castile in the Middle Ages "the freest society in Europe"; lordship was generally separated from landownership and "primarily a matter of jurisdiction."[163]

Second, the basic unit of political and fiscal organization since the *reconquista* was the town, not the lordly demesne.[164] There were certainly large estates belonging to the aristocracy, especially in Andalusia, but these were not comparable to the rural demesnes with strong noble rights found in many parts of Europe.[165] Instead, Castile had royal towns, ecclesiastically controlled towns, and towns under jurisdiction of the nobility. Villages, hamlets and rural areas in turn were under the administration of towns. Nor did Castile have a noble representation in its estates, the *cortes*. The noble and ecclesiastical representations were sidelined early on and last participated at all in the *cortes* in 1538.[166] For all practical purposes the Castilian *cortes* represented the large cities of the realm; they were a thoroughly urban affair. There were late sixteenth- and early seventeenth-century attempts to alter the relation between *rey* (king) and *reino* (kingdom) toward one where the latter was represented by the Castilian *cortes*. Notwithstanding by the 1660s Castile had firmly returned to the model of a "community of communities," and the relation between municipalities and Crown would change little during the next century, as we will see.[167]

161 Carlos II's half brother Juan José marched from Catalonia against the Madrid regency government running affairs on behalf of the disabled king. Kamen, *Spain, 1665–1700*.

162 Whether Spain simply lacked the basic conditions for the establishment of a feudal order for demographic reasons or in fact was feudal in character but within a structure of *señorio colectivo*, i.e., one where town councils effectively controlled access to resources in their jurisdiction, seems to be an ongoing debate. See, e.g., Sánchez-Albornoz, *Despoblación*, and the interesting discussion in Sánchez León, *Absolutismo y comunidad*, 7–17.

163 Thompson, "Castile: Polity," 142.

164 Nader, *Liberty*.

165 On the legal limitations of aristocratic power in Castile, see Atienza Hernández, *Aristocracia, poder y riqueza*, chapter 3.

166 Ertman, *Leviathan*, 113.

167 Thompson, "Absolutism in Castile."

The location of power therefore continued to reside to a large degree in the historic territories and towns because it guaranteed a form of "representation," for lack of a better and less anachronistic term, that legitimized the rule of the Crown.[168] The historically surprising fact is that the Spanish composite monarchy survived in its core territories and its huge American domains for so long without either centralization or total dismemberment. Since power was to a larger extent located in territorial units and the exit option existed, the Crown was time and again forced to negotiate on almost equal terms. But here, too, more than one outcome was possible. Austria-Hungary shared many of Spain's features of enduring territorial jurisdictional fragmentation, but a stronger increasingly pan-Austro-Hungarian nobility was likely the binding element in a "monarchical union of corporative states (*Ständestaaten*)," turning one group of players in the corporate structure into the key ally of the Crown.[169]

In Spain, by contrast, the Crown remained the only binding element. Spain had a reasonably national but weak high aristocracy, a large but entirely locally bound nobility, and no trans-territorial estates or other corporate institutions of any kind. Hence, the Spanish Crown became the ultimate arbiter of a very complex network of regional and local corporate entities with shifting overlapping hierarchies. This institutional structure was underpinned by an ideological notion of "representation" in the institutions of towns and historic territories that established relatively narrow boundaries for negotiation.

The path toward the nation-state in European monarchies was thus not necessarily primarily a prisoner's dilemma that pitched Crown against elites. In Spain it was instead a complex coordination game that required constant realignment and continuous negotiation. Like all coordination games, it resulted in many equilibria rather than a clear-cut outcome. Unification of power was one possible outcome, but decentralization was just as possible and most likely cheaper in political and fiscal terms. We need to relax the excessively restrictive ex ante assumption of maximization of fiscal resources, leading necessarily to a hierarchical ordering of revenue control (or revolution) if we want to understand the longevity of political entities in Europe (and elsewhere) that survived largely by minimizing violent opposition at the expense of lower revenues. In Spain this often implied a protracted delegation of power to all kinds of corporate bodies, the territories, and the towns. The important fact is, however, that contrary to the current political economy models, fragmented power effectively limited predation rather than increased it. Fragmented power was also devolved power that could protect rights often more effectively.

If we conceive of the creation of stronger, more autonomous national states and nationalities as a diachronic process, it can hardly surprise us

[168] The Spanish *representación* is a wider concept than the English translation, which tends to narrow the term down to mean popular representation.

[169] Winkelbauer, *Ständefreiheit*, 197.

that a synchronic snapshot at any point in time reveals significant differences between these would-be nation-states exhibiting different degrees of centralization and bureaucratization. It is important to remember, however, that this was not a linear modernization story toward the nation-state that simply started earlier or later in different polities. Global history reminds us that the European-style nation-state was not the only possible outcome to the struggle over a reassignment of rights and power between various corporate entities and players in early modern society. Throughout this book we will encounter time and again the successful resistance to a more unified autonomous nation-state in Spain that in turn shows that the historical sociology model of the fiscal-military state and its deterministic predictions is problematic to say the least.

The assumption of a more or less linear process from a decentralized feudal organization to one where monarchical power (or parliament) asserted a clear hierarchical precedent over the aristocracy, on the one hand, and corporate bodies, such as towns or guilds (and eventually the Church), on the other, is unhelpful. Yet teleology still reigns supreme in many otherwise highly insightful contributions to the debate about the link between the creation of "national" fiscal-military states and the development of markets. To quote one example:

> The fiscal military state . . . will mobilise more resources as it moves towards full sovereignty on a national scale, until which time it will have to assume the cost and inefficiency caused by coordinating a contending host of political and economic claims and sovereignties. . . . [All earlier institutional arrangements,] guilds, feudalism, moral economy, subsidised prices, bills of exchange, regulation of supplies or networking between co-religionist merchants [were] makeshift solutions that were not conducive to any growth policy.[170]

To put it another way: all states were supposedly on a trajectory that allowed them to achieve a state where military necessity had overcome corporate jurisdictional fragmentation and only then could markets fostering "national" policies be implemented. Thus, for Torres Sánchez, "national" policies of the mercantilist type were not the outcome of a voracious predatory state as NIE wisdom would claim. Instead, they were a necessary measure of a "national" policy for growth. The problem is of course that none of this explains why the fiscal-military state apparently failed to create the conditions that would foster a "national" market in Spain. Spain does not fit into the straightjacket of the neoclassical modernization story.[171]

As we will see, from a Spanish perspective the persistently non-hierarchical nature of corporate early modern society is what stands out. This was a

[170] Torres Sánchez, "Triumph," 27–28.

[171] Nor does it fit into the Marxist variety: Castile (and to a lesser extent Aragon) was never feudal; the aristocracy was not the main competitor of the Crown, and the corporate bodies were never tamed.

stakeholder polity where individuals were invested in the preservation of the political status quo through their socioeconomic investment in corporate bodies, first and foremost at the municipal level. The concept of patrimonialism that poses a conflict between a (noble) officeholder "class" empowered by a central monarchy and the monarchy itself is of little help in understanding the preferences and interests of Spanish stakeholders. However, Spanish history shows that the path toward the nation-state taken in more centralized, hierarchical polities like France or England was not an unavoidable outcome either. This needs explaining, too.

The central question for this book remains what the economic outcome of this coordination game was. Its effects were visible in all areas of state activity, the legal and monetary systems, the political process, social cleavages, and cultural and linguistic developments. But the clearest aggregate indicator of how the location and exercise of power affected and interacted with the economic development in Spain is how it affected market integration. The most important Achilles heel of Spanish political economy in the early modern period was not a predatory absolutist state, an overextended empire, the exploitation of Spain as part of the semi-periphery of a capitalist world system, or a bourgeoisie that chose a rentier's life. It was the fragmentation of the internal markets that resulted paradoxically from the very strength of a system of governance that allowed the Spanish Crown to rule by negotiation and compromise.

The empirical evidence presented in the following pages thus draws mainly on a study of market integration that aims to understand why it was so slow, haphazard, and regionally diverse in Spain and what this implied for Spanish economic development in general. The view from the consumer's perspective allows us to better understand what jurisdictional fragmentation really meant, why it persisted or even increased, and how it functioned. It can also illuminate why early modern European history was more complicated than the supposed trajectory from the fiscal-military to the unified nation-state allows for. This will become apparent when we get closer to the answers to a number of empirical questions about Spanish markets such as: how important was the impact of sovereign power of historic territories vis-à-vis that of the towns? The analysis of the market of one particular staple consumer good across the Spanish possessions in the Iberian Peninsula can give us a first idea of how exactly jurisdictional fragmentation shaped market-building.