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Editors

Cultural Factors in Economic Growth

With 2 Figures
and 11 Tables

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Chapter 7

Constitutions, Liberties, and Growth in Pre-Modern Europe

STEPHAN R. EPSTEIN

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I. Economic History and Culture

Economic historians are generally diffident towards cultural explanations of economic phenomena. This attitude stems partly from the lack of any obvious progress in linking symbolic, cultural meanings to economic practice since Aristotle condemned the social consequences of market exchange (exchange for profit) in the 4th century B.C.E.,[1] and partly from methodological concerns. Two questions in particular arise with respect to cultural

1 Aristotle's condemnation of all forms of exchange that did not aim to meet the household's self-sufficiency as causing the dissolution of the basic social set the terms of subsequent discussion. Both medieval theories of usury and of the just price, which were premised on the normative and positive view that personal and collective moral precepts ('culture') applied to economic practice and gave rise to specific forms of economic behaviour, and the 20th century contributions of Durkheim, Weber, Mauss and Polanyi appeal to Aristotelian ideas: as Marx put it, with the spread of market relations 'all that is solid melts into air'.

explanations of economic behaviour. The first is connected with the fact that beliefs can only be apprehended at second hand; the second has to do with the difficulty in identifying the causal links between cultural and economic practices in ways that are not tautological.

The fact that historians can only apprehend symbolic meanings indirectly from the observed outcome of economic activities is an oft-voiced criticism of cultural models. The issue revolves in essence around the methodological question that engaged the anthropological debate between the 'substantivists' (who argued that exchange in non-Western, non-modernized societies was regulated by 'traditional' values which could not be submitted to modern economic theory) and the 'formalists' (who claimed the opposite). The choice between the two claims cannot be a matter of subjective and ideological preference, however, for they rest on very different epistemological grounds. Whereas economic explanations yield predictions that can in principle be tested, statements about unobserved values (traditional or otherwise) lack any external verification; they are simply a subjective and untestable construct by the historian. By taking observed economic consequences as evidence of their cultural causes, cultural models are also inevitably circular and raise questions such as how can historians have access to thoughts that were differently thought? On what authority do they stake their claim to knowledge? How, if past modes of thinking were so alien and at the same time all-encompassing, did these modes of thought ever change?

The second major source of concern with cultural explanations comes from recent anthropological research that casts doubt on the existence of direct causal links between systems of belief and individual economic practice. Despite huge cross-cultural variation in the way in which economic activities are conveyed symbolically, different human societies appear to share two critical features. On the one hand, most societies combine quite relaxed views about individual short-term acquisitiveness and competition associated with production and trade, with normative controls over consumption that aim at maintaining a longer term social and cosmic order. In other words, non-Western or non-'modernised' societies display a similar combination of individual acquisitiveness, and concern with its destructive collective consequences, which has been a feature of European societies since Aristotle's day. These structural similarities raise the question whether differences in cultural form produce any systematic and predictable difference in economic performance.

On the other hand, anthropologists also question how far one can infer actual economic practice from culturally charged statements about that practice. The link between economic function and symbolic meaning is uncertain, in the first place because people do not do what they say; and secondly, because the cultural meaning of an economic practice is not fixed. An economic practice can mean different things to different people or to the same person in different circumstances within the same culture; acquisitiveness and competition can be conceived at the same time as subversive of social relations and as a means to their reproduction.[2]

The de-coupling of cultural from economic practice has important methodological implications for economic history. Firstly, if what someone does doesn't allow us to predict what she believes she is doing, and what she believes does not straightforwardly determine what she does, the premise for cultural explanations of economic behaviour collapses. Second, the volatility of cultural meaning and its dependence upon context suggest that interactions between belief and practice are better analysed at the level of individuals than of whole societies. This is not something economic historians who apply the law of averages are very good at doing. Although in strictly pragmatic terms their approach seems to provide a suitably parsimonious explanation of observed individual behaviour,[3] economic historians are ill-equipped to discuss linkages between cultural and economic practices that are only visible at the individual level and over short periods of time.

In recent years neo-institutionalist economic historians, spearheaded by Douglass North, have tried to circumvent these difficulties by reducing culture, defined as an informal system of rules embodying mainly non-pecuniary (moral) sanctions, to institutions defined as formal systems of

2 "The meanings with which money is invested are quite as much a product of the cultural matrix into which it is incorporated as of the economic functions it performs" (PARRY and BLOCH 1989, p. 21).

3 Even though the economists' rational choice model of 'culture' is based on a very primitive theory of cognition, in the long run - which is the time scale most economic historians work in - it appears to 'work'. One reason for this could be that societies 'select' economic institutions that maximize returns relative to certain goals; in this case, institutions provide the cognitive 'scaffolding' for individual choices which are, in effect, little more than interchangeable bearers of efficient practices. See CLARK 1997, pp. 272-73.

rules that embody mainly pecuniary or quasi-pecuniary sanctions.[4] By transforming arguments couched in terms of cultural preferences into statements that appeal to individual economic self-interest, neo-institutionalists have turned the classic culturalist arguments on their head.[5] In this model, societies do not create specific institutions in order to uphold and further their beliefs, but instead they develop specific behavioural patterns (and therefore, beliefs) as a consequence of the institutions they are endowed with. Therefore, societies whose institutions foster behaviour or cultural preferences that bring private returns closer to social returns will experience more rapid economic development. Institutions that promote greater individual choice, individualism and stronger relations of trust will promote faster growth than institutions that foster individual insecurity, mistrust, and 'familistic' behaviour.

The Whig belief that constitutional freedoms breed economic success is a central feature of recent explanations of the English industrial revolution and the 'European miracle' (Jones 1981, Gellner 1988, and pursued by Carstensen in chapter 6 of this volume). They argue that the institutional prerequisite for the breakthrough to capitalist industrialism in late eighteenth-century England was England's and part of Europe's unique array of political freedoms in comparison with the rest of the world. These consisted most notably of the natural liberties and common law entrenched by the English civil wars, in particular by the Glorious Revolution of 1688, but also of the freedoms enjoyed by Republican city-states in early modern Italy, Switzerland and South German and in the Dutch United Provinces (North and Thomas 1973, Hall 1985, Mann 1989, Olson 1982, Cameron 1989). By contrast, the autocratic or absolutist Continental monarchies[6]

4 See the recent collection of essays in North's honour (NYE and DROBACK 1997).

5 David Hume was an early exponent of this strategy. His explanation of the investment strategies pursued under absolutism is couched in terms both of cultural preferences (commerce and industry are spurned because they are seen as less honourable than 'birth, titles, and place') and of institutional incentives [the distortions are caused by the tax system, which is not excessive in absolute terms but is oppressive at the margin (HUME 1993 (1777)]. For a similar argument see HOFFMAN and ROSENTHAL 1997.

6 OLSON's (1991) equation of absolutism with autocracy is disputed by HOFFMAN and ROSENTHAL (1997, p. 50), who however maintain a sharp distinction between absolutist and parliamentary regimes that I do not follow.

stifled their economies through oppressive taxation, other punitive forms of redistribution, and the absence of the rule of law.

The reduction of culture to institutions or 'rules of the game', as North has called them, does not however resolve the methodological and measurement problems previously described. To see why this is so, we must distinguish between the two quite different claims being made by neo-institutionalists. The first claim is that governance systems influence the pursuit of material wealth: thus openness to trade, savings policies, commercial and financial regulation and educational policies will all affect a country's rate of economic growth. The second, more contentious claim is that different forms of governance sanction different norms and forms of behaviour, which in turn are more or less conducive to economic growth (Fogel 1997, p. 22; Scully 1992).

The historiography of English and European exceptionalism relies crucially on the second argument. It asserts that economic growth was the effect of systems of political governance which sanctioned greater individual liberty: it is because the post-1688 parliamentary regime in England was a freer, more equitable system of governance that the country first experienced the industrial revolution. In this chapter I discuss the basis for this claim.[7] I provide evidence to suggest that the economic consequences of English and Republican freedoms were less positive than assumed. I show that, paradoxically, the main effect of the Glorious Revolution was to allow England to catch up economically and institutionally with the Continent, rather than to gain a decisive advantage. The result contradicts the view that the allegedly more authoritarian Continental regimes were at a permanent institutional disadvantage (Section III). In the case of Republican states, on the contrary, I find that political power was inversely correlated with economic success. This result runs counter to the claim, most recently restated by Mancur Olson (1991), that economic growth promotes political freedom (Section IV). Both cases raise serious doubts about the possibility of inferring patterns of behaviour (individualism, trust, security) and economic

7 Here development is narrowly defined as increase in per capita income. On a broader view that incorporates general measures of well-being such as basic civic and political freedoms, a democracy (however qualified) would nearly by definition be more conducive to development than a non-democratic regime. Since such modern democratic freedoms are not immediately apparent in any pre-industrial society, however, the issue can be safely ignored.

performance from constitutional arrangements, thus confirming the methodological concerns spelled out in the opening to this chapter. Finally, I raise the question whether systems of governance made any difference to economic performance (Section V). I conclude that constitutional structures did matter, but for reasons that had little to do with liberal concepts of freedom or individualism.

II. Negative and Positive Economic Freedom

The point of departure of arguments that draw a direct link between forms of institutionalised freedom and economic growth is the view that growth before the Industrial Revolution was mainly Smithian; that is, it was based on an increasing spatial and organisational division of labour (e.g. Persson 1988, Jones 1988). Since the extent of specialization is essentially a function of the technical and institutional limits to trade,[8] neo-Smithian economic historians have paid particular attention to institutional barriers to the efficient allocation of resources and to the free flow of goods. In so far as market imperfections cause unequal access to economic resources, this approach brings the issue of freedom firmly onto centre stage. Social norms and rules (property rights and rights of entitlement) that are defined and are thus potentially contestable in the political, rather than the purely economic realm sanction and reproduce the access to income streams. It follows that the politically sanctioned distribution of freedom - and hence of power - within societies will strongly influence economic growth.

It thus seems that the exercise of economic freedom is inextricably linked to the exercise of power. Yet, within the negative definition of freedom most often subscribed to by economic historians (that is, freedom from constraint), power and freedom stand opposed.[9] On the common definition

8 Market size is a function also of demand within a given territory, which however in pre-industrial societies tends to change more slowly.

9 This purely negative definition of freedom is a consequence of economists' suspicion of normative ideas like power to explain the economic institutions of the past. The suspicion arose following the analytical distinction established during the late nineteenth century between the allocative and the redistributive functions of markets, i.e. between efficiency and equity - neo-classical

of economic power as a person's ability to further her interests by imposing (or credibly threatening to impose) sanctions on another person where the converse is not true,[10] freedom in the economic historian's sense becomes the absence of such sanctions. In this sense, the relationship between power and freedom emerges as a zero-sum game: one can gain only as much freedom as someone else must lose power, and vice versa.

In fact the relation between freedom and power is far more ambiguous. On the one hand, freedom as the ability to achieve a desired goal implies an active exercise of control. On the other hand, freedom can be defined only in relation to unfreedom; to be free there must be a condition one wishes to escape from. Freedom has scarcity value: if everyone has it, it is of no worth (what value the rights of citizenship, if all foreigners had them also?). In both cases, freedom is based on an institutional asymmetry: freedom was born as a privilege and has remained so ever since (Bauman 1988, p. 9). Rather than following naturally from someone else's lack of power, a condition of freedom always implies the agent's exercise of power.[11] In other words, the negative definition of freedom as what we are at liberty to do implies a positive meaning of freedom as what we are able to do. This ambivalence, which lay at the heart of pre-modern concepts of legal and economic 'freedom', is important for understanding how political institutions shaped pre-modern growth.

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economics being concerned only with the former (DE MARCHI and MORGAN 1994, Introduction). The belief that lack of political coercion is a precondition for economic growth, which appeals to Adam Smith's attack on ancien regime and mercantilist restrictions, is based on a projection of nineteenth- and twentieth-century definitions of political freedom as universal suffrage and participatory democracy onto Smith's quite different political categories (see WINCH 1978, pp. 83–6).

10 A related voluntarist definition focuses on an agent's ability to affect the incentives facing another agent so that it is rational for the latter to do something she would not otherwise have chosen to do.

11 This claim does not contradict the more common statement that an agent's freedom involves exerting control over what happens to her.

III. 1688 and All That: England's Fiscal and Economic Revolution?

In a recent paper, North and Weingast (1989) have made a powerful economic case for the argument that the changes in political representation caused by the Glorious Revolution of 1688-89 set the English economy on a unique growth path leading directly to the industrial revolution. The story is a familiar one. In the early seventeenth century the Stuart kings could no longer fund their increasing requirements with traditional sources of revenue. Sale of these lands did not make up the shortfall, and the Stuarts were forced to find new sources of income. This set them against Parliament, which had the right to grant new taxes, typically for extraordinary purposes such as war but also by increasing excise on trade. Faced with parliamentary resistance, James I and especially Charles I imposed new taxes without the Commons' consent. They also resorted increasingly to forced loans (which they repaid, if at all, with considerable delay), to the sale of monopoly rights and of patents of nobility, to purveyance (the requisitioning of goods below market prices), and to other less overt forms of involuntary redistribution. The more the landed and commercial interests represented in Parliament traded their financial support in exchange for limitations to the Crown's authority, the more the Crown was led to avoid insolvency through underhand expropriation.

The Stuart monarchy could act in this way because it combined executive, legislative and judicial powers and possessed a comparative advantage in coercion. Because Parliament's capacity to check royal power was restricted, the Crown could renege on prior agreements and modify the existing structure of property rights. The situation set in motion a coalition of subjects who sought to preserve personal liberties, rights, and wealth, and led to the Civil War. However, only the Declaration of Rights of 1689, which enshrined parliamentary sovereignty, created truly secure property rights. Parliament re-established authority over the right to tax, gained the right to audit government accounts, curtailed royal prerogative powers, and established the independence of the law. These political rights laid the foundations on which economic rights were built.

North and Weingast measure the gains in economic freedom through changes in government finances and in capital markets. Although government expenditure and indebtedness mushroomed (by 1720 public debt stood

at over 50 times the level of 1688), official rates of interest fell and the government avoided the trap of inflationary finance. Government financial reforms also sustained the expansion of private capital markets and benefited the wider economy. Thus, the Glorious Revolution enforced economic freedom in the shape of secure property rights and promoted financial efficiency. By making it impossible for the Crown to change the rules of economic activity ad libitum, Parliament made government behaviour more predictable and lenders were consequently forthcoming.[12]

This interpretation implies three further conclusions which the authors do not however pursue. First, because English property rights before 1688-89 were insecure, the required rate of return on capital and restricted private investment must have been higher than after the revolution; second, Continental, absolutist European states must have faced higher credit risks and greater instability than eighteenth-century England; third, the latter's military success is evidence of the wider economic benefits created by the new regime.

We can test the first two arguments against comparative data on interest rates. Since changes in the security of property rights should be reflected in the expected rates of return on capital, the theory predicts that the Glorious Revolution would be followed by a sharp decline in rates of return. In fact, analysis of rates of return to the main capital input, land, shows no significant link with political or constitutional events throughout the period between 1540 and 1837. Although rates of return did decline after 1688, the decline was part of a secular trend that had begun in the first half of the seventeenth century and which ended in the middle of the eighteenth. Therefore, the evidence from domestic imputed rates of interest suggests that "secure private property rights existed in England at least as early as 1600, and probably much earlier. As far as most private investors were concerned, nothing special happened in 1688, or, for that matter, in any period between 1600 and 1688. The information from capital markets implies that the move to representative democracy (sic) was not necessary for the establishment of secure private property rights" (Clark 1996, p. 565).

12 Strictly speaking, therefore, North and Weingast address the economic effects of secure property rights and of a government's pre-commitment to binding rules, not those of freedom. Secure property rights are not a critical measure of freedom, not even in the sense of equality before the law (MUNZER 1990, ch. 7; RYAN 1987, ch.7; and see below).

This result does not, however, address the claim that England enjoyed institutional and economic advantages over its more oppressive Continental neighbours; the chronological origins of the country's cultural or institutional advantage (such as the existence of the common law) might simply go back further in time.[13] We can verify this proposition by comparing interest rates paid by different European governments, on the basis of the hypothesis that autocratic regimes paid significantly higher rates than republican governments and than England after 1688 because the reneged more frequently on their debts. The astonishing decline in English prime rates from 8-10 per cent just before the Glorious Revolution to 3 per cent by 1750 lends prima facie support to this claim.

Table 1 lists the prime interest rates current in several European states between the early sixteenth and the mid-eighteenth century. It tests whether different constitutional arrangements were reflected in significantly different premiums by distinguishing between Continental monarchies, England, and urban-based republics. With the significant exception of England before 1688, which lacked a long-term funded debt and therefore resorted to short-term loans, quoted rates of interest refer in the main to long-term loans, which measure the borrower's credibility more accurately than money market rates.[14]

The data do not support the neo-institutional arguments. Although most urban republics enjoyed an interest rate premium over monarchies for much of the period under review, the explanation does not seem to lie in their constitutional differences. The rule applied neither to Geneva nor, more significantly, to the Dutch United Provinces before the mid-seventeenth century; moreover, the lowest rates of interest were present in Genoa, which was formally an independent state but was in practice under Spanish tutelage and acted as the empire's main financial clearing house. These examples suggest that the lower interest rates found in some city-states may have been due to their greater supply of capital and financial specialization, rather than to a general security premium enjoyed by republics over monarchies.

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13 See e.g. MACFARLANE (1978), HAYEK (1973), SCULLY (1992).

14 Long-term interest rates reflect both the state's fiscal fungibility (whether the present value of expected income equals the present value of expected outlays) and the public's perception of the security of claims to future income streams.

Table 1: European Prime Interest Rates, c.1500-1750[15]

A. REPUBLICS

		Rate	*Source*
Alsace, S. Germany, Switzerland	early 16th c.	10	14:520
Geneva	1538	5	2: 119
	1557	6.67-7	A
	1572	8.33	A
	1613	8	A
	1648	6.67	A
	1668	5-6.67	A
	1681	5	A
Switzerland	18th c.	3-4	14:536
Genoa	1522-24	3-4.25	12:118
	1550	4.375	"
	1575	4.25	"
	1600	2.875	"
	1620	1.25	12:132
Holland (Habsburg)	c.1500	8-12	12:118
	1550s	6.25-8.33	12:118; 21:117
	1550-60	8.33	12:118
(United Provinces)	1572	8.33	"
	1600-40	6.17-8.33	12:131
	1640-72	3.75-5	"
	1672-1700	3-3.75	A
	1709-13	4-4.5	10:474
	1724-5	3-4	A
	1740	3.5-4	A

15 Sources: (1) ASHTON (1960), (2) BERGER (1962), (3) BONNEY (1981), (4) CALABRIA (1991), (5) CARBONI (1995), (6) COLLINS (1988), (7) COVA (1991); (8) DENT (1973), (10) DICKSON (1967), (11) GOUBERT (1970), (12) HOMER and SYLLA (1991), (13) KELLENBENZ (1986), (14) KÖRNER (1995), (15) MUELLER (1997), (16) PEZZOLO (1994), (17) PEZZOLO (1990), (18) PIOLA CASELLI (1991), (19) RUIZ MARTIN (1975), (20) STUMPO (1988), (21) TRACY (1990), (22) VAN DER WEE (1977).

	1750-2	2.5-4.5	A
Nuremberg	1540-50	5	12:117
	1561	6	"
	1565	5	"
Venice	1500	9.6	12:118
	1502	6.76	"
	1509	5	15:474-75
	1521-99	2.5-5	16:738
	1593	3	17:178
	c.1600	4	13:334
	1616-17	5	16:740
	late 17th c.	4-5	14:532

B. MONARCHIES

Denmark	18th c.	4-5	14:536
France	1522-43	8.33	12:117
	1594-1601	8.33	3:19
	1601-34	6.25	A
	1600-10	3.5-4.3	6:73
	1630s	4-5	6:86
	1656-61	14.5	3:318
	1661-9	5.5-7	6:47; 18:376
	1679	5-5.875	12:131
	1698-9	5	11:227
	1717-18	4	22:379
	1719	3	"
	1735	5	12:170
	1749	5	"
Habsburg Austria	late 17th c.	5-6	14:532
	1700-40	5-6	14:536
	1760-80	3-4	A
Piedmont	1680s	5	20:662
Papal States: Bologna	1555-95	7.01	5:131
	1575	7.01	"
	1595	7.03	"
	1625	7.04	5:132

	1655	6.18	"
Papal States: Rome	late 16th c.	6-8	18:467
	early 17th c.	6	16:740
	1686	3	18:466
Spanish Empire: Castile	1504	10	19:14
	1526	9	"
	1540	7.5	"
	1545-50	6.25	"
	1584-98	5.8	"
Spanish Empire: Milan	1598	7	7:344
	1602-14	5.25	7:73
	1637	5	8: 330
	1655-58	7	7:73-76
	1659-61	2-4.5	7:81-86
	1706-30	4	7:108
Spanish Empire: Naples	1520-29	8.3-10	4:143-45
	1530-38	9.7-11.7	A
	1540-46	8.7-10.5	A
	1550-59	8-9.4	A
	1560-75	8.8-9.3	A
	1580-98	6.8-8	A
Tuscany	early 18th c.	4-6	14:536
	post 1726	3.5-4	"
England	1546-58	13-14	13:113
	1603-24	10	1:155
	1624-40	8	A
	1693	14	12:126
	1694	8	22:385
	1710	8.3	12:156
	1717	5	22:388
	1727	3.57	12:161
	1736	2.86	"
	1750	3	"

We can verify the two hypotheses by examining the interest rate differentials more closely. If the difference was the effect of a permanent risk

premium, it would remain constant over time, whereas if it was mainly due to technological factors, one would expect the differentials to narrow over time as monarchies caught up in financial sophistication. The data, which show a strong tendency for prime interest rates to decline and converge over time, strongly support the second hypothesis. Rates of 8-12 per cent towards 1500 had dropped to 8 per cent half a century later; by the early seventeenth century they had slipped to 6 per cent, declined further to about 4 per cent by 1700, and inched a few points lower in the following decades.

The one significant exception to European convergence was England before the Glorious Revolution. Still during the 1690s the English crown was forced to offer rates of 10 per cent, compared with rates of 3-3.75 per cent in the Dutch Republic, of 4-5 per cent in Venice, of 5 per cent in France, and of 5-6 per cent in Habsburg Austria. The comparison with conditions on the Continent turns the Whig interpretation of the Glorious Revolution on its head. The sharp decline in English interest rates after 1700 reflected a process of convergence to the European, Republican and absolutist norm, rather than a bifurcation in England's favour. England was catching up with its neighbours, not initiating a revolution in government security.

Why was pre-1688 England so backward, and why were interest rates there so high? High interest rates imply that the early Stuarts were significantly less reliable and more prone to default on their fiscal commitments than their European counterparts.[16] The explanation for this appears to be the early modern English monarchy's political and military isolation. England's effective insulation from Continental warfare between the mid-fifteenth and the late eighteenth centuries was an effect of its inefficient fiscal system, which was incapable of raising the inflated sums needed to wage early modern warfare, and of the excessive costs of invasion that protected it from foreign attentions (Brewer 1990: 12-13). Whereas on the Continent the constant threat of foreign-backed insurrection, civil war and invasion acted as an effective deterrent against unchecked expropriation,[17]

16 By the 1630s the Stuarts' reputation had so deteriorated that they were no longer able to raise funds on international financial markets (NORTH and WEINGAST, p. 820, n. 36).

17 The fact that the French and Spanish monarchies never entirely lost their credit, and that they were able to transform short term into long term government debt indicates that financial crises and 'bankruptcies' were essentially moratoria on interest payments (VAN DER WEE 1977, p. 391; KÖRNER 1995, p. 520).

in England those competitive constraints were far weaker. Moreover, precisely because the English Crown faced fewer external threats, it remained wedded to an archaic system of expensive short-term finance based on a floating debt far longer than any of its larger Continental competitors. While England established a consolidated debt only after the foundation of the Bank of England in 1694, the pressures of war made France, Spain and lesser Continental monarchies move towards the systems of debt management pioneered by the late medieval Italian city-states already during the sixteenth century. Somewhat ironically, the cost of England's absence between the mid-fifteenth and the late seventeenth centuries from the major European zones of military engagement may have been an autocratic government that kept average rates of interest 50 percent above those prevailing on the Continent. Although the system of constitutional checks and balances that emerged in 1688-89 and the financial pressure caused by war with France (1689-97)[18] did help secure more effective property rights in England, its principal economic effect was an unusually rapid convergence to the European fiscal and political norm.[19]

The English case proves that constitutional differences in systems of governance are not accurate predictors of economic performance. It is just as misleading to take eighteenth-century England's military successes as

18 "Nearly all that was 'revolutionary' about the years following 1688 was the product of war, not of some novel ideology (...) All the distinctive themes of constitutional evolution (...) were, in large measure, developments enforced (...) by the most expensive conflicts that England had yet fought". However, one should not exaggerate the impact of 1688 on administrative practice. Many of the techniques extended to government finance after 1688 had been developed by the Treasury in the period 1665-79 with the "ambition to revolutionize the basis of government borrowing" (ROSEVEARE 1983, p. 708).

19 England managed to turn its relative backwardness into a latecomer's advantage, as it adopted and perfected the best available financial institutions happily at hand in the allied United Provinces. Thus eighteenth-century England was the only country to offer perpetual loans. The more specific benefits of late seventeenth-century fiscal reform and of England's convergence to the European norm are more difficult to identify. Any benefits accruing from sharply lower interest rates on the national debt were probably balanced by the sharp rise in the levels of debt and taxation after 1700, although the claim that private investment was crowded out by state debt is disputed (ROSEVEARE 1983, p. 703-7).

evidence of superior economic performance (North and Weingast 1989). As early modern Sweden and Brandenburg-Prussia proved to great effect, a state's military standing depended more on the efficiency with which it extracted taxes than on the disposable wealth of its subjects. Eighteenth-century England confirmed this point. In England, the share of national income appropriated as taxes rose from approximately 3.5 per cent in the 1670s to between 11 and 12 per cent during the American War (Mathias and O'Brien 1976). The fact that these levels were unmatched elsewhere in Europe proves that the most significant effects of the Glorious Revolution of 1688- 89 were at the level of the fiscal administration. Those reforms underpinned the change in England's international status, from a marginal player under the Tudors and Stuarts to a competitor for European leadership after 1700. A period noted for its praise of liberty actually witnessed the creation of the fiscal-military state (Brewer 1990: xi, xvii).

Several features of the English tax system set it apart from the Continental monarchies. Firstly, tax collection was more centralized and was based on larger numbers of centrally appointed and professionally trained government officials. Second, England's lack of internal jurisdictional and revenue boundaries made it easier to police and repress tax evasion compared to most Continental countries, where jurisdictional fragmentation and administrative heterogeneity made revenue policing an administrative nightmare (Bonney 1995). Third, the English tax system applied uniformly throughout the country, again in striking contrast with rivals such as France and the Dutch Republic, where innumerable regional, group and individual privileges and immunities compounded the lack of fiscal compliance. Lastly, the openness of the English revenue system to public scrutiny created a greater degree of public confidence than in more secretive countries, and conversely made it harder to voice opposition to taxes once Parliament had granted its consent. The English fiscal system was thus more efficient and less subject to evasion or resistance than under nominally more powerful absolutist Continental regimes. The critical advantage of the English system of governance over its neighbours was its superior ability to solve problems of co-ordination and conflict between rival claimants (Brewer 1990).

This conclusion corresponds to recent re-evaluations of the character of ancien régime Europe, in particular of French absolutism. The current view among historians of the French monarchy contrasts strongly with the portrait of a despotic regime (North and Thomas 1973, chs.8, 10; North and

Weingast 1989; Macfarlane 1987; Olson 1991). If one had to sum up the regime's failings in a word, it would be: ineffectiveness. I have already mentioned the main constraint on royal authority: the towering pyramid of inherited and newly established powers and jurisdictions, which gave local and regional societies substantial margins of political manoeuvre and at times de facto independence in their dealings with the Crown (Beik 1985). In a society in which legal propriety was sacrosanct, the ruler could not by law (of which there were different and competing kinds) encroach upon the privileges and rights - the liberties, as they were known - of the provincial elites, the town councils, and the myriad other corporate bodies that made up the pre-modern body politic. Both in theory and in everyday practice, the ruler was supreme political mediator rather than autocrat (Mettam 1990).

This condition defined absolutism's - and indeed all pre-modern governments' - basic predicament. The vast number of sectional interests endowed with legally sanctioned liberties made it necessary to insulate the French royal councils from outside pressure by surrounding them with a high degree of secrecy. This fact in turn transformed lawmaking and especially economic regulation into a discretionary prerogative of the bureaucracy (Root 1991). Although political secrecy and bureaucratic discretion, which made it easier to lobby for privileges outside the glare of public scrutiny, are the hallmarks of authoritarianism, the state's ability to enforce its decisions and to mediate between conflicting claims faced frequently insurmountable barriers. Local and regional representative institutions (parliaments, estates, urban councils and suchlike) could challenge the legitimacy of royal jurisdiction; the country's administrative complexity resisted attempts at uniform enforcement; and even the laws' application was frequently in local hands, which had every opportunity to stall, delay or boycott any centrally legislated decision.

In brief, despite their ostensibly greater authority, French and indeed other absolute monarchs were less able to put their will to good effect than their English counterparts. However, absolutist inefficiency - its failure to co-ordinate and cut through competing economic claims - was not the result of unbridled tyranny and a lack of individual freedom, but of the surfeit of sanctioned liberties and of the absence of a coherent, unified system of law. Moreover, legislative confusion was not the outcome of deliberate state action.[20] It was the inescapable consequence of the way Continental states

20 As argued by HOFFMAN and ROSENTHAL (1997).

were formed, through organic growth and piecemeal accumulation that left pre-existing institutions by and large untouched, rather than by right of conquest which could be used to wipe the political and institutional slate clean. By contrast, the English settlement of 1688-89 was effective because it relied on a highly centralized state that faced little local and provincial opposition. Although the relative openness and size of the English assembly made it harder to reach agreement than in more secretive systems such as the French one, laws passed by the English Parliament had greater legitimacy and could be implemented more consistently than in most Continental states (Levi 1988, ch. 6).

IV. Urban Capital, Republican Coercion

The belief that the emergence of political and civil liberties was inextricably linked to economic freedom also sustains the old view that western Europe's break with feudalism and economic stagnation owes much to the existence of independent cities (Smith 1976, III, iii-iv). The proposition comes under two distinct but connected forms. In the first place, the economic and social changes linked to European modernisation, that is, to the transition from a traditionalist, corporatist, religiously-minded society, to the increasingly secularised, individualistic and mobile world of capitalism, originated and developed in towns (Langton and Höppe 1983, Hicks 1969). The growing material wealth, new codes of law, religious beliefs and aesthetics, nation states and, ultimately, world expansion associated with western European modernisation can all be traced back to the peculiar dynamism of its urban society, and to the social tensions and innovations it brought about. Second, European sovereigns were forced to meet their fiscal requirements by allying with the towns against the feudal aristocracy in exchange for financial support; bargaining over taxes promoted forms of parliamentary representation and thus led, over time, to modern parliamentary democracy.

In the first view, western European cities derived their unique historical role from being both the main and often the only fora of exchange, and the main and often the only centres of cultural, economic and institutional innovation. The view that the medieval Western city is the source of modern

legal and political freedoms is often credited to Max Weber (Weber 1978, vol. 2, 1212-372; Käsler 1988: 42-8, 200; Berman 1983, ch.12). However, as Weber pointed out, the origin of those freedoms lay in an act of usurpation of legitimate (feudal) power by groups of burgers who acted collectively to establish their free status - that is, subject to a special and autonomous law (Weber 1978, vol.2, 1254). Therefore, the emergence of free citizen status also defined non-citizens as unfree; urban freedom was the outcome of a legally sanctioned privilege that distinguished the town from the feudal or subject countryside. It thus comes as no surprise that during the medieval and the early modern periods, `freedom' was used in the sense of `privilege' (Bridbury 1986).

During the past two decades this stark contrast between urban modernity and freedom and rural conservatism has been challenged by a large body of research, which has shown that rural or proto-industry contributed as much as urban manufacture to pre-modern economic growth. However, because towns tended where they could to ban all rural activities that threatened their own industries, a critical institutional pre-condition for proto-industrial success appears to have been protection from, or absence of, urban competition. The latter were generally strongest in republican city-states, which were politically independent and could therefore extend their jurisdiction unchallenged over the rural hinterland; as a consequence, rural industries under those regimes were generally weaker. In this way urban privileges, which had originally established the towns' autonomy from feudal authority and had provided the legal basis for their economic expansion, turned later into fetters on rural freedom and growth. Conversely, successful rural manufacture required the same kind of positive freedoms backed by legal privileges and immunities on which 'usurping' towns had originally built their economic fortunes. Rural `freedoms' gave nascent proto-industries the equivalent of infant industry protection against urban encroachment; perhaps paradoxically, such freedoms were more likely to arise in monarchical states in which the sovereign could override the privileges of towns (Pollard 1997, Epstein 1999).

Similar criticisms apply to the second model that links urban economic and political freedom. While also owing something to Weberian analyses, this approach emphasises the capacity that pre-industrial European cities had to avoid the embrace of the tax-hungry state, and it postulates a dichotomy between urban 'capital' and state 'coercion' (Tilly 1990). Pressure to increase political coercion came from rising military competition between

states. The early modern 'military revolution' had to be paid for by greatly increased rates of taxation; since towns were both wealthier and more easily assessed than the countryside, they bore the brunt of the states' financial needs. However, this was in danger of killing the goose with golden eggs, for military expenditure and bureaucratic controls were antithetical to early commercial capitalism. Therefore, where fiscal pressure could not be restrained, the commercial and financial metropolises were stifled; conversely, where cities were independent of the larger monarchies, they became the core of the rising merchant capitalist economy. The inherent fiscal hostility between feudal and royal authority and the cities meant that monarchs strove for total territorial control, whereas cities pursued commercial profits and preferred open routes of travel and communication along coasts and rivers to politically enforced borders (Blockmans 1989, pp. 733,735). In general terms, economic growth could only occur in towns or regions where state control was weak or non-existent (Blockmans 1989, p. 752; see also Tilly 1990, pp. 52-3).

These conclusions are however contradicted by evidence about the political status and activities of cities. In politics, cities were strong allies of the monarchs in the latter's attempts to extend full sovereignty over the feudal aristocracy. In exchange for the towns' support expressed through parliamentary institutions, rulers in France, the Crown of Aragon, the southern Netherlands and Piedmont vested cities with political and economic privileges that transformed the urban elites into rentiers (Blockmans 1989, p. 752). Instead, where towns were politically independent, representative institutions were simply ignored. Either one metropolis established control over its region, as did Florence, Milan or Venice in central and northern Italy, or a loose federation of towns like the North Sea Hanse emerged in its place. In the first case, the dominant city's elites employed their new-found powers to exploit the subject territories (Epstein 1999); in the second case, the federated cities suffered from a lack of organization and in due course fell under the sway of more powerful territorial rulers.

Thus just as the economic freedom of the Hansa cities was incapable of sustaining their political independence, political freedom (in the form of parliamentary representation or of an independent republic) was incapable of sustaining subject cities' economic freedom. Urban political and economic freedoms conflicted for two reasons. First, the parcellization of sovereignty characteristic of pre-modern Europe meant that for most cities, jurisdictional powers over trade were a fundamental source of profit. Urban

elites therefore had a strong vested interest in preserving their political privileges. Second, monopolistic competition between cities created a Prisoner's Dilemma that placed city-dominated states at an economic disadvantage compared with larger monarchies. In sum, the political power of cities stood in inverse relation to their economic efficiency.

The early modern Netherlands provide a good example of this. The history of the Dutch Republic - governed by a federation of 58 independent cities with equal voting rights and having the most developed and urbanised European economy of its time - seems to confirm that urban political freedom led to economic success. In fact, the country's constitutional structure was among the causes of the country's relative decline from the 1680s ('t Hart 1989). When the Dutch constitutional settlement emerged in the late 1570s, no single city was yet hegemonic, and it was therefore decided that all 58 cities had to vote unanimously on issues of national concern such as war, peace and taxation. However, the compromise entrenched a permanently weak national leadership, which subjected decision-making to constantly shifting coalitions and debilitating bargaining between rival towns. Up to the Peace of Westphalia (1648), the all-out war of independence against the Spanish Empire gave the cities a shared external focus that papered over their main differences. Thereafter, however, the dispersal of political authority among competing commercial and industrial centres restricted the Dutch state's capacity to make timely decisions, particularly in matters concerning the country's commercial and political interests in the international arena over which urban interests differed. The need for unanimity made it harder to respond quickly to evolving international conditions, and became a cause of Dutch decline in the late seventeenth and eighteenth century when England and France challenged the country's hold over international trade ('t Hart 1989, 681). Although economic success achieved the country's political freedom by enabling the Dutch to finance an 80-year war of independence against the world's most powerful empire, the opposite did not apply: in the longer run, political freedom was preserved at the cost of relative economic decline. As we saw with rural manufacture, the political preconditions of urban economic success had turned over time into institutional fetters to further growth.

V. Did Governance Matter? The State as Institutional Co-ordinator

Having begun with the hypothesis that political freedom was essential for economic success, we are being led to conclude that the two may be incompatible. The answer to our initial question, whether there was a direct relation between systems of governance and economic performance in pre-modern Europe, is at first sight negative. We appear generally to have confirmed the initial criticism, that culture - defined as sanctioned behaviour or the 'rules of the game' - cannot be deduced from a given constitutional arrangement. However, this is not an entirely surprising conclusion. Although it is in principle true that an autocratic government (that is, one not subject to constitutional checks and constraints) will be unable to provide the necessary commitment to existing property rights, and will therefore stifle opportunities for growth, it is well known that the converse does not follow. Free (in the sense of liberal democratic)[21] institutions do not necessarily lead to a superior degree of commitment.

A priori, there is little reason to believe that democratic freedoms will be associated either with secure property rights or with a credible pre-commitment to constitutional rules. The modern argument that democratic freedoms may actually threaten economic growth is based on two claims (Przeworski and Limongi 1993). First, democracies fall prey to pressure groups, whose elected representatives pursue the particularist goals of their constituencies rather than collective or national interests, thus favouring policies aimed at economic redistribution rather than generalised growth (Olson 1982, Becker 1983). Secondly, democracies can overturn past laws and decisions, if a qualified majority so decides and if there are no constitutional constraints on such change (Elster and Slagstad 1988). This causes uncertainty and inhibits strategic planning and investment. The tyranny of particularism and the lack of pre-commitment therefore make it essential to insulate the state's decision-making processes from competing interests.

21 I follow this middle-of-the-road liberal definition of democracy to avoid the complications that arise if one argues with Hayek that a democracy may be illiberal and a dictator liberal, where liberalism is defined as a system of individual freedom under the rule of law with wide scope for free-market activity (Arneson 1993, pp. 145- 6).

Democratic inefficiencies mean that authoritarian rule is necessary to ensure long-term growth.

These arguments suggest that the main economic limit of democracy is one that I have imputed also to absolutism: the excessive and debilitating hold of particular interests. Although we should not push the analogy too far (whereas liberal democracy is based on universal equality before the law, ancien régime liberties were premised on legal inequality), it indicates why differences in constitutional rights across pre-modern Europe were not critical for relative economic performance. In this respect, the Whig and neo-institutional contrast between English and Continental forms of governance is based on two misunderstandings. The first, which underlies the assumption that absolutist monarchies faced higher interest rates than constitutional ones, confuses the normative and political issue of freedom from autocratic or absolutist government with the positive (economic) issue of pre-commitment to rules, and on both points we can do no better than cite David Hume:

> Private property seems to me almost as secure in a civilised European monarchy as in a republic; nor is danger much apprehended, in such a government, from the violence of the sovereign, more than we commonly dread harm from thunder, or earthquakes, or any accident the most unusual and extraordinary. Avarice, the spur of industry, is so obstinate a passion, and works its way through so many dangers and difficulties, that it is not likely to be scared by an imaginary danger, which is so small, that it scarcely admits of calculation. It may now be affirmed of civilized monarchies, what was formerly said in praise of republics alone, that they are a government of Laws, not of Men. The source of degeneracy which may be remarked in free governments, consists in the practice of contracting debt, and mortgaging the public revenues, by which taxes may, in time, become altogether intolerable, and all the property of the state be brought into the hands of the public. Absolute princes have also contracted debt; but as an absolute prince may make a bankruptcy when he pleases, his people can never be oppressed by his debts [Hume 1993 (1777), pp. 53-55].[22]

22 Hume seems to be saying that public debt under a constitutional or mixed government is subject to moral hazard and can therefore get out of hand, whereas an absolutist ruler will not be trusted with excess sums and will therefore keep debt under check. There are obvious similarities between this

The second misunderstanding relates to the character of pre-modern states. The source of institutional inefficiency in pre-modern states was less a lack of concern in enforcing contracts, a despotic lack of predictability, or parliamentary weakness, than the absence of full sovereignty over the public sphere. The reason why pre-modern societies conceived no clear distinction between the public and the private spheres was, precisely, because the state did not monopolise jurisdiction within its borders. Feudal lords, cities and other 'public' corporate bodies within the state's boundaries received private income streams from jurisdictional rights that were sanctioned by law. Monarchs confirmed these rights, but they did not control them. This explains the clear contemporary distinction drawn between absolutism - defined as a constitutional arrangement in which legally chartered 'freedoms' were respected and upheld - and despotism - defined as a system in which they were not (Kelley 1981, pp. 314-22; Black 1984, ch.11).

If one takes the view that the main thrust of pre-modern state formation was a process of ever-expanding sovereignty (Rosenberg 1994), rather than the instantiation of individual political liberty, the links between institutional and economic change become much clearer. Because the most important institutional source of pre-modern economic inefficiency was the near-universal parcellization of sovereignty, which followed from the way states (except England) expanded leaving most existing laws, rights, and privileges in place, the main way pre-modern states could contribute to economic growth was by overcoming that parcellization.

Jurisdictional fragmentation was the source of two fundamental institutional constraints on exchange, specialization and growth. The first, frequently remarked source of economic inefficiency was the panoply of tariff barriers that raised the direct and indirect costs of trade; the second, even more pervasive bottleneck arose from the multiple Prisoner's Dilemmas and market failures caused by competing, politically sanctioned monopolies. One previously remarked instance of market failure was the need to gain some kind of jurisdictional privilege to establish rural industry against urban competition successfully. Another major market failure occurred in systems of food distribution, in which monopolistic competition between towns and states increased both the level and volatility of consumer prices (Epstein 1999).

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argument and my preceding explanation for the different levels of interest rates in Continental Europe and pre-1688 England.

Pre-modern states could extend their sovereignty and thus limit sources of market failure in two ways. Firstly, and most dangerously, they could usurp feudal or corporate rights - in wartime, under cover of fiscal necessity, by right of territorial conquest, or by reverting feudal rights to the state upon the death of an incumbent. Alternatively, rulers could bypass existing jurisdictional claims by granting new charters of economic 'freedom', new privileges that restrained and weakened the effects of the old.[23] These solutions were both dangerous and circuitous. The first was politically and legally fraught and encountered strong resistance, including accusations of autocratic oppression; it was the negative aspect of that beneficial constraint by subjects on their rulers' actions that I discussed in the context of public debt. The second solution created additional sources of rent-seeking and co-ordination failure which took additional time and effort to solve.[24] In such a world, state 'efficiency' was a relative concept, which consisted in gaining sovereignty over collective income streams earlier and at lesser cost than in competing states. In other words, an 'efficient' pre-modern state was necessarily also a strong and centralized (albeit not autocratic) state. The only European polity that came anywhere close to this benchmark before the late eighteenth century was England, in virtue not of its unique individual liberties but of its precocious political unification (Koenigsberger 1978, Brewer 1990, chs. 1, 4).[25]

23 "In a society organized on a corporative basis personal initiative could only flourish under the protection given by exemption and privileges" (DEYON and GUIGNET 1980, p. 626).

24 One might speculate that weak sovereignty could shape collective expectations (culture), insofar as a society of 'liberties' tended to allocate entitlements along corporate lines and rewarded redistribution over aggregate expansion. It is however difficult to see how such a claim could substantiated.

25 It is for this reason that England achieved national market integration a century before the rest of Europe (REED 1973, KUSSMAUL 1990, CHARTRES 1995).

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