States: Public Goods And The Formation And Integration Of Markets

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Introduction. States, Public Goods, And Smithian Growth

Note: The following are brief notes written in order to set out some major themes for discussion at the 3-day conference, and by way of introduction to the *appended paper,* which acted as a more detailed position paper and which will be published in John Hall and Ralph Schroeder eds. *The Anatomy of Power*, Cambridge University Press, 2005. I refer in the introductory notes to position papers by members the GEHN network (e.g. Sugihara, Wong).

Our working hypothesis seems to be that differences in 'state efficiency', or more precisely in political economy, in relation to the portfolio of public goods supplied, give us typologies (Kaoru Sugihara) of Smithian growth, that is, growth by specialisation through trade. Our aim should therefore be to define these typologies in terms of how, and how much, they lowered transactions costs, and to establish ways of testing such claims. For reasons set out in the position paper on 'The Rise of the West' (see Appendix), I suggest that we must consider Europe as a (complex) typological unit, and consider the *terminus ad quem* — the Schumpeterian transition to industrial capitalism — as the outcome of a Europe-wide process rather than as a strictly British phenomenon.

Defining And Testing The Efficiency (Political Economy) Of States

'State efficiency' can be defined as the 'efficient' provision of

a) property rights that align individual with social incentives;

b) institutional co-ordination through political centralisation;

c) internal and external security;

and

d) the propensity and responsiveness to institutional lock in and rent seeking

DISCUSSION

a) Property Rights. Property rights to land were generally secure in the major Eurasian agrarian societies (China, Japan, India, Ottoman Empire, Europe), despite considerable differences in political arrangements. Although 'private' and 'individual' property rights appear to be a European (Romano-Germanic) invention, similar rates of extensive and intensive Smithian growth to Europe's took place under 'collective' (household, community, corporate and kin) forms of ownership. Private property rights to land, labour and capital were neither necessary nor sufficient to sustain the commercialisation of agriculture and rural manufacture (proto-industry) we define as Smithian growth.

b) Political Centralisation, Co-Ordination, And Trade

1. *Barriers to trade*. The main barrier to pre-modern Smithian growth was political decentralisation and the attendant Prisoner's Dilemmas and co-ordination failures that raised commercial transactions costs. Given the decentralised character of European feudalism, the institutional preconditions for trade were probably *worse* than in more centralised political systems like China, Japan, and, possibly, also India and the Ottoman Empire. Bin Wong's suggestion that long distance trade in basic consumables was greater in pre-modern China than Europe is confirmed by a recent

study by Carol Shiue and Wolfgang Keller, that shows that the grain trade in 18th China was more intensive at greater distances (over 250km) than in 18th Europe. But there were also significant *regional* differences within each area, as shown by the work on China by Shiue and Keller and on pre-modern Europe by Philip Epstein and myself. In China, different regional patterns of trade were a function of their access to waterways for transport; in Europe, patterns of trade appear to have been defined by transport costs *and* by differences in policy regime, which resulted in significant differences in market integration (transactions costs) across Europe as a whole.

2. *Commercial organisation*. Political integration was a necessary but not sufficient condition for market integration. In Europe, where we can trace market integration as far back as the 13th c., it is tempting to read it off as a direct effect of political integration; but this view is disabused by more detailed analysis of regional patterns. A narrow politico-institutional explanation would also imply—against current consensus—that market integration did not improve at all in Qing China and Tokugawa Japan between the 16th and the 18th c.s , when political conditions were stable. The most likely additional source of improvement is commercial organisation.

   Bin Wong suggests plausibly that the manner by which merchants organised, overcame information asymmetries, and enforced contracts was more a matter of the political economy of the state, than, say, of culture. This points to the need for a typology of commercial organisations, based on the assumption that, in principle, different organisations could solve the same problems of agency etc. at similar costs, but that they did not necessarily face the same problems. The agency and risk profiles of long-distance trade in high value, non homogeneous goods were quite different from those of trade in low-value, homogeneous goods like grain, as were those within a politically unstable system like Europe's compared to internally pacified empires.

3. *Smithian crises*. A typology of Smithian *growth* requires a typology of Smithian *crises*. In Europe, the major source of market disintegration — and, therefore, the major source of economic regression — was warfare. Given the logistical and administrative frailties of pre-modern states (and the rather localised nature of warfare), the main economic effects of war were in terms of disruptions to trade rather than the destruction of physical capital. This raises another set of questions to which we have yet not clear or systematic answer: how quickly could military shocks be reabsorbed, how much did political economy matter, and which political factors mattered most. Let me mention two examples. First, the effects of *political scale* have been described in two quite opposite but equally plausible ways. One argument, set out in my position paper below, is that "Europe's political fragmentation and institutional pluralism may have been something of an advantage, because they allowed more locally appropriate reactions to major logistical and socio-economic setbacks like the late medieval and seventeenth-century 'crises'." The alternative view says that larger, more centralised states could respond more forcefully to domestic rebellion and foreign invasion, and could deploy resources for reconstruction more quickly and effectively. Second, there is disagreement or lack of clarity over the institutional arrangements that helped mitigate and absorb economic and demographic shocks: what were the relative costs and benefits of public vs. private systems of welfare provision? Were there non-European

analogues to the English Poor Laws? Were kin-based merchant organisations more or less resilient to market-driven shocks than European corporations?

4. *State intervention*: *subsistence foods*. State intervention in trade differed substantially across Eurasia in two areas. First, states intervened in the provision of subsistence foods. The extent of state-induced trade ranged from command-style, privileged provision of the state capital (e.g. Istanbul, Edo), to state-funded provision of public stocks (e.g. China), to direct and indirect subsidies to producers (e.g. English bounties), to ad hoc protectionism (e.g. most of Continental Europe). Intervention, albeit shaped by different political constraints, expressed the virtually universal view that it was the states' duty to provide subjects or citizens with food. Yet we still lack answers to two basic questions, namely, to what extent did intervention compromise competitive trade and Smithian growth, and what part intervention played in pre-modern systems of welfare transfer.

5. *State intervention*: *foreign trade*. A second area in which state intervention differed substantially across Eurasia was foreign trade. The main cleavage appears to run between Europe, where ties between merchants and states were generally strong, and the rest of Eurasia, where on the whole ties were weak. There were three main reasons for European exceptionalism. First, more centralised Asian administrations found it more cost-effective to tax land than mobile capital. This option was not initially pursued in Europe, where jurisdictional fragmentation had a severe impact on administrative costs. Second, in a competitive and unstable political system like Europe, merchants were a more effective source of

short-term credit than peasants. Third, the European political system gave rise to a unique form of competitive luxury consumption, which provided strong incentives and opportunities for merchants to lend.

c) <u>Taxation</u>

1. *Fiscal efficiency*. The ability to tax was a function, primarily, of political transaction costs (see e.g. pp.15-17 and Fig. 5 of my position paper), and secondarily, of the competitive intensity of the surrounding state system. A tentative typology of fiscal systems is set out in Fig.5 and as follows:

- China: mediocre socio-institutional complexity, high 'fiscal sovereignty' ➔ low PTCs
- Japan: mediocre socio-institutional complexity, mid-level 'fiscal sovereignty' ➔ mid-level PTCs
- India: high socio-institutional complexity, mid-level fiscal sovereignty ➔ high PTCs
- England: high social, low institutional complexity, high fiscal sovereignty ➔ low PTCs

2. *Unintended consequences: finance*. The reliance by European rulers on merchants to solve their financial shortfalls by borrowing against future income forced them to overcome the commitment problem that arises from the non-simultaneity of the trade-off between taxation and the supply of public goods. They solved this problem through administrative and financial innovations that raised their financial and political credibility. The downward path of interest rates paid by pre-modern European states (position paper, Fig.3)

provides a measure of this process, which took several centuries to be achieved.

3. *Unintended consequences: agriculture*. The prevalence of land taxes in Asia, and of unequal capitation and consumption taxes in rural and urban Europe may have directed agricultural innovation in opposite directions. Land taxes, which adapted slowly or not at all to changing land values, incentivised peasants to raise land productivity through labour intensification. By contrast, the fact that rural capitation taxes were systematically higher than urban consumer taxes, gave peasants an incentive to raise labour *and* land productivity and shift excess labour to the towns.

4. *Unintended consequences: the technology of warfare*.
TBD.

d) <u>Some Final Puzzles: The Cost-Benefit Ratio Of Political Stability And Political Fragmentation</u>

1. *Benefits of stability*. Stability promotes Smithian growth (see above, b.3)
2. *Costs of stability*. Stability promotes (a) rent seeking; (b) restrains Schumpeterian growth based on the diffusion and recombination of useful knowledge.
3. *Benefits of political fragmentation.* In Europe, non-ascriptive corporatism and interstate competition systematically promote Schumpeterian growth through diffusion and recombination of useful knowledge. What happens in Asia?
4. *Costs of political fragmentation*. In Europe, fragmented, crosscutting power and legalised corporatism are persistent sources of rent seeking and institutional sclerosis. Structural

economic change follows (is possibly caused by?) structural political change (the ‘late medieval crisis’, the 17th c. crisis), as evidenced by patterns in market integration, interest rates, consumption patterns, and fiscal structure. What happens in Asia?

APPENDIX.

“The Rise of the West”, in J. Hall and R. Schroeder eds. *The Anatomy of Power: The Social Theory of Michael Mann*, Cambridge University Press, forthcoming 2005.

The appearance in 1986 of the first volume of Michael Mann’s trilogy (Mann 1986; henceforward SSP1) brought to an end an extraordinarily fruitful decade, during which a heterogeneous group of economic historians (Franklin Mendels (1972), Eric Jones (1981), Robert Brenner (1982)), economists (Douglass North (1981)), and historical sociologists (Perry Anderson (1974a, 1974b), Immanuel Wallerstein (1974-80), John Hall 1985) jointly attacked, challenged and rewrote many of the established narratives of pre-modern European history. Mann’s empirical range was greater, his theoretical ambitions broader, and his analytical scope more encompassing and compelling than most; but he shared with this group the core aim of defining and explaining the mystery of the ‘European miracle’, and it is on this matter that Mann’s thoughts are arguably most incisive and original.

Our understanding of the pre-modern (medieval and early modern) economy has changed significantly since 1986, not least thanks to the works I have just mentioned, which set in motion a more systematic use of cross-cultural comparison and more rigorous, social science-based analysis; other influential developments are more recent, like the rise of ‘global history’ and the irruption of south-east Asian economic history into European historians’ consciousness discussed by others in this volume. However, many of the certainties about the pre-modern economy that writers in that decade themselves took for granted have also now been challenged—certainties about the absence of cumulative, intensive economic growth and technological change; the causes of productivity gains in agriculture; the dominance of anti-market mentalities among the peasantry, and the origins of markets; the devastating consequences of harvest crises on mortality; and the pernicious economic effects of non-'democratic' political institutions. Now that pre-modern European historians are questioning the very definition of 'modernity', this is an appropriate time to take stock of Michael Mann's contribution to these debates.

Among the many powerful insights in SSP1, two stand out for theoretical originality and empirical substance. The first concerns the nature of coordination—the control by decision makers of interdependent activities that jointly satisfy one or more constraints—as both the major source of social and economic power (SSP1 537: 'collective and distributive powers'), and as a heuristic framework for a materialist history of pre-modern Europe. The second insight concerns the growth of social power over time and space.

Mann is particularly effective about the first phase of political coordination in medieval Europe, which he defines as a 'form of territorial federalism' shaped by the dialectic between national political regulation and local autonomy and dates to the period between 1155 and 1477, when the 'feudal' Burgundian state came to an end (SSP1: 416). He is on less sure footing after 1477, perhaps because he shifts focus to the highly centralised English monarchy and tends to forget the persistence of forms of 'territorial federalism' with their attendant political and fiscal tensions under the Spanish Habsburg, the Polish Commonwealth, and the Holy Roman Empire of the German Nation. His discussion of differences in political coordination within constitutional and absolutist monarchies is enlightening (SSP1 477-83), but it underestimates the difficulties that most pre-Napoleonic Continental states faced in overcoming 'feudal' or parcellised regulation. This may be because Mann prefers the better-informed neo-Weberian Perry Anderson to the neo-

Whig Douglass North, but it also stems paradoxically from a lack of attention to the benefits of coordination for *economic* power.

Mann's blind spot towards the economics of coordination is notable particularly in light of his strong criticism of the neo-classical assumption that markets are 'natural'. To some extent Mann follows North in emphasising the need for 'normative regulation' in markets, but he takes the argument further and is empirically more convincing. North's main weakness is that he lacks a theory of power and the state, which he replaces with public choice assumptions about state 'predation' mitigated by the virtues of English and North American constitutionalism. By contrast, Mann's theory of power as coordination gives us a well defined template to assess the benefits and limitations of different *forms* of state. Thus, for example, his view that markets and regulated competition are 'a form of social organisation, a *mobilisation of collective and distributive power'*, leads him to emphasise, in my view correctly, the efficacy and creativity of 'empires of domination [which] combined military concentrated coercion with an attempt at state territorial centralisation and geopolitical hegemony' (SSP1 412, my italics).

For Mann, in other words, markets *are* coordination, and coordination — viewed as a combination of 'freedom' (market) and 'power' (hierarchy) — *makes* the market. This somewhat Hicksian claim has important implications that are not always fully or consistently pursued (Hicks 1969). Mann, for example, implies that 'empires of domination' that do not face strong countervailing powers will do well at coordinating markets that enhance productive and commercial efficiency. This supports current opinion about the Chinese imperial economy and in part also the Mughal and Ottoman ones, but seems to conflict with his claim elsewhere that only medieval Europe develops 'capitalist' (e.g. competitive) markets. A more significant implication is that both old Marxist debates on the transition to capitalism (which posited a dichotomy between market (capitalist) and non market (feudal) society, and assumed that markets would emerge fully fledged from the transformation to property rights to land), and the neo-classical counterblast (that markets are natural so their origins can be ignored) are fundamentally miscast. Mann's theory suggests that we put in their place a — comparative and historical — political economy of markets, no longer premised on a specious opposition between regulation and non-regulation, and between hierarchy and market. In practice, Mann tells us, historical markets arise from different permutations of the two pairs. The claim frees us at a stroke from the institutional Whiggishness inherent in much neo-institutional and historical economics, which posits a linear progression in institutional efficiency from ancient 'despotism' to modern liberal democracy based on ex ante claims about the economically optimal constitution. Instead, Mann invites us to enquire into the economic consequences of different forms of political organisation — be they centralised or decentralised, despotic or absolutist, city-centred or territorial, federal, parliamentary or republican —, without any prescriptive or preconceived views on their relative advantages and drawbacks at different points in time.

Mann's second major insight, which concerns the evolution of social power, consists of two distinct claims. On the one hand, Mann develops a materialist theory of the persistent growth in time of social power that recalls G.A. Cohen's recasting of Marx's theory of technological determinism. Compare Mann:

> 'Human capacities for collective and distributive power have increased quantitatively throughout [history] … A process of continuous invention, where nothing is lost, must result in a broadly one-directional, one dimensional development of power. This is obvious if we examine *either* the logistics of authoritatively commanding the movement of peoples, materials, or messages, *or*

> the infrastructures underlying the universal diffusion of similar social practices and methods' (SSP1: 524)

with Cohen:

> The productive forces tend to develop throughout history [because] men are … somewhat rational. The historical situation of men is one of scarcity. Men possess intelligence of a kind and degree which enables them to improve their situation. Rational beings who know how to satisfy compelling wants … will [therefore] be disposed to seize and employ the means of satisfaction of those wants. (…) When knowledge provides the opportunity of expanding productive power [men] will tend to take it, for not doing so would be irrational. (…) It is a [historical] fact … that societies rarely replace a given set of productive forces by an inferior one … *yet* [it is also a fact that] *productive forces* are *frequently replaced, by better ones* (Cohen 1978: 150-54; italics in original).

However, whereas Cohen is concerned with the accumulation of human knowledge in everyday production, Mann emphasises that the major advances in human power come from the *movement of knowledge across space*. Historical change in Mann's view seems to arise from the dialectic between endogenous developments in the technologies of communication and their diffusion, through the unfolding of what he terms the 'marcher effect' or what Ernest Gellner called the 'doctrine of the essential periphery'. As we shall see further, peripheries play a critical role in Mann's theory in taking up the torch of leadership from the core: the 'new erstwhile recipients are also essential for further progress'.[1]

[1] Gellner 1980b: 68-9 commenting on the Soviet Marxist Yuri Semenov (1980). See SSP1 539: 'A regionally dominant, institution-building, developing power also upgrades the power capacities of its neighbours, who learn its power techniques but adapt them to their different social and geographical circumstances. Where the dominant power

The marcher effect solves the conceptual and narrative problem of how configurations of social power are recombined in a materially progressive sense: in Mann's tale, Europe adopts the best of Near Eastern civilisation via Christianity (and Rome), while north-western Europe and particularly Britain benefit from their distance from the conflict between Christianity and Islam (Mann 1988: 17). The marcher effect also provides an elegant justification for Mann's strong emphasis on European institutional social, political and cultural unity, on the importance of geopolitical interaction, and on institutional cross-fertilisation across the continent, which sets him against the more traditional 'Euro-centric' emphasis on uniquely national 'paths' to capitalism adopted by several of the writers listed at the beginning of this essay (SSP1 508).[2] Mann's historical analysis (for example of British developments since the Norman invasion, which he describes as largely endogenous with the exception of foreign wars) is not always consistent with his theory, but the theory, as we shall see, is generally sounder than the history.

Mann's principal theoretical contribution for practising historians is therefore a materialist theory of history driven by two major sources of development: the intensification and extension of political power through technologies of coordination and communication, and the diffusion of these power forms from core to frontier societies through culturally replicable blueprints. The theory is inherently evolutionary, and as such is closer to Marx than to Weber. Indeed, Mann's main conceptual and analytical weaknesses stem from not applying this evolutionary

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acquires the stable, specialised institutions of either an empire of domination or a multi-power-actor civilisation, some of the emergent interstitial forces it generates may flow outward to the marches, where they are less confined by institutionalised, antithetical power structures. Hence the bearers of interstitial surprise have often been marcher lords. The world-historical process acquires their migratory legs'. Mann seems to have been strongly influenced by Gellner and Semenov (see also note 2 below), although he does not cite them.

materialism rigorously to the ‘rise of the West’, a question he frames in strictly Weberian terms as the problem of the European ‘miracle’. Whereas Mann in materialist guise postulates the unity of mankind in a ‘process of continuous invention … [which generates] a broadly one-directional, one dimensional development of power’, Mann in Weberian form postulates the distinctiveness and non-universality of Western history, its unique and ‘miraculous’ transition to modernity, and interprets the underlying heuristics of the two models quite differently. In the first, evolutionary, ‘acorn-to-oak tree vision of humanity’ as Gellner termed it (Gellner 1980: 73-80; SSP1, chapters 1-11), Mann assumes that there will be many examples of a particular development and relies on the comparative method to identify causation. In the second, ‘gatekeeper model of human progress’ (Gellner), Mann describes the European historical path as fortuitous, for which reason general laws and comparative analysis do not apply and subjective interpretation and ‘feel’ take centre stage (SSP1 501-3).[3]

This theoretical inconsistency forces Mann into several analytical cul-de-sacs. One problem stems from the fact that Mann lacks a theory of economic and technological development. This means that he never fully justifies his materialist claims (how is new human knowledge produced?), and slips easily into a tautological definition of capitalism as a combination of free markets and growth that arose only in Europe (Mann 1988: 10-11, 13). Statements that pre-modern Europe was the economic ‘prime mover’ because only Europe had the right mix of normative regulation and individual freedom to dispose of privately owned

[2] Mann’s theory postulates the general unity of mankind, or at least of the inhabitants of the Eurasian landmass. See Gellner 1980 for similar comments about Semenov’s brand of Marxism.

[3] Weber arguably believed more strongly in counterfactual reasoning than Gellner and Mann credit him with; see Ringer 2002. Decomposing complex historical processes into small-scale, recursive modules can solve Mann’s problem of ‘grand comparison’; see Rohner and Syme 2002.

resources (SSP1 375, 506-7), and that European agriculture was vastly more productive than that of Asia (SSP1 405-6), are not backed up with any evidence, and flatly contradict the broadly evolutionary postulate that economic development is universal. Mann admits to this failing with respect to analysing differences *within* Europe (SSP1 450: 'a genuine theory would require both economic theory and a comparative methodology'), but the same point applies to differences between Europe and the rest of the world.

The conflation of capitalism with industrialisation probably lies at the root of this difficulty. Mann does sometimes distinguish between capitalism defined in Marxian terms and industrialisation (SSP1 374-5), but mostly he suggests that the distinction is 'ideological'. As a result, he confuses two aspects of pre-modern development that are best kept analytically distinct: a Smithian process, based on slowly evolving technological practice and specialisation of function in response to growing market demand (market integration), that occurred mainly in the agrarian sector; and a Schumpeterian process, based on endogenous patterns of training and labour mobility rather than direct market stimuli, which led to more rapid technological change mostly in the industrial and service sectors.

Recent research on pre-modern Southeast Asian economies has brought the distinction between the two processes into sharper relief. There is now enough evidence of long-run intensive economic growth outside pre-modern Europe to require some important revisions of older historical models. Intensive growth of the Smithian kind seems to have been ubiquitous in Eurasian agrarian societies, implying that Smithian growth did not require a full-blown capitalist mode of production in Marx's strong sense, although it may have required a form of capitalism in Mann's weaker, neo-classical sense. Smithian growth could be quite easily reversed, however, mainly due to a collapse of the power system that enforced the rules of trade as an effect of domestic conflict or outside aggression.

The logistical fragility of pre-modern systems of extensive, despotic power, and the high costs of socio-political coordination, meant that economic reversals could also be deep and long lasting. On this account, Europe's political fragmentation and institutional pluralism may have been something of an advantage, because they allowed locally more appropriate reactions to major logistical and socio-economic setbacks like the late medieval and seventeenth-century 'crises'. Differences in institutional flexibility may explain why Europe after c. 1300CE seems to have generated more systematic patterns of Schumpeterian growth than Southeast Asian societies, where technological change outside agriculture became progressively muted. Indeed, it seems likely that the major and abiding differences between pre-modern European and non-European societies were the mechanisms for the generation and diffusion of technical knowledge, rather than the presence or absence of markets.

In sum, if we define capitalism in Mann's terms as an economic system based on free markets and individual, exclusive property rights, we are faced with two problems: first, pre-modern Southeast Asia becomes just as capitalist as pre-modern Europe, which makes it hard to posit any kind of European exceptionalism, and second, we are no closer to explaining the processes of *technological* innovation that led to the European Industrial Revolution. Mann's theory does not help us identify a solution, either, because it doesn't predict the impact of system traits (state and market structures) on economic and technological outcomes; this is where it would most clearly benefit from systematic comparison and counterfactual reasoning. Mann is aware of this limitation (SSP1 450), but considers it an issue of empirical incompleteness; in my view instead it generates some serious blind spots in historical interpretation. Four of these stand out: the overestimation of Christianity as an autonomous historical force, and conversely the underestimation of the Papal Revolution; the underestimation of the law and of the greatest legal invention of the Middle Ages, the corporation; the overestimation of the independent role of war; and the absence of an endogenous theory of the state and of state ‘efficiency’.

Christianity, norms, and transaction costs

Mann views his main contribution to earlier narratives of the rise of medieval Europe as adding Christianity to the standard economic, political and military brew. Crucially, he uses the role of Christianity in the rise of the West to justify the claim that ideological power plays an independent role in historical change; so it is important to examine what evidence he brings to bear on the matter. This can be summed up in two testable claims: firstly, that the Christian ideology generated a kind of ‘transcendence and immanent morale’ among feudal lords (SSP1 376-7) that underlay early European dynamism, and secondly, that Christianity generated the supra-local networks of trust necessary for long distance trade to take off (Wickham 1988).

The first statement can be rephrased as the claim that Christian ideology and the Church solved problems of military and economic coordination in the early Middle Ages when secular forms of territorial coordination were weak. However, a few centuries earlier, Christianity had been unable to save the Roman empire from the barbarians or keep the eastern and western halves of the empire united, and nothing much had changed since; the pre-Gregorian church was still ideologically and institutionally weak. Moreover, it seems inappropriate to date the starting point of European exceptionalism by dint of the substitution of secular rule by Christian ideology to the eighth century (SSP1 413), since the eighth century coincided with the only prolonged period of almost unbroken Frankish unity 'which gave a powerful impetus to Frankish economic hegemony, as well as … territorial expansion' (Wickham 1998: 347). Perhaps conscious of these problems, Mann turns to much later evidence, including the tenth and early eleventh-century Cluniac and Cistercian movements — which in economic terms mimicked the great eight and ninth century Benedictine landlords, that in turn were modelled on the great Merovingian and Frankish aristocratic dispersed estates — and the Gregorian reforms and their aftermath in the eleventh and twelfth centuries (SSP1 379-83). But he fails to question if the ideologically and institutionally aggressive Church of the twelfth and thirteenth centuries was an institutional and ideological prime mover, rather than a dynamic response to the growing claims of territorial monarchs amidst broader social and economic changes.

Mann objects to Anderson's description of the feudal core as a 'fusion of two prior patterns, the Germanic and the Roman' because it 'fits Christianity too easily … as the transmitter, through Rome, of the 'classical legacy''(Anderson 1974; SSP1 505). However, by insisting on Christianity's independence as a historical vector, he ignores the question why only one out of many possible versions of that religion, medieval European Christianity, became so aggressively expansionist and institutionally dynamic. Conversely, he underestimates the importance of the Frankish empire in developing a 'unitary economic, military and ideological power' before the year 1000 (Mann 1988: 11; SSP1 376-7), which by 1350CE had been used to nearly double the size of Christian Europe by expanding into Iberia, Scandinavia, the Celtic periphery, and east-central Europe (Bartlett 1993: 292).[4] On all these grounds, the

[4] European territorial expansion disproves Mann's view that blockage by Islam to the South and East was a necessary precondition for medieval growth (Mann 1988: 18; SSP1 406-7, 508).

independence of the *political* and the *military* effects of Christian ideology seem anachronistic and overstated.

Mann’s second claim for Christianity is that ‘normative pacification enabled more produce to be traded over longer distances than could usually occur between the domains of such a large number of small, often highly predatory, states and rulers’ (SSP1 383). In other words, as trade expanded and intensified over greater distances, social interaction become more complex and less predictable, and shirking and opportunism increased. In the absence of strong coordinating states (which only arose in the fourteenth and fifteenth centuries; see SSP1 379), Christianity enforced the rules of the game by threatening divine punishment. The argument gives rise to two predictions: long-distance trade would develop first where secular extensive power was weak, and long-distance trade between Christians and Muslims would be under-developed compared to similar trade between co-religionists.

According to Mann, the first commercial networks linking northern and southern Europe arose in the eleventh century in a territory delimited by two lines in which French, English and German monarchical powers were absent: ‘there is a correlation of economic wealth and dynamism and weak states’ (SSP1 408; but see contra SSP1 402, on early growth in England). This however confuses the territorial size of states for their political and economic power, at a time when the two were still inversely related. At the start of the twelfth-century commercial revolution, the lands concerned — still currently Europe’s economic heartland, its ‘blue banana’ — corresponded largely with the core of the old Frankish empire. At their two extremes were two regional ‘prime movers’, the County of Flanders and Lombardy, which established commercial and industrial leadership by energetically coordinating typically Carolingian modes of extensive power that included the enforcement of justice, a stable coinage and measurements, the creation of new towns and markets, and canal building and drainage. The success of the Champagne fairs as the linchpin of the commercial network was similarly based on strict political coordination and the provision of justice by a powerful regional count (Verhulst 2002; Epstein 2000b; Bautier 1953; Milgrom, North and Weingast 1990). Other important commercial institutions, like the Law Merchant, were by-products of social coordination that arose endogenously from the regular interaction of merchants with political authorities (Greif, Milgrom and Weingast 1994). The specifically ideological role of the Church in these developments is obscure, not least because it formally remained largely hostile to trade well past the thirteenth century.

Genoese trade with the Levant in the 13th-century

Evidence that at the outset of the commercial revolution the volume of long-distance trade between Christian co-religionists was substantially larger than that between Christians and infidels for ideological reasons, rather than for reasons of distance, is instead inconclusive. Thirteenth-century Genoese merchants, for example, seem to have traded more with the Muslim Levant than with the French, Spanish and Italians (Figure 1, p.48), and the same probably applies to Venice and Pisa in the same period. The relative proportion of infra-Christian trade undoubtedly increased over time, but most of this was over short and medium distances: right up to 1600 the volume of infra-Mediterranean trade — a significant share of which took place between Muslims and Christians — was still far greater than north-south trade across the Alps (Bautier 1971; Braudel 1972; Spufford 2001). There are two plausible explanations why religious differences were apparently not a big barrier to trade. On the one hand, it seems likely that shared transcendental norms are not a sine qua non of trade (Wickham 1988); on the other, the higher level of political fragmentation in the early medieval West compared to Arab countries may have made opportunistic behaviour paradoxically easier between Cristians than between Christians and religious aliens, because the commercial penalties for opportunism among Christians were lower.

The papal and legal revolutions

The 'Latin-Christian' identity was of course not a transcendental given, but was linked to the Gregorian institutionalisation of the papacy as a universal and imperial authority. From the late eleventh century onwards the term *Christianitas* took on an increasingly territorial and 'western' meaning, partly because Latin Christians became increasingly aware 'that the rest of the world was not Christendom' (Bartlett 1993: 252-3). Mann has little to say about the rediscovery and reformulation of Roman law, which provided the intellectual and ideological underpinnings of the Papal Revolution and was instrumental in revolutionising the sources of social power (see SSP1 440-1 for a cursory reference). In the hands of the Church, Roman and canon law became sources of extensive and intensive power that harnessed Christianity to the expansion of social and territorial authority (Bartlett 1993: 243); law became a means for ideological, logistical and financial centralisation, and helped transform the Patrimony of St. Peter into the first 'ancient-modern state' (Berman 1983: 113-14; Prodi 1987).

The legal revolution had two additional, crucial ramifications for European development. Between the late eleventh and the early thirteenth centuries the law became 'disembedded', as an emerging class of professional judges and lawyers trained in law schools at universities established an 'autonomous, integrated, developing body of legal principles and procedures' (Berman 1983: 86). Moreover, universal law became the means by which Rome successfully developed the principles of political and legal pluralism against imperial pretensions. One of the effects of these two processes was what Mann calls 'autonomy' (SSP1 397): 'the predominance of foreigners in a country's trade, the self-regulating powers of artisan and merchant guilds and banking houses, the political autonomy of urban communes against territorial princes, and the power of the merchant republics … No single group could monopolise power; conversely, all power actors [lords, towns, peasants] had autonomous spheres'.

'Autonomy', however, was neither spontaneous, nor natural, nor somehow held together by the 'normative regulation … provided by Christianity' (SSP1 398); nor at this point in time did it yet relate specifically to the individual 'subject' in the modern sense. The concept — the outcome of a truly revolutionary 'fusion of the Germanic and the Roman' — is more accurately described as that of the *corporation*. Corporatism became central to most defining features of the 'West'. It was the basis for the incorporated town, borough and rural community, for the university, and for the international religious and military orders that organised the institutional consolidation and expansion of Latin Christendom. The theory of corporate personality made it possible to organise merchants and trading bodies into autonomous organisations, which could negotiate with the state for commercial privileges and military support because their existence extended beyond the lives of their members; it facilitated the dissemination of useful and practical knowledge by craft guilds, whose membership was individual and non-ascriptive and made it easier for artisans to migrate (Epstein 1998); and it legitimated the charters protecting 'proto-industrial' communities in the countryside from attacks by corporate guilds in the towns (Epstein 2000a: ch.6). Western theories of political representation and corporate bargaining and the development of the Western state — including the peculiar tradition of 'small', urban-based states which survived side by side with the rising national states (Brady 1991)—still rely on the medieval principle that corporate groups do not derive their ultimate legitimacy and powers from superior authority. Corporatism turned into the West's most powerful 'vector of expansion' (Bartlett 1993: 309-10).

In retrospect, the major historical significance of Christianity was not so much the establishment of a European ideological ecumene between 900 and 1300, in the development of which it piggybacked on the Franco-Carolingian Empire. Its main 'track-laying', world historical achievement was the institutionalisation of the Church, which from the twelfth century spurred the legal and political development of the self-contained, self-defining corporation, freed from legitimating authorisation from above. If we drop ideology as an independent variable, the claim about European uniqueness that justified Mann's avoidance of comparisons with non-European societies becomes even more problematic, and the question posed by Gellner whether the European trajectory corresponds to a 'gatekeeper' (random and unique) or an 'acorn to oak tree' (functional and evolutionary) model of human history, gains new salience.

By downplaying the impact of religious ideology I do not mean to turn Roman law into an alternative *deus ex machina*, as Mann charges Anderson with doing (SSP1 398-99). Yet, by taking Roman law, which had been the law of a tributary state, and bending it to its own political requirements and to the needs of a decentralised society in which local rent taking and property rights were more important to lords than their relationship with the state (tax raising), the Church gave political legitimacy to European corporatism. Corporatism in pre-modern Europe became a social, economic and political vector of expansion through the combination of two historically contingent elements: political and social fragmentation, which kept corporate groups small, community- rather than territorially-based, and non-ascriptive, and the corporate charter of

Frankish ascendancy, which provided a flexible, infinitely replicable organisational matrix (Bartlett 1993).

Mann has more to say about the Roman law origins of private property in land, which he disputes. But his preferred explanation, that private property rights arose from the 'disintegration of an expansive [Roman] state [that] had enabled its provincial agents and allies to seize and keep its public, communal resources for themselves', and that 'as early as 800CE, European feudalism was dominated by private property, in the sense of hidden and effective possession' (SSP1 398-99), stretches the point too far, not least because it implies that 'effective possession' was lacking in coeval non-European societies like the Chinese, Indian, Arab, and Ottoman tributary empires.[5] It might be more useful to distinguish between 'effective' and 'direct' possession of land, a distinction defined in feudal Europe as between direct and eminent domain. 'Effective' or beneficial possession, permitting free choice of crops, the disposal of harvests subject to customary tribute, and a degree of land transfer but not the eviction of the direct cultivators, seems to have characterised all advanced agrarian and tributary states. 'Direct' possession, which included rights of jurisdiction and disposal and thus the theoretical possibility of forced eviction, lay with the lord or state, but disposal rights were seldom exercised. By contrast, the concept of full possession, which implied the peasant's capacity to dispose freely of his land and thus also to become 'voluntarily' landless, seems to have emerged only in late medieval and early modern Europe out of poorly developed and understood Roman precursors (Johnston 1999). European property rights may have been unusual because title to land was exclusive and could be permanently alienated, rather than because title to land was secure.

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[5] It also seems to contradict the claim on the following page that 'unitary, exclusive ownership' was the result of the rise of the state (SSP1 399).

Exclusive ownership established the legality of taking possession of surety for a loan. Thus, European lenders could protect their capital and returns through courts of law by evicting borrowers from their property if they defaulted, rather than relying on less certain social and moral suasion by friends and kin as seems to have happened in other agrarian societies (Pomeranz 2001). More clearly defined property rights may have increased the pool of capital available to European peasants, allowing them to borrow for longer and at lower rates of interest than would otherwise have been the case. In pre-modern China and India long-term debt seems to have been poorly developed, and rates of interest were no lower than 8-10 per cent (Pomeranz 2001; Deng 2003); by contrast, European peasants were able to raise long-term credit at rates that fell from 10 per cent on average in the thirteenth and early fourteenth century to 3-4 per cent in the eighteenth (Figure 2, p. 49). Of course, if European rates began to fall significantly below Asian ones only during the fourteenth century, as the evidence suggests, we must also conclude that medieval Roman law—which had developed earlier—was at best a necessary but not a sufficient condition for sustaining well-working markets in land and capital.[6]

Private rates of return (nominal) to capital in Europe, 1200-1799

The extent to which differences in access to rural credit made any difference to agricultural development and productivity in Europe and elsewhere is nevertheless still unclear. Recent work by Pomeranz, Allen and others suggests that Chinese and Indian agriculture at its best compared well with European averages on measures of calories

[6] On the other hand, the evidence also suggests that a fully-fledged market of this kind emerged only during the 'late medieval crisis', which Mann denies marks the origins of the transition from feudalism to capitalism (SSP1 5001-1). I return to this point below.

produced per unit of land and worker; what effect a lower cost of capital made on setting European agriculture on a more intensive course through the greater use of drainage, livestock, enclosure, and wage labour awaits further investigation.

War, taxes, and the origin of the modern state

Taxes, as the means to assert the independent force of military power in the growth of the modern, national and nation state, are central to Mann's theory; and it is due in large measure to SSP1's analytical tour de force on this issue that the political economy of taxation is now axiomatic in the study of the pre-modern state.

Mann takes the view that pre-modern states traded taxes for public goods. He focuses mainly on the state demand side, and argues through a detailed analysis of English taxation that a disproportionate share of tax receipts was spent on warfare (SSP1 428-30, 511). By taking tax receipts as proxies for the size and growth of the territorial, coordinated state, and expenditure as an indicator, 'though not a perfect one', of the functions of the state (SSP1 416-17), he infers that war was central to state formation. Although he qualifies these claims by noting that most domestic functions of the state (e.g. its fiscal supply side) do not appear on the balance sheet because they consisted of 'normative' services, he does not dwell much on what such services consisted of, what drove demand for them, or how they evolved over time.

Mann's lack of attention to the state's provision of public goods raises the question of what caused what. Did warfare drive subjects' willingness to pay taxes (Mann's proxy for state formation), or was it the state's political and technical capacity to raise taxes that determined its capacity to wage war? Contrary to Mann's claim (SSP1 424-25, 433, 451, 452-4, 457), evidence for early modern England and France suggest the latter. The English case poses the most serious problems for Mann's argument, for two reasons. First, the financial size of the English state did not grow substantially in real terms between the fourteenth and the late seventeenth century; expressed in per caput terms it declined (SSP1 424-30).[7] Second, between the mid-sixteenth and the mid-seventeenth centuries England kept out of the major European wars; yet in the intervening period, the civil functions of the English state increased significantly and the sphere of public legislation on prices, wages, and welfare expanded, taking over parts of the 'trans-national power of the church' in the process. As England evolved 'from coordinated to organic state', 'centralising tendencies made state finances an incomplete guide to state activities' (SSP1 458-61). Mann's explanation for the anomaly is ad hoc and begs the question of causation: 'England brought up the rear because the costs of its main armed force, the navy, did not escalate until well into the seventeenth century. Only when England and Holland supplanted privateering with empire building and encountered each other's naval power did their states take off ... The permanent war state arrived in England in two stages', the early Tudor period and the late seventeenth century (SSP1 457).

On the evidence provided, therefore, claims about the independent function of military power must be strongly qualified. Tax receipts are at best an ambiguous measure of pre-modern state activities and power, because they leave out most of the public goods the state provided. Moreover, warfare was only one and perhaps not the most important among a variety of factors causing state activities to expand. There were endogenous social and political pressures that Mann disregards, which

[7] See also Bonney 1999: 56 and the data provided by Patrick O'Brien for the European State Finance Database (ESFDB) (www.le.ac.uk/hi/bon/ESFDB). For the subdued effects of the sixteenth-century military revolution on French taxation, see Bonney 1999: 141, and the data published by Bonney for the ESFDB.

included the need to pay a growing legal and regulatory administration and to meet the costs of interest on the public debt.[8]

Nevertheless, Mann's puzzle of finding a measure of state power remains. Can one distinguish between, and measure changes to, the state's military power — defined by its ability to tax — and its infrastructural power — defined by its ability to coordinate? In other words, can one distinguish empirically between the *fiscal efficiency* and the *economic efficiency* of the state?

Fiscal efficiency can be defined in simple terms as the capacity to maximise state income subject to political, economic and technical constraints. Work by Mann, O'Brien and others suggests that between the thirteenth and the eighteenth century (when England managed to break through traditional fiscal barriers) the upper bound to what an advanced agrarian state in Europe and Asia could demand in tribute for purely military and administrative purposes was about 10 per cent of GNP, while the lower bound below which the state could no longer operate effectively was 3-5 per cent. The proportions are small, but the scope of variation was very large. Since economic and technical constraints to taxation were similar across European societies, the main constraints on states' tax raising and war making machinery must have been essentially political. Recent research on this topic suggests that three main sets of factors were at play (Bonney 1995 and 1999; Epstein 2000a: ch.2).

Firstly, a state needed to overcome the time inconsistency or commitment problem, which arises from the fact that the trade-off between taxes raised and public goods provided is not simultaneous. Subjects' willingness to pay was the result of repeated commitments of trust that the tax recipient(s) — the ruler(s) — would not renege on their promises. Trust could be enhanced, and the rulers' opportunism could be

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[8] See Martin Körner's detailed breakdown of states' revenue and expenditure published by the ESFDB.

tempered, by aligning their interests with the taxpayers and by keeping the costs of monitoring the ruler low. One of the most effective pre-modern European states from this point of view was the republican city-state and federation, in which political elites were jointly taxpayers and tax recipients, and their actions in both roles were relatively transparent.

Second, fiscal efficiency was a function of state sovereignty and infrastructural power. More centralised tributary states faced lower negotiation, monitoring and collection costs than more decentralised and politically fragmented ones. This explains why the politically 'organic' and jurisdictionally integrated English state of the late seventeenth and eighteenth centuries could raise more taxes more cheaply than most nominally 'absolutist', but in fact decentralised Continental states (Stasavage 2000). It may also explain the apparently high degree of fiscal efficiency in pre-modern China.

Third, fiscal efficiency was a function of the costs of monitoring taxpayers. Since sedentary peasants and their wealth were easier to oversee than mobile merchants, more highly centralised tributary states like China pursued policies favouring the former over the latter. The most sophisticated attempt at direct, moderately progressive taxation ever attempted in pre-modern Europe, the Florentine *Catasto* of 1427-30, failed after a few years because the republican city-state found the costs of administration impossibly high (Petralia 2000).

In early modern Europe, where states solved their financial shortfalls by borrowing against future income, long-term interest rates provide a measure of relative fiscal efficiency (non-European tributary states had no need to tap the capital markets, because their peasant tax base was sufficiently large) (Epstein 2000). In Europe, perceived differences in domestic regime determined the sovereign risk premium — the yield spread over the lowest prevailing rate — that individual states had to pay on long-term debt (Figure 3, p.50). There are three main points to be made in this regard. First, the most salient regime difference was between city-states and monarchies, with the former generally paying lower rates of interest than the latter. Second, the risk premium was influenced by the borrower's financial competence and by the liquidity of its capital markets, as the consistently lower rates paid by Florence and Venice compared to north European city-states attest. Third, interest rates converged between political regimes in the long run, suggesting that the more severe constraints facing monarchies in terms of credible commitment and political fragmentation were relaxed over time. The links between borrowing costs, fiscal efficiency and regime structure are sketched in Figure 4 (p.51[9]).

One final point deserves mention. A comparison between the early modern Dutch Republic and England suggests that the effects of military demands on fiscal efficiency were ambiguous. On the one hand, the Dutch Republic was forced to pay high rates of interest during its war against Habsburg Spain, even though it had one of the most sophisticated fiscal and financial systems in northern Europe. Creditors lacked faith in the Republic's ability to meet its obligations, whether because the fiscal system was actually less efficient than it now seems, or because they feared that the country would be defeated and would default on its debts; rates only fell sharply after the peace of Westphalia (1648). On the other hand, the sixteenth and seventeenth-century English monarchy paid the highest interest rates in Europe most probably *because* it kept out of the European military arena, as a result of which it faced few pressures to reform a still 'feudal' and inefficient system of taxation; most saliently, it only established a funded public debt in the 1690s, three and a half centuries after the Italian city-states and about a century and a half after the major Continental monarchies. Fiscal reform,

[9] I wish to thank Jan Leuten van Zanden and Maarten Prak for suggesting the graphic representation in Figures 4-5.

begun by Parliament during the first Civil War, only fully caught up with best Continental practice by importing more advanced financial methods from the Netherlands after 1689 (Epstein 2000a: ch.2). In sum, although the long-term direction of fiscal change is clear, its direction over the medium term (which could last over a century!) was not clear-cut. On this evidence also, military power was a function of political power rather than an independent variable as Mann claims.

Political and economic efficiency

Mann postulates a strong link between European capitalism, a unique kind of infrastructural power, and military competition between states. However, he does not explicitly address the links between state and economic efficiency, claiming that the correct unit of economic and political analysis is the European network rather than its constituent regions, and that in any case European state structures converged over time (SSP1 455). In other words, the geopolitical approach takes precedence over the state-centred, endogenous one. I have already mentioned the advantage of this stance for identifying how patterns of social power migrate; but it also involves some serious drawbacks. If the main geopolitical force, warfare, was not an independent vector of state formation, as I have concluded, other — most plausibly endogenous — forces must have been at play. Perhaps more contentiously, many economic historians would claim that geopolitical forces also played a secondary part in the economic rise and decline of nations, and that endogenous forces — primarily domestic market integration and technological innovation—were nearly always more salient. A theory of how power works within states is therefore essential — but Mann's view of individuals as largely reactive to state power seems to exclude this (SSP1 436).

A geopolitical approach also glosses over the significant political differences between European states, and may underestimate their economic consequences. One of the most intriguing aspects of pre-modern Europe was its great variety of political regimes, and the fact that economic leadership did not stay with one type of regime or country for very long. Mann's discussion of the slow 'migration' of power from southern to northern Europe is suggestive, but his explanations are vague, in terms of shifts from regions with more extensive power techniques to ones with more intensive power techniques (Mann 1988), or from 'weak states' to states offering 'most centralised order' (SSP1 407-8). He also suggests that the dynamic equilibrium of the European multi-state system was maintained by the ability of political rivals to 'copy in a more ordered, planned fashion' the 'new power techniques' that the 'leading power stumbles across' (SSP1 456), but his detailed discussion of British state formation seldom refers to the country's many cultural, institutional and technological debts towards its neighbours. The major insight on the dialectic between advanced and peripheral societies gets lost in the conceptual focus on state networks and through a lack of comparative analysis.

Reformulating the problem of the 'European miracle' in more materialistic and comparative terms can solve many of these difficulties. Having questioned ideological and military power as independent explanatory variables, the crux of Mann's analysis of the rise of European capitalism can be summed up in two questions: what was the impact of power systems on economic outcomes (such as efficiency in production), and why did economically optimal power structures change over time.

Although Mann is mainly interested in the causes of state (rather than economic) growth, he assumes that a strong positive correlation holds between the two. His theory implies that some states are better for growth than others, and that infrastructurally 'strong' states generally grow faster than 'weak' ones because they coordinate more effectively between competing organised agents (we saw that Mann's apparent exception to this rule, the commercially dynamic 'corridor' between Flanders and northern Italy, actually confirms the rule). Medieval European states also offered protection to merchants; exploited economies of scale in warfare; leveraged domestic conflicts over fiscal distribution to expand their tax base; and generally stimulated economic expansion by helping to extend literacy, apply more effective management and communication techniques, and recover classical learning that included Roman law (SSP1 422-3, 431-2, 436, 440-1).

Mann identifies two general causes of state decline or underperformance, both of which have strong Olsonian undertones (Olson 1982). The first cause is implied in Mann's thesis of the marcher effect, according to which latecomers — marcher or peripheral societies — benefit from being able to 'copy in a more ordered, planned fashion' the 'new power techniques' that the leading power had 'stumbled across' (SSP1 456). By implication, leading societies decline as their power structures get entrenched and generate rent seeking by the elites.

The second, related cause is political and jurisdictional fragmentation, as a comparison of English constitutionalism and French absolutism reveals. 'Absolutist states [like France] were not infrastructurally stronger than constitutional ones'; absolutist despotism lacked the English 'power to co-ordinate civil society'; it was 'considerably less organic [e.g. politically integrated] than its constitutional counterpart, for it operated through a greater number of divisions and exclusions. … Whereas constitutionalism reinforced the development of an organic capitalist class, absolutism tended to block it or crosscut it with other political divisions' (SSP1 477-9). Political fragmentation raised the costs of political and fiscal negotiation, search and enforcement. High political transaction costs—caused by contradictions between the heterogeneous segmentary and class interests of the ruling elites (Olin Wright, this volume)—produced coordination failures in Spain and France that weakened their powers to tax. The results were disastrous, for ‘a state that wished to survive had to increase its extractive capacity over defined territories to obtain conscripted and professional armies or navies. Those that did not were crushed on the battlefield and absorbed into others’ (SSP1 490).

These institutional and materialist aspects of Mann’s theory still seem to me extremely fertile; indeed, economic historians have barely begun to apply his ideas, and some of the views I have presented that try to do so are accordingly quite speculative. Combining Mann’s insights about state formation, social coordination, and the growth and transmission across space of social power, with the views I have set out about pre-modern economic growth may give us a framework for answering the puzzle, or better, the set of puzzles known for short as ‘the rise of the West’. We can sum up its main parameters in the following synthetic points (see also Figure 5, p.52).

1. The most remarkable feature of the pre-modern European economy was its sheer inefficiency. The gap between actual and potential agricultural output was frequently large; in eighteenth-century France, existing technology could generate a 60 per cent higher output than was achieved in practice (Grantham 1993). However, some economies made use of their technological endowments more effectively than others. The main source of agricultural inefficiency and slack, and the main restrictions to pre-modern Smithian growth came from the ‘effective local possession of autonomous economic resources’ (SSP1 406), which gave rise to institutional impediments to trade, poorly specified property rights due to the parcellised sovereignty inherited from the ‘feudal’ past, and restrictions on rural proto-industrial growth. In sum, pre-modern

economic inefficiency was caused by a lack of social and political coordination that generated multiple Prisoner's Dilemmas.

2. Smithian and Schumpeterian growth were not restricted to one region or political regime. However, large output gaps, sharp differences in agricultural productivity and in other expressions of growth like urbanisation, and regular patterns of strong regional growth followed by long-term stasis or decline, point to weak convergence across regions. Although communication networks made it possible for new regional leaders to utilise the systems of knowledge and power developed by former leading regions (see (9.) below), both the lack of economic convergence, the existence of a variety of instutional equilibria, and changes in leadership themselves suggest that knowledge still spread slowly and unsystematically. Changes in leadership also indicate that the optimal institutional context for growth changed over time, and that the crux of the changes lay in the interaction between political and economic power.

3. The interaction between political and economic power was most effective at the regional level, where the logistical 'tyranny of distance' was weaker and where urban and rural manufacture could benefit most from economies of agglomeration (Krugman 1991). However, economic and political power (EPP) in 'feudal' states was parcellised among military elites, led by a *primus inter pares*, and powers of coordination were localised and weak. By contrast, EPP in city-states in the Franco-Roman European core was vested in dominant albeit fractious urban elites, which established strong coordination with their 'country' (Figure 5, p.52). City-states combined to an unprecedented degree feudalism's *intensive* ability to co-ordinate trade and markets (because city-

state elites sometimes included feudal lords and always included landowners), and the tributary Roman state's *extensive*, logistical capabilities (Epstein 2000b). A large proportion of the characteristically European intensive *and* extensive economic, administrative, military and ideological (both secular and religious) power technologies were developed between 1100 and 1500 by the Italian and German-speaking city-states (SSP1 437). These tools diffused northwards from the Mediterranean, initially to the remainder of the Frankish core (northern France, Flanders and the Rhineland) and later to more peripheral states like England, the northern Netherlands and Scandinavia (Brady 1991: 146, 150, 155).

4. Up to c.1450-1500CE the power of town over country was a source of dynamic growth, as towns deployed the most sophisticated legal, political, military and ideological powers of coercion yet invented to coordinate interchange with countryside. However, city-states in the Roman-Frankish European core faced three long-run obstacles. First, city-based republics combined economic and political power in the rulers' hands, which led republican elites to confuse government by a class or party with the rule of state, and to systematically exploit their political power over the urban hinterland for economic ends. Second, city-states discriminated between citizens and non-citizens, which made it harder to coordinate power with other cities because coordination required the recognition of all citizen rights as equivalent, and became a further source of rent seeking in the countryside (most peasants were excluded ex officio from rights of citizenship). This may explain why European republicanism was unable to produce a general theory of the state as opposed to a theory of citizenship,

and surely explains why no republican city-state became a successful territorial state (Koenigsberger 1988; Epstein 2000a, 2000b). Third, corporate affiliations in the Roman-Frankish core were stronger than in the more peripheral states (Brady 1991). Greater opportunities for corporate ‘capture’ may explain why the economies of the most advanced city-states slowed or contracted as the European economy emerged from the late medieval ‘crisis’ (Epstein 2001, 2003).

5. Territorial states and national monarchies adopted many of the technologies of power (tax and administrative structures, market networks, and welfare structures) developed by city-states, most of which had a fixed cost base and displayed economies of scale. On the other hand, territorial and national states often weakened the jurisdictional powers of town over country, which helped rural proto-industry to grow. Proto-industry sought protection from urban guild monopolies in chartered, corporate villages or ‘new towns’, while depending at the same time on towns for skilled labour and services. This paradox explains why the most successful proto-industrial ‘districts’ in pre-modern Europe were situated in densely urbanised regions, and why proto-industry developed fastest during the late medieval and seventeenth-century ‘crises’ when states attacked urban EPP with the greatest determination.

6. Proto-industry contributed to Smithian growth by absorbing surplus agricultural labour. Consequently, the institutional freedoms from ‘old’ town prerogatives needed to ‘grow’ proto-industry in villages and new towns also defined an economy’s capacity to release agricultural labour. The greater ability of its urban sector to absorb excess rural labour gave seventeenth- and eighteenth

Britain a critical institutional edge over Continental agriculture (Epstein 2001; Glennie 2001)

7. The efficiency of territorial and monarchical states was determined by the extent of crosscutting political divisions (jurisdictional integration) inherited from the medieval past. In territorial and absolutist states, EPP was vested in competing urban and rural elites, corporate affiliations and prerogatives were still strong, and negotiation and coordination costs were high; territorial rulers had to adopt policies of 'divide and rule'. In the British constitutional monarchy, EPP was vested in an integrated urban and rural elite, corporate affiliations were in decline, and central authority and coordination were strong. Although the political similarities between absolutist and constitutional monarchies were greater than the differences (SSP1 479, 482-3), absolutist states were politically weaker than a constitutional monarchy like England after 1688. England also benefited long before 1688 from an unusual degree of jurisdictional integration, which kept barriers to trade and the costs of market integration low (SSP1 493-94).

8. A federated city-state like the United Provinces combined some of the advantages and disadvantages of city-states and monarchies. From the city-state, it took strong powers of coordination with the countryside and the alignment of elites' economic and political interests, which raised levels of social trust and kept borrowing costs low; from monarchies, it took a willingness to co-ordinate interests at a national level through the Stadtholder, who did not directly embody segmentary economic interests. EPP was however vested in competing urban and aristocratic elites held together by external military pressure (from Spain, England, France etc.), corporate solidarity was stronger than

national identity, and fiscal and economic coordination was costly ('t-Hart 1993).

9. Regional leadership shifted from the southern and central European heartland to north-western Europe via Spain because the corporate, Romanised institutions that wielded intensive power in south-central Europe resisted centralisation (Brady 1991). The social costs of change in less Romanised peripheral regions were lower. Those shifts were reflected in patterns of urbanisation (Epstein 2001), of long-distance trade, and most critically, of regional technological leadership, which moved from northern Italy (c.1100-1500) to southern Germany and the southern Netherlands (c.1450-1550), then to the Dutch Republic (1580-1680), and finally to Britain (1700-1880) (Davids 1995: 338). In other words, institutional efficiency was a necessary but not sufficient condition for marcher regions to forge ahead; they also needed access to outside sources of technological innovation, and they had to be able to create new ones. In pre-modern Europe, clusters of innovation could shift to new regions because skilled craftsmen could migrate freely where their skills were more highly rewarded, and because over time it became cheaper to estimate the costs of migration, with the late medieval crisis marking a major improvement in this respect (Davids 1995: 341; Epstein 1998). The link between technological migration and EPP was straightforward: regions with higher returns also enjoyed commercial leadership (Davids 1995: 339-40, 343-5), and commercial leadership was a result of more effective coordinating powers.

10. Although the migration of social power was a continuous process, major shifts in economic and technological leadership from 'core' to marcher regions were consolidated over relatively

short periods of time. The most significant discontinuities occurred during the late medieval and the seventeenth-century crises, which are both best viewed as ‘distribution crises’ over the allocation of social surplus between producers, rentier urban and landlord classes, and the state (Steensgard 1978; Epstein 2000: ch.3). While elites in the core regions, most notably north-central Italy, sought refuge in rent-seeking and caused their economy to contract (Epstein 2003), peripheral regions like the northern Netherlands and England benefited from greater political and jurisdictional integration to import and copy the core regions’ fiscal, financial, and manufacturing techniques. Europe as a whole benefited from the diversity of alternative political, legal and economic institutions, which increased the variety of options and created opportunities for improvement through ‘mutual jealousy’ (Hume 1994; Bernholz, Streit and Vaubel 1998).

11. The ‘acephalous’ and dendritic European state system (SSP1 500-1) increased the costs of technological diffusion, most of which occurred randomly through voluntary and forced migration by individual skilled artisans. On the other hand, political disintegration may have diminished the likelihood of technological path dependence and may have generated a broader range of technological options than a more integrated political system. As integration slowly progressed, the economy benefited from selection and recombination out of a larger technological ‘pool’. Inter-state competition had two further advantages: it generated a culture of technical and consumer emulation within the elites, which made them keen to attract the most sophisticated craftsmen to produce for them, and it gave rise to institutional experimentation, diffusion and recombination, most notably in the sphere of war

finance, where military success offered proof positive of institutional efficiency.

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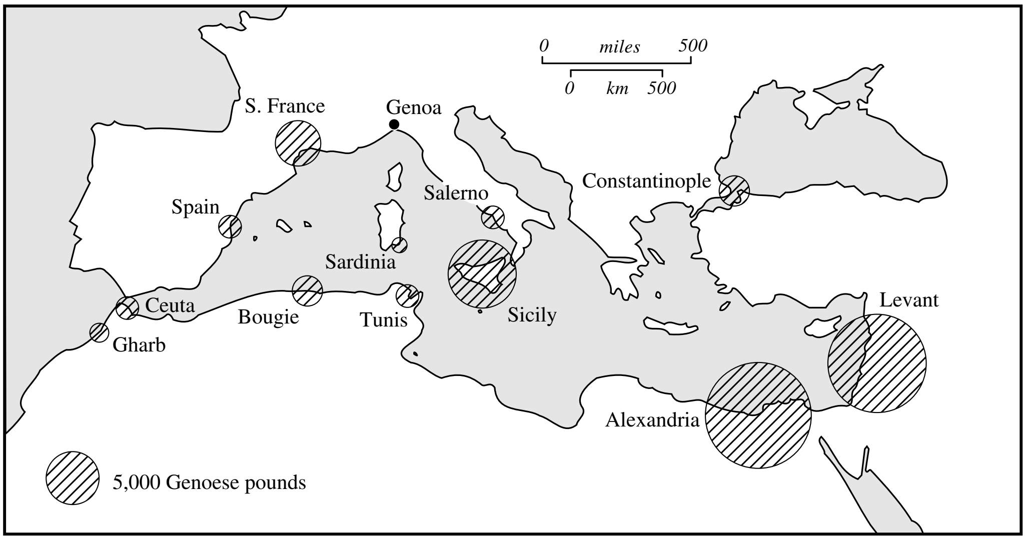
Figure 1. Genoese investment in the Mediterranean region, 1155–64



Source: Bartlett 1993: 186

Figure 2 Private rates of return (nominal) to capital in Europe, 1200-1799

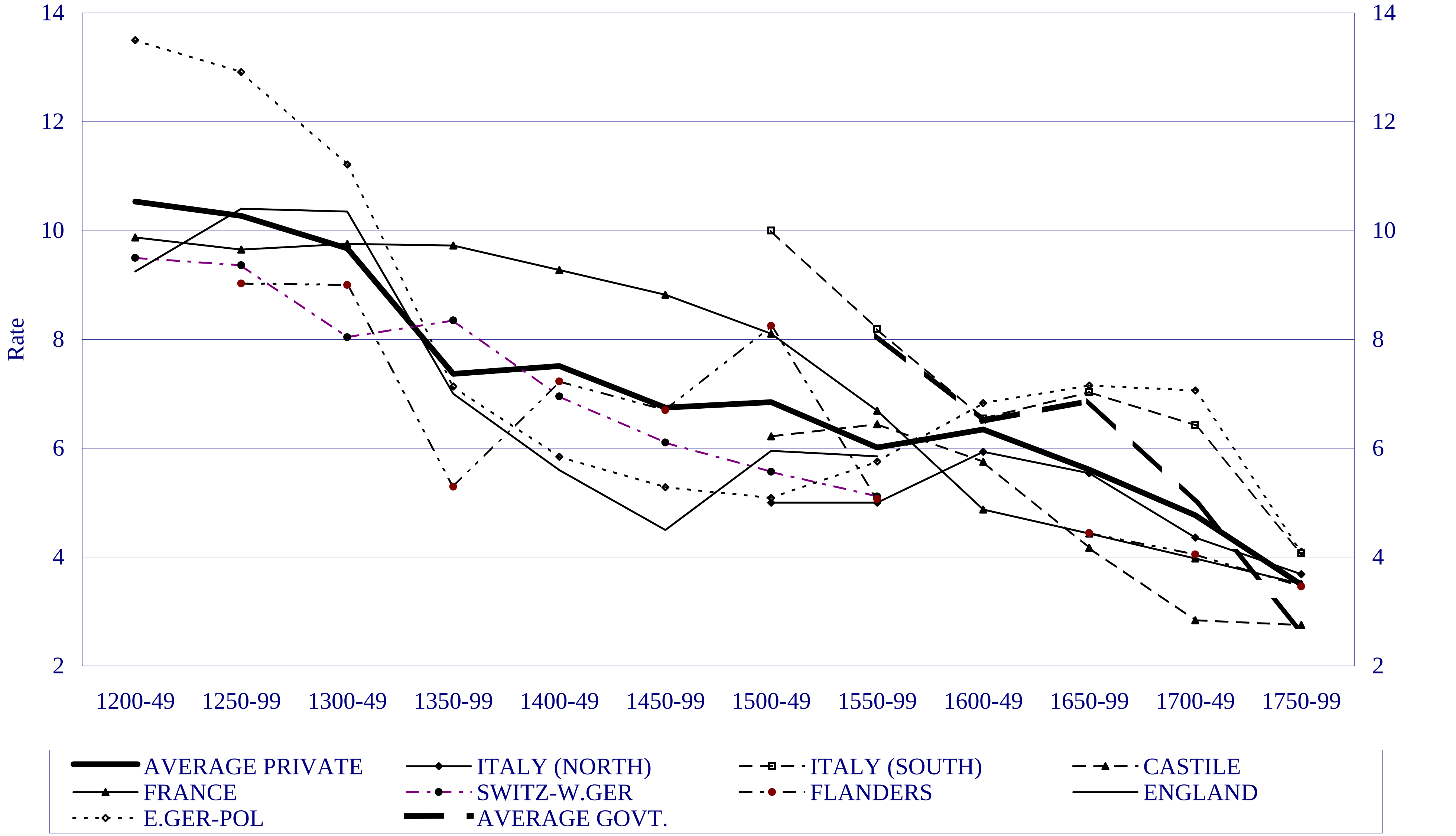


Figure 3: Long-term borrowing costs (nominal) of European states, by regime, 1300-1749

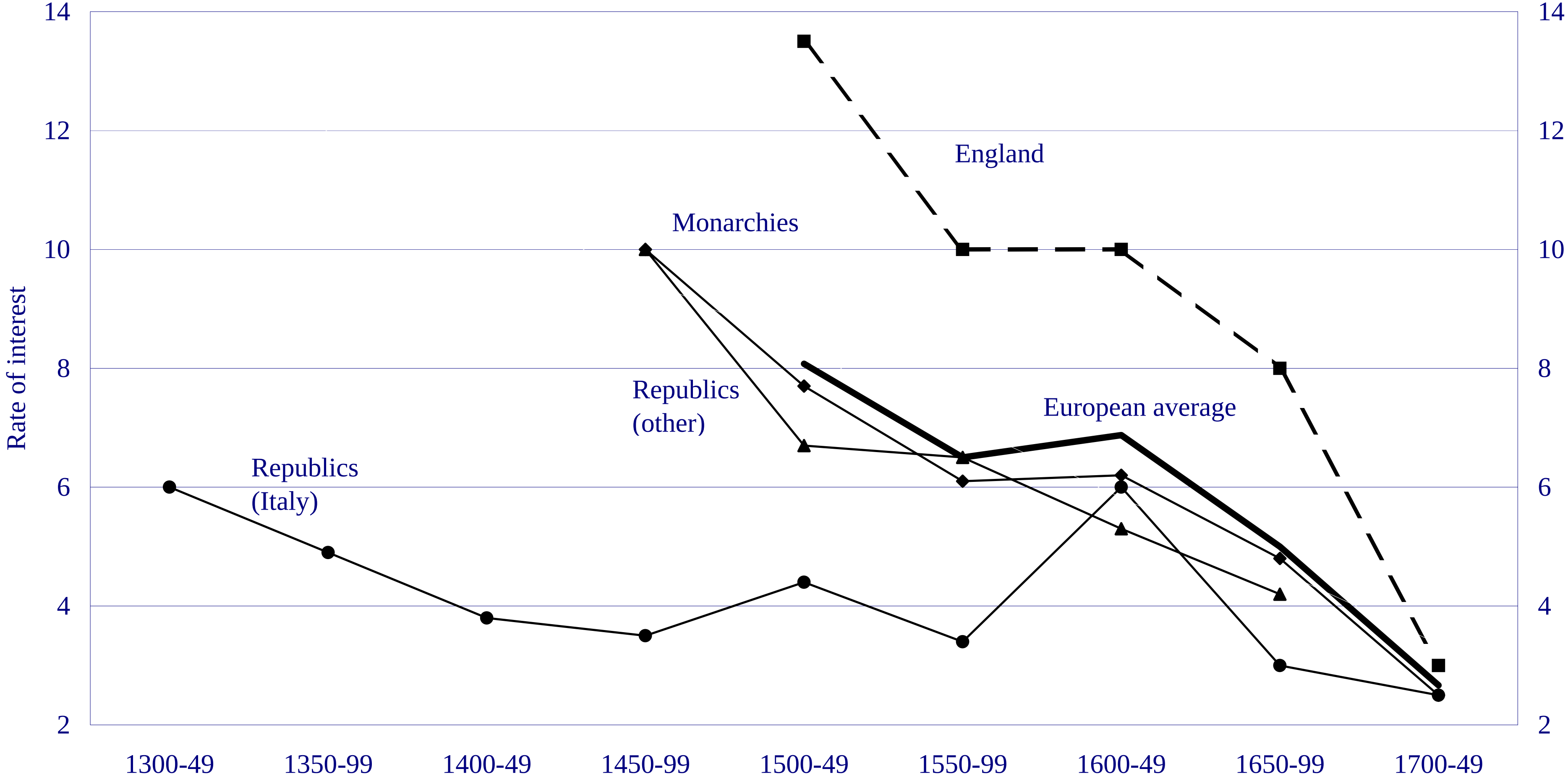
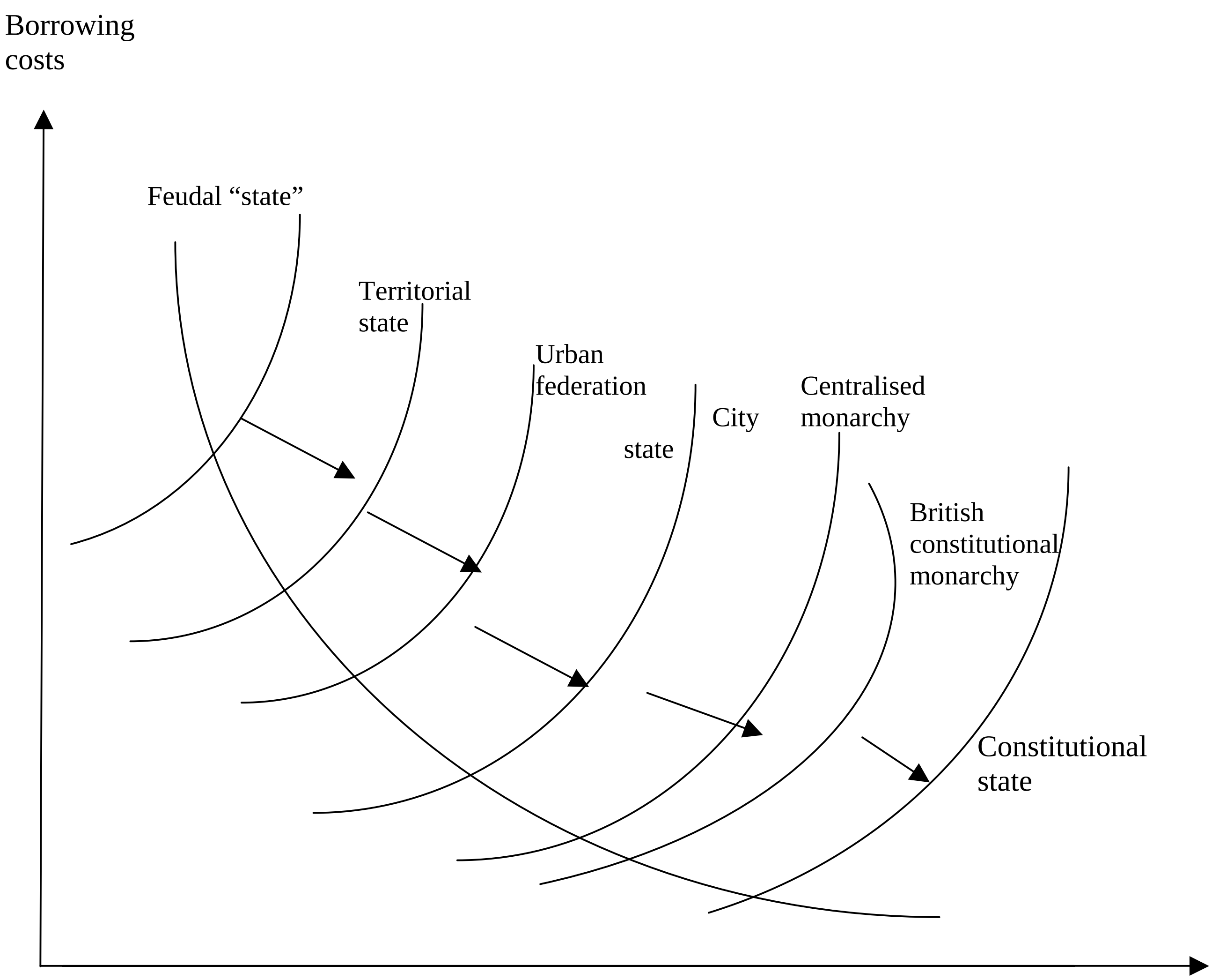
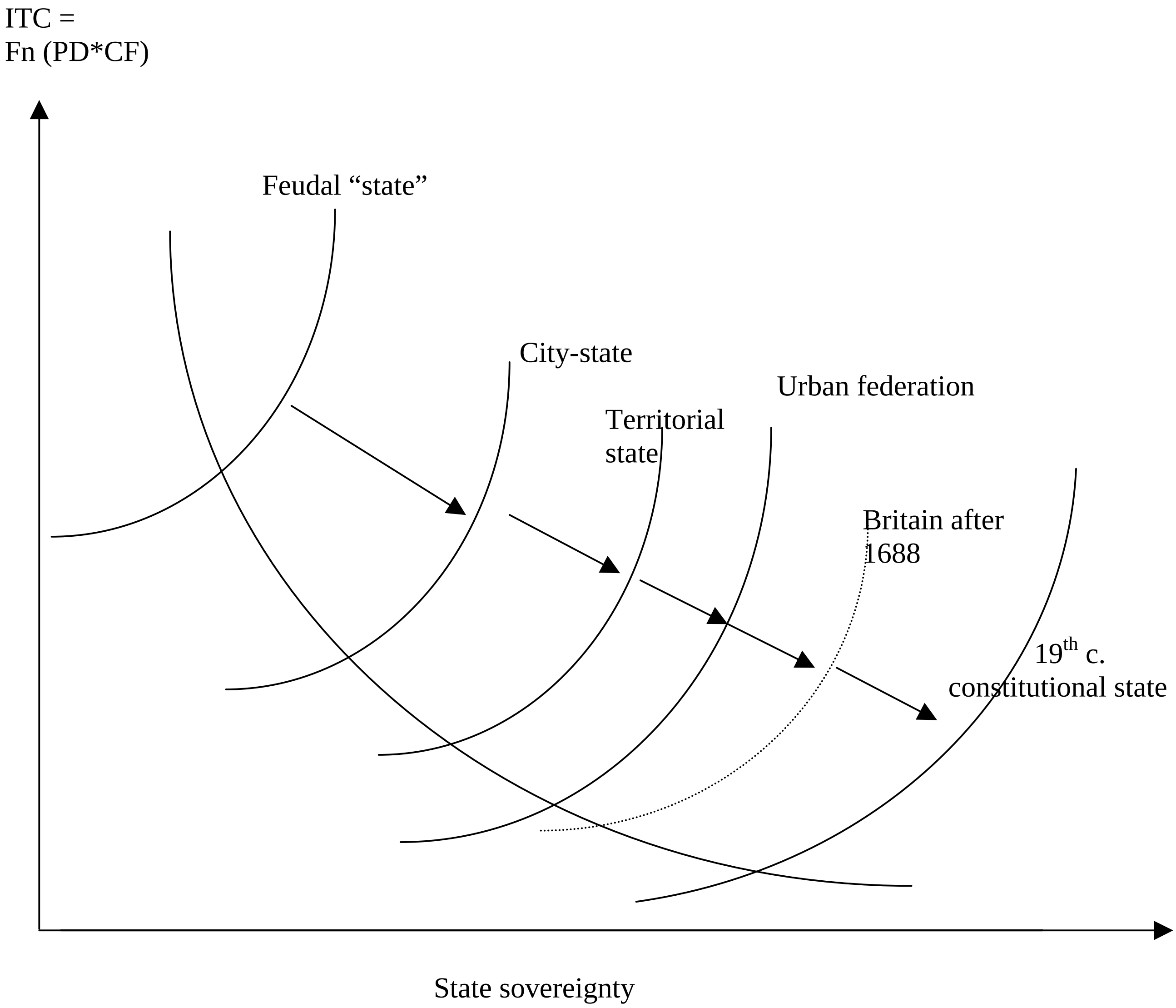


Figure 4. Borrowing costs and fiscal efficiency



Fiscal efficiency = fn (Capital markets * Fiscal sovereignty)

Figure 5. Political structure and institutional transactions costs (ITC)



PD: Prisoner’s Dilemma; CF: coordination failure

(1) Feudal “state”: economic and political power (EPP) is parcellised among military elites, led by one *primus inter pares*; powers of coordination are weak
(2) City state: EPP vested in the dominant urban elite, which establishes strong coordination with its “country”; weak coordination with nearby/competing cities
(3) Territorial state: EPP vested in competing urban and rural elites; coordination by territorial ruler based on policy of “divide and rule”
(4) Urban territorial federation: EPP vested in competing urban elites, held together by external military pressure; coordination through regional urban hegemons
(5) Britain after 1688: EPP vested in integrated national elite; legal/corporate affiliation in decline; strong centralised authority; strong coordination
(6) Constitutional state: EPP no longer derived from legal right/corporate affiliation; citizenship as a bundle of “universal” individual rights; strong central authority; strong coordination