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Fiscal Exceptionalism: Great Britain and its European Rivals

From Civil War to Triumph at Trafalgar and Waterloo

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Fiscal Exceptionalism: Great Britain and its European Rivals

From Civil War to Triumph at Trafalgar and Waterloo[*]

Patrick K. O'Brien

Historical narratives which place the Glorious Revolution at the beginning and Parliament near the centre of explanations for the rise and success of Britain's fiscal military state begin to seem truncated in chronology, narrow in conception and insular in focus.[1] Nevertheless, their stories have been appropriated by North American 'Whigs' in a search for that 'constitutional moment' in their mother country's political and legal history when the realm's monarchy and aristocracy accepted a Bill of Rights and embraced an unwritten, but in their view economically functional constitutional regime[2]. Departing from the politically malign and economically inefficient ways of the Stuarts, England's reformed parliamentary government (which continued to be elected by a corrupt and non-democratic process) then apparently entered into sustained commitments: to respect property rights, defend private enterprise, protect freedoms to contract and promoted over time a penumbra of favourable institutional developments which led on (via an unmeasured and unmeasurable reductions in transaction costs) to the emergence of the world's first successful market economy. [3]

My essay seeks to argue that this now fashionable but essentially 'New Whig' interpretation of English history exaggerates the significance of the Glorious Revolution as a discontinuity in the development of private property and other institutions hospitable to diffusion and integration of free markets; mispecifies the Revolution's nature as a political conjuncture (which could only

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[*] Donald Winch must carry responsibility for the removal of extraneous detail, tedious qualifying clauses and for any unwarranted sharpening of the central argument elaborated by this essay. For all that I am very grateful.

be located in a clear shift in the realm's foreign and strategic policy) and neglects an immediately prior, but highly significant history of Civil War, Republican Interregnum and Restoration, when the constitutional and administrative foundations for a fiscal state were put in place. Above all as national history it fails to take into the narrative, the geopolitical and fiscal histories of Britain's major European rivals, who after all reluctantly gave way or rather were pushed aside to make space for the position of political and economic hegemony occupied by the Hanoverian state at the Congress of Vienna in 1815.

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My first point is that England's Civil War should continue to be represented as the conjuncture in the realm's fiscal, as well as its constitutional history, because the conflict originated as a tax revolt. Furthermore, and as usual, the pressures and costs of war generated untenable as well as sustained extensions to the capacity of the state to levy taxes. [4] Efforts made by the King and by Parliament to revalue the fiscal base, by measuring personal incomes or regional wealth, upon which universal and equitable styles of direct taxes might be levied had occasioned insurrection and revitalized the kingdom's tradition of resistance to such intolerable innovations. Thereafter, memories and myths surrounding three decades of violence and strife, which began with a dispute over ship money, conditioned political attitudes to all forms of direct taxation for more than a century before Pitt introduced an income tax, at a moment of crisis and threat to the security of the realm in 1798-99.

Tenacious and persistent political antagonism from classes with money to spare did not extend, however, to indirect forms of taxation. Although experiments during the Civil War with a wide range of excises had also been demonstrably unpopular a new principle (that duties could be imposed upon goods and services produced within the realm) had been conceded by Parliament. Furthermore, that clear departure from tradition had demonstrated that the assessment and collection of excise duties levied on selected commodities (especially beer and liquors, but also salt, soap, starch, coal and minerals) could produce significant amounts of revenue for the Exchequer in London.[5]

After a Republican Interregnum, when the English state reverted to stabilizing royal rule over one of the more lightly taxed societies in Europe, fiscal policies were designed to rebuild and to retain trust in the constitution and to take account of prospects for compliance with rising and potentially contestable demands for revenue. For some three decades after the Restoration, the king's ministers could do little more than engage with the legal and administrative frameworks required to maintain and, if possible, gradually increase the amount of revenue collected in the more acceptable form of indirect taxes, particularly customs duties. Thus and after 1660 Parliament repealed all but a small range of the more productive excises introduced during the Civil War, but provided for new valuations and rates of duty levied upon a wider range of imports. Ministers and their advisers at the Treasury concentrated upon the rules and regulations required for an effective (but initially a largely privatized) system for the assessment and collection of indirect taxes levied upon imports as well as that thin wedge of taxes already driven as excises (which means cuts) into domestic production.

Variable, but dominant proportions of revenues from indirect taxes continued (as had been the practice for centuries) to be farmed out to private contractors or syndicates under a variety of complex legal arrangements, designed to ensure acceptable levels and stable flows of income into the Exchequer year after year. Tax farming offered restored Stuart monarchs an alternative to royal bureaucracy, seen as open to antagonism and political interference from parliament, as prey to corruption and prone to promote private over the king's fiscal and financial interests.[6]

Farming indirect taxes had functioned since the Middle Ages within a legal framework in which the state had set rules for the assessment and collection of duties; as well as the scope of tax farms. These rules included: the periods and terms for leases, provisions for default of contract and proper accounting procedures. For example, royal farms could be created and leased for the collection of duties upon a single commodity or as great farms they could include a penumbra of duties. Farms could be co-extensive with counties, towns or bounded to tax trade passing through particular ports. Their extent and specialisation could be changed to take advantage of prospects for increased administrative efficiency or to tap into mercantile and local expertise concerning taxable production, distribution and services. Franchising pleased the Commons, anxious about any expansion in the numbers of public servants owing allegiance to the Crown. Farming created opportunities for peers and parliamentarians to share in royal income, accruing from regal rights to customs and excise duties.[7]

For the King's purposes, the devolution of fiscal administration into the hands of business syndicates provided him (as the system did throughout Europe before the evolution of modern capital markets) with an institutional mechanism for raising loans. In common with their continental rivals, English monarchs expected to borrow on the security of tax revenues that accrued in the first instance to their agents. For their part farmers stood prepared not only to manage the assessment and collection of taxes but to risk investing their own and (through their networks of affluent clients) other people's money in the form of credit and loans extended to the Crown because repayments, with interest, could be guaranteed and deducted from the fixed annual rents (i.e. taxes) they had contracted to deliver to the Exchequer in London.[8]

Farming of the royal customs worked best when the kingdom's foreign trade remained free from cyclical downswings and unimpeded by warfare at sea. Farming excises levied on domestic production also became less productive whenever the economy suffered from recessions connected with bad harvests, plagues or business cycles. At such times farmers often submitted claims for defalcations on their contracts to deliver fixed annual sums as rents on farms they found to be subject to unpredictable fluctuations in the amounts of taxation collected upon trade and production.[9]

Yet whenever they failed to offer stable flows of revenue, a major rationale for the franchised assessment and collection of taxes looked weak. When farmers made inflated demands for their knowledge and services, the case for nationalisation became stronger. That occurred in 1670 when Charles II and his ministers found themselves in protracted dispute with a powerful metropolitan syndicate over terms for the renewal of the lease for customs duties. Apparently the farmers rashly offended the King by demanding prior commitments about defalcations allowable in the event of another war with Holland. Unwilling to concede that 'monied men' could raise questions about royal policy, ministers cancelled the contract, repaid loans, put into place and depended thereafter upon the king’s own customs’ service for the assessment and collection of duties on imports.[10]

Farming survived, however, for another twelve years for excises. The gross yield of farmed taxes had risen steadily throughout the 1660's and 1670's and the tight system of surveillance - provided for under short leases supervised by Commissioners for the Excise - meant that the royal ministers took every opportunity to squeeze excess profits out of farmers. Step by step the collection of the Excise evolved into a single great farm managed by London merchants and financiers, who in effect operated as agents for the Treasury and who also provided loans and credit on the security of forthcoming revenues. Nevertheless and whenever their profits diminished, farmers cut costs and thereby failed to bring the maximum potential volume of production into the net for taxation. They then attempted to 'recoup' by demanding higher rates of interest for the loans they had contracted to extend in anticipation of future flows of excise duties. As the potential gap between net revenues obtainable from privatized as opposed to public management narrowed, arguments formulated and pressed by the Treasury for direct collection became economically compelling. Indeed, that also came to pass at a time when the political distinction between a 'metropolitan clique' of tax farmers on the one hand and a royal bureaucracy on the other, lost its historical significance - even for opponents of royal power.[11]

Meanwhile decades of surveillance and negotiation with farmers of customs and excise duties had provided the Treasury and the Commissioners of Customs and Excise with opportunities to monitor the practices of private management and to absorb know-how, as well as many of the personnel involved in the assessment and collection of customs and later excise duties into departments of state. Thereafter both departments evolved; the excise rapidly (but the customs falteringly and partially) into bodies of government servants, who became, by standards of the day, relatively effective agents for the collection of 'duties' owed to the king in the form of customs and excises.[12]

By the time William of Orange had secured the throne in 1689, and preserved his grateful Protestant subjects from the Stuarts and their politically inept steps towards religious toleration, the fiscal regime had been effectively reconstructed. On the eve of what became the second hundred years war against France the system can be represented as economically and administratively poised to support the accumulation of debt required to sustain the armed forces of the Crown through a long sequence of major wars, fought against France and her allies over the next 127 years. Just before James II fled to France, the Stuarts had appropriated only 3%-4% of the national income as taxes, spent some £2 million a year on the army and navy and carried a tiny royal debt of roughly the same amount. Shortly after Britain's final victory at Waterloo, peace-time taxation had risen by a multiplier of fifteen, compared with James's brief reign, and the state serviced a national debt which then amounted to 2.7 times the national income - a remarkable ratio compared to the most profligate standards of debt accumulation undertaken by the Habsburg and Bourbon dynasties in pursuit of their ambitions in Europe and overseas before and after 1648; or even to the achievements of the Dutch Republic borrowing desperately throughout its golden age to gain and preserve its independence between 1568 and 1795.[13]

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In this 'European mirror', Britain's outstanding fiscal achievement from 1688-1815 raises two related meta-historical questions. Firstly, how did such a small vulnerable state (that had endeavoured to enlarge its fiscal base without discernible success since Tudor times) manage to push up shares of the national income appropriated as taxes and borrowed as loans to unprecedented and internationally outstanding levels? Secondly (since there are contingent and illuminating questions implicit in all comparative history) what were the economic, political and cultural constraints that prevented Britain's European rivals from raising their financial and fiscal (as well as their naval and military) capacities to match and to counteract the new regime's policies, fiscal efficiency and drive for geopolitical expansion?

Reliable statistical evidence for all major European states is required to establish a proper framework for serious comparative fiscal history. Alas published data for the centuries before and after 1648 are neither comprehensive nor accurate enough to tabulate statistics and calculate potentially relevant and illuminating ratios.[14] Nevertheless between the French and Spanish invasions of Italy in 1494 and the Treaty of Munster in 1649 Governments managing fiscal systems in Iberia, France, the Netherlands, Tuscany, Venice, the Austrian Empire and several German Princely states had surely raised taxes and accumulated debt on a greater scale than monarchs ruling England and Wales, Scotland and Ireland. If and when a European wide base of fiscal data is constructed, the numbers will almost certainly demonstrate that when Europe's wars of religion gave way to peace at Westphalia, the taxable wealth, incomes, economies and populations of several European powers, particularly Britain (but Prussia, Denmark and Piedmont as well) carried relatively low burdens of taxation and debt and a potential to fund the future growth of larger and more aggressive states. (For example, around that time Louis XIII commanded five times the revenues available to Charles I). Baseline ratios of taxes collected to potentially taxable income and the shares of taxes already allocated to service outstanding debt conditioned every European state's fiscal and financial development between 1648 and 1815 more strongly than either differential growth rates in national income and/or changes in the organisation of production and distribution of national output.[15]

In short, although economic growth continued to matter for fiscal purposes, the two can never be correlated in any simple way. Over the period 1648-1815 the English state may well have ruled over the most rapidly growing of Europe's national economies. Furthermore, that favourable development certainly carried whole sections of society over thresholds of income and promoted patterns of expenditure, whereby purchases by households on goods and services taxed by governments began first to contribute and (as private expenditures rose and diversified) to augment public revenues from indirect taxes. Indeed, throughout Europe, the concentration of households and producers in towns and regions not only increased taxable output flowing through organised markets but also rendered the imposition and collection of taxes easier to administer. Larger and denser zones of production together with established and regular circuits for distribution and exchange (an accompaniment of the growth of industrial market economies) were indeed prerequisites for the collection of more revenue in the form of indirect taxes.

Nevertheless, the fact that Britain's national product probably rose by a factor of three (in real terms) between the Glorious Revolution and the Treaty of Vienna, while tax receipts at the Exchequer multiplied around fifteen times, degrades any suggestion which purports to explain Britain's fiscal success as a straight forward product of economic growth. Rising agricultural productivity, industrialisation, urbanisation and the relocation and reorganisation of production must be regarded as contributory and not as major forces behind the upswing in revenues from taxes and loans.[16] The dramatic rise of a fiscal state (which, liberal historians, taking their cue from Adam Smith, neglect to recognize as being positive and functional for the growth of the domestic economy) occurred for several reasons which are best exposed by way of comparisons with other European powers, (especially Spain, Portugal, France and Holland and other rivals). These states ultimately lacked the fiscal and financial capacity required to compete with Britain in struggles for hegemony at sea, for colonies and for dominant shares of international trade in commodities and services. That deficiency certainly delayed their transitions to industrial market economies.

Long before the Glorious Revolution of 1688, the English state possessed several of the political, institutional and economic prerequisites required to jack up taxation (and the contingent capacity to borrow on the national and European capital markets). From offshore, Kings and Lord Protectors and their ministers certainly appreciated that the accumulation of long-term debt on the security of tax revenues had already matured into a commonplace example that had long been resorted to on a grand scale by major powers, on the mainland, especially Venice, Spain, France and Holland. During Tudor and Stuart reigns (and apart from the rather minor episode of a 'Stop' on the Exchequer in 1672) the record of English monarchs and parliaments in dealing with a relatively slow accumulation of royal debt could not be recalled as a potential deterrent to investment in the paper promises or bonds of the English state. Investors in these public securities could hardly be anxious about their assets in the late 17th century - a conjuncture in the realm's history when the debt - servicing ratio could have been as low as 15% and when the 'tax take' even during wars with the United Provinces (1665-67 and 1672-74) hardly rose above 5% of national income.[17]

After the Civil War, fears of revolts and strikes against taxes receded when Ministers of the Crown reluctantly abandoned serious attempts to make taxes on income and wealth more productive, either by effectively valuing the base upon which they were assessed or by extending the range and numbers of households brought into the Government’s net for direct taxation. Policies designed to discover and to measure the wealth of counties, cities, towns, villages, hundreds and households (envisaged in the attempt by Charles I to extend ship money across the kingdom and exemplified by regular universalistic and more equitable assessments undertaken under the Commonwealth), had left behind a memory and a heritage of popular and parliamentary antagonism to any system of direct taxation based upon the accurate assessment of income and wealth, either of the households and/or the districts liable for taxes payable to kings and their parliaments. Only very traditional forms of direct taxes collected as quotas assessed on counties and towns, in relative proportions that had hardly changed since the Middle Ages, remained acceptable to taxpayers. Stereotyped quotas, together with control by local elites over the process of assessment and collection, formed the basis for a moderately productive land tax, which persisted in unaltered form from 1694 to 1798.[18] Meanwhile all other and widely resented experiments with 'graduated' poll and hearth taxes, assessed in wartime under the later Stuarts and by William III in the 1690's, disappeared after 1697. No new and potentially controversial direct taxes emerged before Pitt's income tax came onto the statute book in 1799. Before that fundamental innovation appeared, kings and parliaments could prescribe and legislate but freeborn propertied Englishmen insisted on keeping the state ignorant about the true levels of their incomes and wealth. They also set the terms for co-operation and compliance by retaining control over the administration of the land and all other forms of directly assessed taxation.[19]

That is why, to circumvent political constraints which had become inflexible and to avoid any threats to political stability involved in attempts to increase dependence on direct taxes, the ministers of Charles II and their advisers turned towards the improvement of legal institutional and administrative frameworks required for collecting rising proportions of revenue in the form of customs and excise duties. Indeed, the evolution towards that fiscal strategy began in the early 17th century and received impetus from the Civil War and Interregnum. It came fully on stream over the century after 1713 when something like three-quarters of all tax revenues received by successive British governments took the form of indirect taxes and when most of the increment to the state's income from taxation consisted of excises and stamp duties, levied upon the domestic production of goods and services.[20]

Predictably, in line with earlier developments on the mainland and over this final phase of mercantilism, the accumulation of England's national debt mounted in line with the state’s augmented capacities to tax and pay interest on loans from extra revenues derived from indirect taxes. Thus from a ratio of 24% during that brief interlude of peace (1698-1702) the share of the total tax receipts allocated to service debt mounted, conflict after conflict, to reach some 60% after the Revolutionary and Napoleonic Wars. War after war, as the Hanoverian state exploited its growing potential to borrow funds to support a far more aggressive stance in great power politics, Britain moved from the foot to the apex of the European league table for government indebtedness.[21] Unsurprisingly (and again in line with histories of its European rivals who had participated more actively in geopolitics and colonization during the 16th and 17th centuries) Britain's fiscal and financial system passed through but (unlike France, Spain and the United Provinces) weathered four serious fiscal and financial crises of the state. The first and least serious was the infamous South Sea Bubble. The second occurred in the wake of the American War for Independence, 1776-83, when Pitt the Younger re-introduced a sinking fund designed and accepted by parliament as a permanent commitment to systematically redeem the national debt – which by then had accumulated, in the perceptions of the political élite, to levels which threatened the fiscal system, the stability of the constitution and the prosperity of the economy.[22] Similar manifestations of widespread despondency accompanied the renewed and even more rapid accumulation of public debt during the war against Revolutionary France from 1793-98. To preserve the financial system while providing funds to meet the rising costs of a potentially protracted war to defeat threats to property from the dangerous foe across the channel, Pitt persuaded parliament to accept his novel strategy of paying for considerably higher proportions of military and naval expenditure from the proceeds of the nation’s first real income tax.[23] Sixteen years later, and after the most costly conflict in Britain's history (and despite the clear success of Pitt's taxes) the nominal value of national debt had risen to nearly three times the national income). Lord Liverpool's administration then began the task of rebuilding trust in the fiscal constitution, basically by repealing the income tax and by taking some initial steps to roll back the state.[24]

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To borrow money and accumulate debt at rates achieved by successive governments during the seven wars fought by Britain between 1689 and 1815 it was necessary to tax. Unfortunately (for them) the realm's major European rivals managed fiscal systems that had already exhausted more of their fiscal potential decades before 1648. Although several tried, no other state (including France) succeeded in accumulating debt or raising taxation at anything like an English rate, basically because political constraints on the implementation of policies designed to widen and deepen fiscal bases for taxation and loans remained altogether stronger in Spain, Holland, Austria, France and elsewhere in Europe than they were in Britain.[25] Over the long 18th century the fiscal constitution of the English/British State turned out to be less manipulable for private gain and less amenable to the diversion of revenues towards local purposes than systems elsewhere on the mainland. The reasons why that was the case exposes core features of England's 'fiscal exceptionalism'.

England's European rival states, ruled by monarchs, princes, ministers and their advisers defined their fiscal bases in two basic ways. First, they defined them demographically - as a collectivity of subjects or households potentially liable for taxation. Secondly, they conceived of them in territorial terms - as the villages, towns, cities, counties, provinces and estates, as well as the former medieval kingdoms and ecclesiastical domains, moving juridically and fiscally under their central control. To widen a fiscal base geographically meant extending taxes to include territories, domains, places and assets, as well as populations located beyond the scope of the established boundaries for taxation. To deepen any fiscal base demographically and socially involved the promulgation by sovereigns of universal criteria for liability; coupled with the establishment of countrywide, effective and centrally controlled administrations for the assessment, collection and despatch of taxes to places where revenues became available for expenditures by rulers and their ministers. Throughout the period, 1648-1815, most European states contrived to widen their taxable domains by conquest followed by the formal incorporation of territories, assets and populations that had traditionally been exempt from liability to pay taxes into a kingdom or republic. To detail the taxable wealth and populations annexed by many European powers in wartime (that they often relinquished again at subsequent peace treaties) will not be necessary because temporary gains from plunder made less difference to long term fiscal capacity than the formal incorporation of assets and incomes into political unions.[26] For example, for tax purposes Silesia became part of Prussia in 1740. Scotland and Ireland became liable to send taxes to London after unions with England in 1707 and with Britain in 1801.

Of far greater significance was fiscal deepening or penetration which occurred whenever European monarchs and oligarchies managed to centralize and to enforce claims to higher taxes from households and places already located within their realms and republics but which had been taxable only under a frustrating variety of long-established legal and institutional arrangements and exemptions. The astonishingly diverse range of fiscal constitutions in ancien regime Europe reflected the origins of states and the political compromises required and renegotiated through time to hold diverse cultural, religious, ethnic, economic and territorial units within the boundaries of the continent's, competing empires, composite kingdoms and republics.[27]

At one extreme of fiscal 'decentralisation' stands the case of that relatively transparent and stable system, designed to provide the revenues required to sustain collective concerns for good order, internal trade, international commerce and above all the external security required by Seven United Provinces that formed the Dutch Republic in 1579. Once the Estates General of that essentially 'religious confederation' had agreed on the level of funding required to implement an agreed common policy, most of the liabilities were divided among its Seven Estates according to proportions that remained virtually stable between 1579 and 1792. At subsequent stages of the Republic's fiscal process, the system provided for further and more elaborate agreements concerned with sub-quotas payable by political units within provinces; the selection of direct as compared with indirect levies; the composition of customs and excise duties; their modes of assessment; and times for collection. The implementation of fiscal policy then passed down the line and became the responsibility of regional, city, town, village and communal authorities.[28]

During its golden age and decline, the fiscal system of the Netherlands combined local autonomy and delegated administration for funding the army and navy in a unique but effective way. For more than a century the shares of national income appropriated as taxes and the tax burden per capita levied on Dutch citizens may well have been the highest in Europe. Compliance with the Dutch state's voracious demands for taxation looks impressive but its success can, however, be related to the presence of Catholic enemies (first Spain and then France) on the Republic's borders; as well as the decentralised and politically sensitive institutional arrangements designed to calibrate the social and economic incidence of taxation in ways that united the provinces, discouraged evasion and circumvented fiscal crises.[29]

England emulated several features of Dutch taxation and finance of a national debt, made radical changes to its foreign policy and began to jack up expenditures on the army and navy under the House of Orange. Nevertheless the centralised nature of the English fiscal system stands in contrast not only to the Netherlands, but even more sharply to the 'negotiated' imposition of taxes on the ancient Spanish kingdoms of Aragon, Valencia and Catalonia; to fiscal relations between Austrian Habsburgs and Bohemia; to the privileged positions occupied by Hungary and other parts of that Empire; to the status of Pays d'État within Bourbon France and the special position of Norway within the kingdom of

Denmark.[30] Parliaments in London enjoyed legal sovereignty over what may well be represented as virtually the most ‘absolutist’ fiscal system in Europe[31]. After the Civil War and a Republican Interregnum, 1641-1660, the House of Commons acceded, usually with little demur, to demands for 'supply' from monarchs and their ministers. At the beginning of reigns (and after 1688 on an annual basis) members legislated formalistically for: types of taxes (direct or indirect); for levies on an ever increasing range of goods and services produced and/or consumed within the realm; for modes of administration for assessment and collection; and for the rapid despatch of revenues to the Exchequer in London.

Once parliamentary sovereignty over taxation had been constitutionally reaffirmed in 1688, the Commons soon became quiescent again and the powers of the English courts to intervene on points of law remained circumscribed.[32] Compared with political systems on the mainland, provincial estates and courts hardly figured in the realm's fiscal process - except trivially in that after 1707 specified proportions of revenues collected in Scotland were by convention retained to support civil governance 'north of the border'. It must be admitted, however, that the attempt to construct an ‘imperial fiscal system’ by compelling American colonists to pay at least something towards their own defence led to that famous and major successful tax revolt against the King in Parliament 1776-83.[33] Americans and their radical supporters in Britain failed to recognize or respect the realm's ancient tradition of 'no representation without taxation'.

English counties might be represented as possessing a status analogous to Europe's quasi-autonomous fiscal estates, because while Parliament specified how the assessment and collection of taxes <u>directly</u> levied upon the wealth and incomes of households must be conducted, responsibility for the entire process remained under the control of an amateur elite of propertied country gentlemen and urban merchants. As commissioners they were serviced by 'parish' assessors and collectors, whom they paid to negotiate at the most sensitive points of contact between the state and its subjects in the towns and villages of the kingdom. Burdens on land and commercial and industrial property were, however, contained within prescribed limits by tax rates that only fluctuated between peace and war within a range of 5% to 20%, and their incidence was ossified by local valuations and county quotas, which in relative terms had remained virtually unchanged for centuries. [34] After a turbulent period of experimentation during the second quarter of the 17th century, direct taxation settled down to a long spell of decentralised, self assessment operating under rules prescribed by parliament but supervised and administered by the propertied classes.[35]

Meanwhile, the tax revenues required to service a national debt accumulating to preserve the security of the realm and to carry the state and the economy to positions of naval, imperial, commercial and industrial hegemony - emanated in very large part from excise and customs duties. Again, but merely in constitutional terms, the selection of these all important indirect taxes, the rules prescribed for their assessment and collection and the ultimate control over the departments responsible for the implementation of the laws covering all duties levied on commodities and services, fell under the sovereignty of parliament.[36] In political practice, the annual provision of supply for forces of the Crown (particularly when British armies and navies were at war) as well the legal, administrative and institutional frameworks which managed the ever increasing inflows of revenue into London, remained virtually under the control of an aristocratic oligarchy of Hanoverian ministers reporting to their monarchs. With the kingdom so often at war, parliament almost never refused or even cut royal demands for money. Before and after 1688 neither the House of Commons nor the Courts played anything other than entirely circumscribed political and legal roles in the formulation or implementation of the strategic, foreign, imperial and fiscal objectives that cost British taxpayers so much to achieve.[37]

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Beyond Westminster the measure of ‘compliance’ secured from British taxpayers required to support their state's aggressive stance in external policy seems remarkable. In a broader European context that contrast requires far deeper analysis than a mere list of potentially relevant contrasts briefly elaborated here to display some 'contours' of British fiscal exceptionalism. First of all (and except for the symbolically important but, in terms of total revenue, increasingly insignificant case of the land tax) provincial, regional and local quotas for taxation had virtually disappeared from the British system before the turn of the 18th century. In European terms, Hanoverian ministers and their advisers exercised considerable authority over the timing, form and implementation of legislation passed by parliament for all other categories of taxation, including: taxes assessed upon the ownership and/or use of houses, windows, carriages, riding horses, servants and dogs; taxes imposed as tariffs upon imports; and on taxes levied as excise and stamp duties upon a widening range of domestically produced goods and services. Above all, ministers could expect that liabilities prescribed under the law would be universally applied throughout the kingdom and that any territorial, social, ecclesiastical, corporate and personal exemptions from liability would represent nothing more than minor percentage losses of revenue potentially available for funding Britain's growing and increasingly effective naval and military machine.[38]

On the continent, systems of direct (and indirect) taxation continued to allow for rather inflexible regional quotas, local 'contributions' as well as social privileges and exemptions. This division of fiscal sovereignty deprived several so-called absolutist states of serious amounts of revenue. Decentralized, virtually unchangeable and continuously renegotiated arrangements for taxation remained as contentious and counterproductive features of European fiscal constitutions, within which hard-pressed Ministers of Finance operated between 1648 and 1815.[39] Old kingdoms, provinces, estates, ecclesiastical domains, privileged cities and corporations, as well as noble families included in empires, composite monarchies and city states on the mainland, maintained traditional defences against the imposition of more centralized, universal, equitable and potentially more productive systems of taxation and finance.[40] Although variations along Europe's spectrum of fiscal constitutions and administrative arrangements for taxation and borrowing are difficult to evaluate in terms of efficiency, let alone equity, quotas and contributions for Habsburg and Bourbon kings and Austrian emperors operated more by way of negotiated ceilings on sums with which the residents of particular places could be persuaded or coerced to part with than say the more transparent territorial apportionment of fiscal and financial responsibilities for the defence of Genoan, Venetian, Swiss and Dutch Republics.[41]

Another major (but this time administrative) contrast between the British and most other fiscal and financial systems on the mainland was the survival of tax farming, despite well- recorded histories of attempts by a succession of able European finance ministers to implement sensible policies for the reform (and/or abolition) of privatized revenue collection. Before the era of the French Revolution, and the destruction of 'fiscal feudalism' across Europe, the process of tax assessment remained under private management (monitored by central governments) but franchised to firms and syndicates under a complex variety of temporary as well as virtually permanent contractual arrangements that had evolved over centuries into regimes resistant to reform. The farming (or leasing) of sovereign rights to assess and collect taxes had developed initially as functional modes of management and also as unavoidable but institutionalized channels which facilitated regular and rapid flows of credit and longer term loans into coffers of states. Over time the defects of relinquishing more and more control over tax revenues to private enterprise became clear as a succession of ancien régime Finance Ministers sought to constrain rising costs, administrative charges, rents, profits and interest "appropriated" by tax farmers and “owners” of public offices for their services in managing taxation and supplying rulers with credit and loans.[42] In principle the costs to European states of raising taxes and borrowing money might be defined and potentially measured as the gaps between total receipts from taxes collected by franchised and private administrations and the amount of annual revenues placed at the disposal of central governments. Sovereigns received 'their' revenue net of payments for management, and after interest on advances for credit and loans and profits, had been deducted by the plethora of tax farmers, local authorities and notable families who in many realms and republics managed - but in France and Spain virtually owned - rights to assess and collect taxes on behalf of nominally 'sovereign' rulers of Europe’s empires, realms and republics.

From the end of the Middle Ages (which in European fiscal history can be marked by Valois and Habsburg invasions of Italy) all rulers endeavoured to impose universalistic systems of taxation upon the territories, assets, economic activities and social groups under their dominion. Before the end of the 17^{th} century some European states, particularly England, (and under more 'democratic' systems, the Netherlands, the Swiss Confederation and the Venetian Republic) had clearly moved closer to the universalistic end of the spectrum of fiscal sovereignty than say Bourbon France, Habsburg Spain, and the Austrian, and Danish Empires, whose monarchs who seem to have been engaged in almost permanent 'negotiation' over the taxes levied and collected from kingdoms, territories, economies and nominally subject populations.

Departures from universal taxes not only narrowed the fiscal base accessible to these rulers but traditional legal exemptions from universally applied rules (perceived as unjust) eroded the compliance required to assess and to collect, taxes on behalf of remote kings, courts and metropolitan oligarchies.

Resistance to and evasion of taxes remained particularly strong in relation to taxes levied on the wealth and incomes of "subjects". To raise more revenue and to maintain compliance with demands for taxes in political circumstances which made the construction of more equitable systems of direct taxes virtually impossible to implement, finance ministers shifted the structure of taxation towards indirect taxes levied on the outlays by households on goods and services. Their room to effect real changes in the balance between contentious direct forms of taxation and less visible forms of duties on expenditures remained constrained, however, by ratios of marketed to total national consumption; the scale and concentration of units of production supplying accessible and regular markets located in towns and cities; and (after 1648) by the degree to which that strategy had already bumped up against local resistance and reached margins of diminishing returns.[43]

In contrast to the mainland, and after the Civil War, ministers in charge of funding the English- British State could contemplate the prospect not simply of an under-exploited and expanding fiscal base but considerably more potential than several of their European counterparts enjoyed for re-balancing the structure of taxation in favour of less contentious assessments levied on the consumption of goods and services through customs, excise and stamp duties.

Another important element in that structural shift towards indirect taxes (which continued throughout Europe from 1648 to 1815) depended upon minimizing the total costs of collecting revenue in the form of taxes assessed upon domestic production and imports. In England during the Restoration, the Ministers of Charles II and James II managed to construct a legislative and administrative framework for the assessment and despatch of customs, excise and stamp duties to the Exchequer that virtually replaced tax farming with departments of state that look in several important respects more professional and efficient than the systems of central monitoring over private and administrations responsible for the collection of indirect taxation on the continent.[44] Almost everywhere in ancien regime Europe the traditional machinery in place for the assessment and collection of taxes was perceived at the time (and has been represented by historians since) as corrupt, oppressive, and above all as inefficient - in the sense that the gap between net revenues received and taxes assessed (under a plurality of complex leasing and ownership arrangements) became and remained unacceptably wide and thereby deprived states (especially France, Spain, Portugal and Austria) of considerable (alas unmeasurable) amounts of revenue. Reforms usually produced little more than another corruptible layer of monitors put in place and paid handsomely to countervail the inherent rent-seeking activities of tax farmers. The latter's perfectly rational objectives were to equate the private marginal costs, that they incurred to collect extra revenues, with the marginal returns that accrued to them as private profits while maintaining their own security of tenure. Their aims were certainly not to maximize the revenues despatched into the exchequers and coffers of sovereigns in order to fund geopolitical and other policies pursued by states.[45] Their patrimonial interests in royal franchises, the ownership of public offices, the rights to use privately controlled force and coercion to collect the sovereign's revenues alienated taxpayers and intensified the widespread proclivity of Europeans to evade, resist and to revolt against taxes.[46]

In the aftermath of a Civil War also (occasioned by the greatest tax revolt in the history of the realm) and during an interlude of fragile stability and low levels of expenditure (1660-84) the English state managed to abolish tax farming and put in place - <u>not</u> a national, incorruptible and efficient bureaucracy for the assessment and collection of indirect taxes - but rather an embryo system of public administration for the monitoring and management of its all important fiscal affairs that looks in many of its essentials discernibly superior for state formation and the effective pursuit of geopolitical objectives than anything operating on the mainland outside the Netherlands.[47]

Compared to rival regimes, that reconstruction occurred at a late and fortuitous stage in the process of state building when the powers of the Stuart realm's ancient kingdoms, feudal aristocracies, ecclesiastical corporations and privileged cities were no longer effective; when its domestic economy began to generate the kind of accelerated urbanization, commercialization and concentration that facilitated the collection of duties on domestic production and imports; and above all when state building undertaken by the restored Stuart regime could not be frustrated by the bloated royal bureaucracies, costly franchised administrations and venal offices utilized to collect revenues on the continent. By 1648 Europe's fiscal systems were already riddled with entrenched property rights to hereditary and tenured positions, with corruption and with the tenacious defence of private interests built up in circumstances of geopolitical and religious rivalry that had marked the formation of several states between 1494 and 1648. Incessant warfare and dynastic competition had led the monarchs, princes and oligarchies of early modern Europe down a path of dependence on patrimonialism clients and privatized administrations who virtually controlled the process of providing them with indispensable (and always urgent) means (taxes conjoined with loans) for renewed engagement in interstate rivalry.[48]

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

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As an island realm, Britain came late to serious participation in European power politics and to large-scale colonization overseas. After a Glorious Revolution which placated a propertied and unrepresentative parliament, its ruling elite entered into great power politics unencumbered by debt with an under-exploited fiscal base at its disposal. Although the realms monarchical and aristocratic regime can be represented as the closest approximation to a businessman's government in Europe, it maintained a strong degree of autonomy in the formulation of commercial, imperial and fiscal policies. Before 1832 successive British governments remained relatively detached from the body of taxpayers and from their dispersed and heterogeneous bodies of creditors even while they taxed and accumulated debt on an extraordinary scale.[50]

Edmund Burke once famously remarked that 'revenue is the chief occupation of the state. Nay, more it is the state'. In this domain (the 'sinews of power') British exceptionalism had some discernible, but rather tenuous connexions with the reassertion of Parliamentary sovereignty over revenue and expenditures and that insubstantial uplift in the security of property rights that supposedly flowed from the Glorious Revolution of 1688. Secure property rights go back a long way in English history. The fiscal and financial outcomes of that revolution must remain clearly and closely linked to the prior formation of a consensus among the eliteabout the principles of taxation forged during a bloody Civil War and Republican Interregnum.[51]

There then followed a Restoration of Monarchial and Aristocratic Government, which constructed an administration that became, in European terms, a professional and relatively effective system for the assessment and collection of ever increasing amounts of revenue in the form of indirect taxes. Customs and, above all, excise duties, together with the deference and compliance that the realms 'ancien régime' secured from a body of chauvinistic tax payers towards the state's strategic, commercial and imperial objectives, allowed for an uplift in taxation and an unprecedented accumulation of public debt.[52]

Between 1641-88 a painfully restructured state moved the realm onto a path that carried the nation and its mercantilist ambitions through seven wars to reach a pinnacle of power and wealth that the United Kingdom enjoyed throughout a golden age of Victorian and Edwardian liberal capitalism.[53]

In retrospect most of the advantages enjoyed by the monarchs and aristocrats who took over the state after the deposition of James II look path dependent. They flowed from geographical endowments; the detachment of the Tudor and Stuart regimes from geopolitics, the unintended consequences of civil war and above all from the fiscal sclerosis that afflicted Britain's major competitors on the mainland between 1649 and 1815. Fortunately the inexorable onset of that very same disease (that clearly infected Britain's fiscal and financial system for several decades after Waterloo) did not seriously compromise the states exercise of British hegemony for more than a century before the Great War - basically because the final struggle against Revolutionary and Napoleonic France had exhausted the will and fiscal capacities of Britain's rivals to challenge its imperial, economic and geopolitical position in the world economy.

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