

10. PREDATION AND GOVERNMENT AS ECONOMIC ACTIVITIES

In Sections 1 and 2, we developed the first strand of our theory of economic progress—an explanation of how commerce promotes production and how the two interact in a self-perpetuating process of expanding markets and increasing productivity. In Section 3, we turn to the second strand of our theory—an explanation of how predation inhibits economic progress, of the connection between predation and government, and of how predation and government evolve. The second strand, like the first, is a theory of process—in this case, evolutionary process. This second process interacts with the first: the evolution of predation and government affect economic progress and are also affected by it.

The path of an evolutionary process depends on its past: evolution can only create from what already exists. So developing this strand of the theory requires more attention to the historical narrative. That is, to make sense of the evolution of predation and government, we need to trace their history.

In this chapter and in the next, therefore, we will trace the history of predation and government in preindustrial Europe. We begin, in this chapter, by examining the initial conditions with which the process began—the feudal organization of government that obtained at the start of our period. We will then see how this was transformed by the Commercial Revolution. In Chapter 11, we will trace the evolution of government through the subsequent centuries as it was molded by the fiscal pressure of war. In Chapter 12, we will examine the impact on economic progress of the different regimes of government that emerged from this process. From the differences among them, we will learn something of what economic progress requires of government—of what it means to ‘get government right’.

Despite the increased attention to the historical narrative, our goal remains theoretical—to understand the underlying forces and the processes they generate. We begin, therefore, with the underlying economics of predation and government.

THE ECONOMICS OF PREDATION AND GOVERNMENT

We saw in Chapter 1 that predation and government are closely related. Both involve the use of force: predation is the taking of goods and services from others by force; a

government is an organization that enjoys a preponderance of force in a given territory.¹ A government can use its command of force to protect against predation; or it can use it to engage in predation.

Predation and government, no less than production and commerce, are economic activities. Their organization, like that of production and commerce, reflects the nature of the underlying technology—in this case, the technology of force. Indeed, much can be understood about the emergence of government and about its subsequent evolution from a single important truth—that, other things equal, a larger force will prevail over a smaller one.²

The two types of government

It is to exploit this advantage of scale that individuals combine their efforts in joint action in the exercise of force. This happens in two distinct ways which give rise to two distinct types of government.

In the first case, an organization with sufficient command of force takes control of a territory for the purpose of predation on its population: this is predatory government.³ In the second case, the population of a particular territory forms an association primarily to protect itself against predation: this is associational government.^{4,5} In preindustrial

¹This is the definition of government *de facto*. If the preponderance of force is ‘legitimate’ in the eyes of others, then it is also government *de jure*.

²Lane has written on the advantages of scale in violence and their consequences: (Lane 1958); (Lane 1973) Ch. 25.

³On the predatory origins of territorial governments see (Gumplowicz [1899] 1999), (Oppenheimer [1908] 1914), and (Carneiro 1970).

⁴We saw in Chapters 3 and 6 that there were also non-territorial associations of producers and traders that protected their members against predation.

⁵Finer, in his magisterial history of government, calls associational government the ‘Forum’ type of government and distinguishes it from three types of predatory government ((Finer 1997) Vol. I, Conceptual Prologue). But he does not see associational government as fundamentally different from the various forms of predatory government.

Europe, the governments of kings, princes, and lords were predatory governments; the governments of cities and villages were associational governments.⁶

The two types of government are, therefore, fundamentally different in their origin and purpose. Associational government is created from below, it is voluntary, and it derives its authority from the will of the group that created it. On the whole, if things go well, it should serve their interests. In contrast, predatory government is imposed from above and it is involuntary. It derives its authority from the power of the rulers, and it serves their interests.⁷

We will see that in practice, however, the behavior of the two types of government may have more in common than the conceptual distinction suggests. A government may be associational internally but engage in predation externally. Or an associational government may be taken over or manipulated by a group or by individuals to become an instrument of predation on its own population. Conversely, a predatory government will protect its territory against *other* predators; and it may choose to act in the interests of its subjects in other ways, much like an associational government.

To understand the behavior of the two types of government, we must recognize that both are organizations: both involve the coordinated efforts of many individuals. But because they differ in purpose, the two types of organization differ in their structure and in the particular problems they face. We examine each type of government in turn.

The organization of predatory government

As organizations, the predatory governments of preindustrial Europe had to perform two primary functions. The first was to control their territory and, if possible, expand it. This required the mobilization of military force and its deployment both internally and

⁶There is a considerable literature on predatory versus contractual (associational) *theories* of government (see, for example, (North 1981) Ch. 3 and (Grossman 2000)). There seems to be little—other than (Finer 1997) and the work of Tullock (e.g. (Tullock 1974)) and Olson (e.g., (Olson 1993))—on there being two actual types of government.

⁷The difference between the two types of government was stated most succinctly by President Ronald Reagan in his January 20, 1981 Inaugural Address: “We are a nation that has a government—not the other way around.” (Presumably, he meant the ideal rather than the reality!)

externally. The second function was to exact resources from their territories.⁸ This was necessary both to finance the mobilization and deployment of military force and to support the consumption of the rulers.

The need for local representatives and their uses

To be able to mobilize and deploy force and to exact resources throughout their territories, rulers needed local representatives. Once in place, such local representatives could perform additional functions at relatively little additional cost. In particular, they could provide certain force-based services.

Through his local representatives, the ruler could provide his subjects with protection against private predation—predation by others than himself.⁹ He could also provide his subjects with a mechanism of enforcement—a formal order. And, as we saw in Chapter 6, he could intervene in the rivalry for trade by providing a particular group, whether domestic or foreign, with privileged access to trade.¹⁰

The importance of subject acquiescence

Rulers found it worthwhile to provide these services for two reasons. The first was that they generated revenue, and this helped defray the fixed cost of maintaining local representatives. The second was that they were popular with their subjects—making it more likely that the subjects would acquiesce to their rule. Acquiescence was desirable because it reduced the cost of control: to rule by force alone was expensive.¹¹

Rulers also promoted acquiescence by trying to persuade their subjects of the legitimacy of their rule. Religious authorities could help by invoking divine will and by declaring resistance to an anointed ruler sacrilegious. And, as we will see, rulers came to

⁸Exaction is predation by government.

⁹This was clearly in the ruler's interest, since predation by others diminished his own potential take.

¹⁰We will have more to say in Chapter 12 on the provision of these forced-based services. Their resemblance to those provided by organized crime is both striking and illuminating: "...war making and state making—quintessential protection rackets with the advantage of legitimacy—qualify as our largest examples of organized crime..." (Tilly 1985) p169). (Gambetta 1993) provides an excellent discussion of the economics of organized crime.

¹¹(Levi 1988) Ch. III; (Lane 1958); (Finer 1997) p29.

promote acquiescence too by negotiating with their subjects the level and form of exaction.

The problems of reliance on local representatives

As an activity, predatory government resembled commerce in that it relied on representation at a distance. It consequently suffered from many of the same problems.¹² Like a merchant enterprise, a predatory government had to grant its representatives on the spot considerable freedom of action. This made it possible for them to pursue their own interests at the expense of those of their principal.

Government officials were frequently lazy, incompetent, and corrupt. The collection of revenue was particularly problematic, and governments saw much of their revenue disappearing into the pockets of their officials. For example, much of the money governments sent to pay their armies failed to reach them, resulting in mutinies by unpaid troops and sometimes in military defeat.¹³ Not infrequently, the rapaciousness of officials in exacting resources and in extorting bribes provoked civil unrest and even rebellion.

In addition to these problems of reliance that government shared with commerce, it suffered from some uniquely its own. As an activity, the deployment of force was much more divisible than commerce. A merchant's representative depended on his principal for financing, for goods to sell, and for an outlet for the goods he purchased. In contrast, a government official who controlled the local deployment of force and the local collection of revenue needed little or nothing from his ruler: his activity was more or less self-contained.

As a result, predatory government was in constant danger of fragmentation. It was relatively easy for a local official to renounce his allegiance and set up in business for himself. He could retain the revenue he collected and use it to finance the local deployment of force. In doing so, he became, in effect, an independent ruler.

There was a related, but different, danger that an official might shift his allegiance to another ruler who offered him a better deal. In either case, the original ruler lost the territory he had entrusted to the official: in the first case it became the official's own

¹²See Chapter 6 on the problems of representation in commerce.

¹³Typically some 20-25% of the money sent to pay armies was 'lost' in transit ((Hale 1985)).

territory; in the second, it passed into the hands of the ruler's internal or external rivals. And there was yet another danger: a local official who commanded sufficient force might use it to overthrow and replace the ruler.

Given these dangers, it is not surprising that a ruler's overwhelming concern was loyalty. The loyalty of an official was of far greater concern to a ruler than his mere competence or honesty.

The organizational structure of predatory government

The organization of predatory government was built from the same components as the organization of production and of commerce—the enterprise, the association, and the market.¹⁴

In preindustrial Europe, because of the limitations of communications and control, it was never really feasible to organize government as a single large enterprise relying entirely on paid employees. Indeed, we have seen that commercial enterprises ran into serious problems at a scale far below that required of such a government. Moreover, meeting the payroll of such a large enterprise would in itself have been a serious fiscal challenge.

Predatory government was organized, therefore, not as a single enterprise but as multiple enterprises coordinated through some combination of association and market. For example, the feudal structure, which we will examine presently, was mediated primarily by association; later, relationships with tax farmers and military mercenaries were mediated by the market.

These organizational structures had both advantages and disadvantages relative to a hypothetical single enterprise. When the local representative was recognized as being a distinct enterprise—rather than merely acting as one—monitoring and control were actually simplified and improved. On the other hand, depending on the nature of the arrangement, a less centralized structure could increase the risk of fragmentation.

The organization of associational government

The primary purpose of associational government was to protect its territory against external predation. Cities built walls and mobilized militias to defend them. Villages, too,

¹⁴See Chapters 3 and 6.

organized militias for their own defense—especially villages located in border and mountain areas where raiders and bandits were common.

Associational governments, like predatory governments, also used their command of force to protect against private predation, to provide a formal order, to intervene in the rivalry for trade, and to mobilize the resources necessary to fund their activities. Their motivation in doing these things was, however, different.

Associational governments as associations

Associational governments were formed for a specific purpose, but they were associations nonetheless. Since creating an association is costly, if some new form of joint action becomes necessary or desirable, people will generally try to adapt an existing association rather than create a new one. As a result, cities generally provided a variety of services—some involving force and others not—as forms of joint action that furthered the economic and other interests of their citizens.

For example, cities often regulated trading within their walls to favor their own merchants. They also sought trading privileges for their merchants elsewhere—both through diplomacy and through the use of force. As we saw in Chapter 3, cities also enforced standards on manufacturers to protect the collective reputation of the cities' producers. In doing these things, cities performed many of the same functions as merchant associations and artisan guilds. Indeed, as we saw in Chapters 3 and 6, city governments were closely related to these other forms of association and often grew out of them.

In addition, it was associational governments rather than rulers that provided most of the services we associated with government today. Cities cared for the poor and sick, secured supplies of water and food, passed health regulations, built schools, and invested in roads, bridges, and harbors. They also built churches and cathedrals to provide for the spiritual needs of their populations.¹⁵ Villages, on a more modest scale, performed many of the same functions.

¹⁵(Reynolds 1997) Ch. 6.

The problem of governance

In principle, acquiescence of the governed should not have been an issue for associational government, because it was created by the members of a group and was answerable to them. How well this worked in practice, however, depended on the size of the group.

For small groups—villages and small cities—it worked reasonably well. There was little need for formal organization: issues were debated in open assembly, and decisions were made by acclamation. The assembly could appoint officials as necessary to undertake specific tasks, such as collecting taxes or protecting against private predation.¹⁶

However, as cities grew larger, these simple arrangements became unworkable, and citizens were obliged to appoint leaders to make decisions for the group as a whole and to see to their execution. Such leaders were, of course, representatives, and—as always—representation gave rise to problems of reliance.¹⁷ Leaders, like officials, frequently put their own interests ahead of the interests of those they represented. Like officials, they could be lazy, incompetent, and corrupt. And, like officials, leaders sometimes seized power for themselves—becoming, in effect, rulers.

To address these dangers, cities established structures of governance to monitor and to control the behavior of their leaders. They usually adopted the three-tier model common to many forms of association. At the base is the ‘community as a whole’ expressing its will in a periodic general assembly. At the top there is a leader or leaders chosen in some manner by the general assembly. In between, there is a council or board, smaller than the general assembly and meeting more frequently, to advise and monitor the leadership.¹⁸ Of course, adoption of this structure did not really solve the problem of reliance, but merely pushed it down a level: city councils too were representatives, and

¹⁶(Reynolds 1997) Ch. 6; (Finer 1997) v 2 Ch. 7. The assembly as a whole, presided over by the ‘good men’, usually provided justice too—resolving disputes and imposing penalties.

¹⁷As we have seen, the relationship between a ruler and his officials parallels that between a merchant and his representatives. Similarly, the relationship between a group and its leaders parallels that between the providers of equity financing and the managers of an enterprise (see Chapter 9).

¹⁸(Reynolds 1997) Ch. 6 attributes the great similarity of urban constitutions across western Europe, not to imitation, but to their being a similar response to similar problems.

they tended to be captured by a closed urban elite that, unsurprisingly, managed city affairs largely to its own benefit.

Associational governments, no less than predatory governments, had to rely on local officials to execute their decisions. Indeed, because they performed a broader range of functions, they required a proportionally larger number of such officials.

Abuse of office was, however, less of a problem, because monitoring was easier: distances were shorter and feedback from the public more immediate. Moreover, the close connection of cities with commerce gave them ready access to the techniques of monitoring and control developed by commercial enterprises.

The advantages of the ‘association of associations’

Cities reduced the problem even further by organizing themselves as associations of associations. Many of the functions of government were devolved to smaller-scale sub-associations—wards, quarters, parishes, and guilds.¹⁹ Officials in these smaller associations often served part time and without pay. Their status and reputation in the community, and so their livelihood, depended in part on how well they performed their duties. Compounding in this way—organizing city government as an association of associations—exploited the advantages of *small* scale to minimize the problems of reliance.²⁰

Compounding ‘up’ rather than ‘down’ could be used to exploit the advantages, for the deployment of force, of *large* scale. Cities frequently formed leagues and confederations for their mutual defense against larger and more powerful enemies. Perhaps the best known was the Hanseatic League or Hansa, formed in the fourteenth century by a group of north German cities. But villages too banded together for protection. Most famously, in 1291 the three alpine communities of Uri, Schwyz, and Unterwalden established a “Perpetual League” to defend their rights against encroachment by their Hapsburg rulers.²¹

¹⁹We saw in Chapter 6 that the association itself could similarly be seen as a family of families.

²⁰(Olson 1971) calls this a ‘federal group’ (p63).

²¹(Coddington 1961); (Rappard 1936).

The basic problem common to both types of government

Associational governments came into being to protect against predation; predatory governments, to engage in it. However, both were organizations, and each suffered from problems of reliance that were essentially problems of internal predation.

The corrupt official and the tyrannical leader both used their command of force to exact resources from others. The force they commanded, however, was not their own, but rather government force that had been entrusted to them. The concentration of force in the hands of government creates opportunities for predatory entrepreneurs to gain control of that force and to employ it to their own benefit.

Government as an economic activity

As an economic activity, government resembles commerce more than production. Like commerce it predominantly involves dealing with people rather than with things. There is, however, an important difference. In commerce, the mode of dealing with people is mainly one of exchange and bargaining. In government, the mode of dealing with people is primarily coercion.²² Since commercial interactions are generally mutually beneficial—positive-sum—a cooperative mode of interaction is appropriate. Since interactions involving predation and government are instead (mostly) zero-sum—or even negative-sum—it is not surprising that interaction is non-cooperative.

The organization and technology of an economic activity are largely determined by the nature of that activity. Government requires the deployment of force and the mobilization of resources. Consequently, it is the advantages of scale in the deployment of force and the problems of reliance in the mobilization of resources that largely shape its evolution.

The technology of government, like that of commerce, is primarily social (although the waging of war does, of course, rely on physical technology). So it is not surprising that government obtained much of its social technology from commerce. As we will see, it also purchased administrative and financial services from commerce.

²²Although, as we have seen, exchange and bargaining do play a role. Similarly, as we saw in Chapter 6, coercion does play a role in commerce—in enforcement, in protection against predation, and in the rivalry for trade.

FEUDAL GOVERNMENT AT THE BEGINNING OF THE COMMERCIAL REVOLUTION

In the twelfth century, at the outset of the Commercial Revolution, preindustrial Europe was governed by a patchwork of overlapping predatory and associational governments.²³ This structure had its origins in the disintegration of the Roman empire.²⁴

The origins of feudal government

The structure of government in the early Roman empire was highly decentralized. The empire was made up of thousands of city-centered territories. Each was governed by officials appointed by Rome from among the members of the local oligarchy. The small central government in Rome maintained the imperial army, financed by plunder and by taxes and tribute collected from the cities. So long as territories paid their taxes—which were modest—and remained loyal to Rome, their governments were largely free to manage their affairs as they wished.

This system functioned well for over two hundred years, supporting remarkable economic progress and prosperity. However, in the third century, rising defense expenditures and a growing welfare state in Rome brought on a severe fiscal and monetary crisis. Unable to increase revenues to meet its rising expenditures, the Roman government resorted to massive debasement of the currency, which resulted in inflation and eventual demonetization of the economy. As a result, the government was reduced for its financing to exaction in kind—mainly through arbitrary seizure.

At the end of the third century, the Diocletian reforms regularized the system of exaction in kind and imposed extensive economic regulation to support it.²⁵ Implementation of the new regime required a much larger and more centralized hierarchy of officials. These officials were essentially tax farmers, paying a fixed sum in advance for the right to collect tribute from the territory assigned to them.²⁶ Collection of tribute

²³There was also a third type of government in the mix—the Church—which had been the state religion of the late Roman empire; after the empire disintegrated, the Church remained intact—a state religion without a state. It played an important role in the subsequent political development of preindustrial Europe, but that role is not central to our story here.

²⁴(Grantham 2003).

²⁵(Finer 1997) V1 Ch. 8; (Webber 1986) Ch. 3.

²⁶See below for more on tax farming.

from whole provinces was sold to major tax farmers, often syndicates, who then divided up and resold parts of the provinces to smaller tax farmers, and so on down.

With the economy demonetized, it made sense to decentralize the army. Since tribute was collected in kind—in produce or in labor—it was most easily used close to where it was collected.²⁷ So the army was broken up into smaller units based locally where each unit could be supported with locally collected tribute.

The armies of the late empire were increasingly composed of mercenaries—barbarian tribes recruited *en masse*. Each tribe, under its tribal leader, was assigned a particular province where it would receive that part of tribute earmarked for the army. Tribal chiefs subdivided the territory among their followers in a hierarchy that paralleled the hierarchy of officials.

This high degree of fiscal and military decentralization greatly increased the danger of fragmentation. When a series of invasions and civil wars weakened the center, local officials and military leaders found it easy to break away and become independent local rulers of the territories they controlled.

In the eighth century, the Carolingian Franks attempted to reconstitute the fragmented Western empire—with some initial success. However, in the ninth century, their new empire broke apart, and the process of fragmentation resumed.²⁸

‘Feudalism’—the regime of government that existed at the outset of the Commercial Revolution—was the result of this long process of fragmentation.²⁹ The descendants of the tribal chiefs were territorial rulers who had come to ‘own’ the tax districts that once had been assigned to their ancestors. Similarly, the feudal vassals of these rulers were the descendants of the chiefs’ followers, who had received subdivisions of tax districts. Vassals ‘owned’ their subdivisions, subject to providing their lords with military support.

²⁷(Grantham 2003).

²⁸(Pirenne 1938) p150-1.

²⁹(Grantham 2003). This more recent interpretation of the origins of feudalism differs from the traditional view of medievalists who saw it as having evolved more or less from scratch in response to the insecurity of the early Middle Ages and the decline of the money economy.

Feudalism developed initially in the Roman core of Western Europe—in France, Germany, the Low Countries, and northern Italy. It was later imitated by conquerors of more peripheral areas such as Spain, England, and southern Italy.³⁰

The structure of feudal government

Each of the kingdoms into which the Carolingian empire had split was ruled by a predatory class—a ‘nobility’. This was organized as a hierarchy of associations with the king at the top of the hierarchy.³¹

A hierarchy of associations

The king was the leader of an association of his great vassals. He summoned them periodically to a great council, where he conveyed his commands and wishes, heard their reports, and received their advice.³² The great council also served a judicial function, resolving disputes both between king and vassal and between one vassal and another.

Each of the great vassals was himself the leader of an association of vassals of his own, and this structure was repeated down to the level of the lowliest knight who had no noble vassals beneath him. At each level there was some form of council or court for coordination and adjudication.

Feudal lords as rulers of their domains

Each member of this hierarchy—each feudal lord—was the head of a ‘family firm’. This was a predatory enterprise that derived its income from a domain—a territory, or group of territories, that it controlled directly through its own officials.

³⁰(Finer 1997) vol 2 Ch. 6. Yet other parts of Europe—Scandinavia, Eastern Europe, and the northern Netherlands—had never been part of the Roman empire; in Switzerland, the Roman heritage was weak. The origins of government in these places were, consequently, tribal and associational rather than imperial and predatory. See, for example, (Glete 2002) Ch. 5 on Sweden, and (Downing 1992) Ch. 9 on the northern Low Countries.

³¹The following description is highly schematic and the reality varied considerably from one part of Europe to another.

³²(Finer 1997) Vol 2 Ch. 5; (Nicholas 1999). This associational aspect of kingship had its origin in the Germanic tribes, where the king was seen as a leader rather than as an emperor in the Roman fashion; in those early times, new kings were generally elected rather than following in dynastic succession.

Within this domain, a feudal lord possessed the full authority of rulership. Within the territories of his vassals, however, his authority was limited, and he lacked any direct means of exercising it. In the vassal's territory, the vassal was the ruler. The lord's authority might be exercised there only with the consent of the vassal and through the vassal's officials.³³

Over time, the coherence of this structure progressively weakened. While continuing to owe formal allegiance to their lords, vassals in practice became increasingly independent.

The place of associational governments within the feudal hierarchy

Weak and divided predatory government made it possible for local associational governments to emerge and develop. Cities and villages were left free to organize themselves as they wished, particularly for purposes of protection, but also for other forms of joint action. Far from objecting, rulers and local lords often encouraged cities and villages to take on responsibilities and functions that they themselves were unwilling or unable to perform.

Rulers also found associational governments useful as intermediaries. Rather than having to deal with their subjects individually, lords and their officials dealt with them indirectly through their associational governments.³⁴ Lords delegated to villages and cities the functions of government, much as they delegated them to their noble vassals. Villages and cities, like vassals, were responsible for executing the decrees and laws of their lords within their own jurisdictions. And over time, again like vassals, they became increasingly independent.

Government finance and military organization

Government finance was decentralized in a way that paralleled the decentralization of government.

³³(Heckscher 1935) Part III Ch. 1.

³⁴(Bloch 1966); (Hilton 1978). (Homans 1960) Ch. 20, 21 argues that the presence of strong associational government actually facilitated exaction by predatory rulers.

Domain and vassals as sources of revenue

Each lord possessed a right of exaction from his own domain that was essentially unlimited: he could demand of his villages and cities whatever they had.³⁵ Outside his domain, however, a lord possessed no right of exaction: in particular, he had no right of exaction from his noble vassals or from their domains.³⁶

However, a feudal lord was entitled to demand military service from his vassals. When they were summoned, vassals were expected to appear for service in person, together with their own followers. Associational governments too were expected to provide military support to their feudal lords.

In addition, it was customary—and so expected—that vassals make voluntarily contribute in extraordinary circumstances. It was customary, for example, to offer a gift at the time of a ruler's coronation or marriage or of the birth of an heir. And subjects were expected to contribute voluntarily, in the form of aids and subsidies, to the raising of a ransom or to the cost of an extended war.³⁷

The Feudal military

The core of the feudal military was the nobility, who served as armored cavalry. Doing so involved considerable cost. Acquiring the necessary skills required extensive training.³⁸ The cost of equipping a knight, including his horses, was a major expense. And each knight required, in addition, the support of a squire to help him arm, a groom to care for his horses, lightly mounted horsemen as scouts and skirmishers, and one or two foot soldiers as guards.³⁹

We have seen that associational governments organized militias as protection against raiders and bandits.⁴⁰ These militias could be mobilized by the feudal lord for territorial

³⁵(Britnell 1996) Ch. 3.

³⁶(Finer 1997) p887.

³⁷(Powelson 1988) Ch. 6.

³⁸(Downing 1992) Ch. 3.

³⁹(Howard 1976) Ch. 1.

⁴⁰On villages see (Downing 1992) Ch. 2. On cities see (Nicholas 1997) Ch. 7; (Nicholas 1997) Ch. 5; (Hall 1997)).

defense.⁴¹ Village and city militias consisted mainly of infantry, usually armed with pole weapons or bows. This armament was much less expensive than that of the nobility and better suited to part-time soldiers with little time to train.

The feudal system of military mobilization was well-suited to a tribute economy. Military service was a form of tribute in kind that obviated the need for a network of local officials to gather revenue and channel it to the center to finance an army.

Sources of liquidity

The feudal army was, therefore, largely self-financing—but not entirely so. A ruler did not have to bear the cost of training and equipping his army, but he was responsible for supplying it and provisioning it in the field.

Consequently, when the army was mobilized, the ruler had to have at hand the funds needed to maintain it. Moreover, many of the expenses required payment in cash. This was especially true of foreign wars, when cash was needed to pay foreign suppliers and to send subsidies to foreign allies.⁴²

A ruler's regular sources of revenue were of limited help. Ordinary domain revenues came in steadily but slowly, and they were mostly paid in kind. And extraordinary aids and subsidies, even when granted, took a long time to collect.⁴³

Consequently, to meet their immediate need for cash, rulers relied on the simplest possible source of liquidity—reserves of cash. They accumulated a war chest in anticipation of future wars—a reserve of coin and treasure often literally kept in a chest.

Rulers were sometimes, in addition, able to borrow. The most likely lender was the Church, in whose hands much of Europe's treasure had accumulated over the years. To raise the sums demanded of them by their rulers, bishops and abbots were sometimes reduced to melting down the ornaments of their churches and chapels. They sometimes also borrowed from others to raise what they needed, becoming in effect financial intermediaries.

⁴¹(Reynolds 1997) Ch. 5.

⁴²(Thompson 1995).

⁴³(Ertman 1997) Ch. 2.

The feudal balance of power

A feudal lord's right of exaction and the limitations on it were clear in principle. However, his actual ability to exact resources was not a matter of rights and limitations but rather one of power. While his right of exaction from his own domain was in principle unlimited, a weak lord might not be able to exercise that right. Conversely, a strong lord might be able to exact resources from his vassals even when he had no right to do so.

Countervailing power and negotiation

A lord's power depended primarily on the force he commanded relative to that commanded by his vassals and subjects. Because of the fiscal and military decentralization of the feudal system, vassals often commanded resources and military power that rivaled or even exceeded those of their feudal lords. Cities and even groups of villages could similarly present their feudal lords with a significant military challenge. Feudal lords were rarely able, therefore, to impose their will by force alone.

Moreover, feudal lords depended on their vassals and on their subject cities and villages for military and material support in their frequent conflicts with rivals, domestic and foreign.⁴⁴ Vassals had to show up when called, with as large a force as possible, and they had to fight with a will. Lords had to rely on the associational governments of cities and villages to mobilize men and to collect resources: they possessed no other means of mobilization and collection of their own.⁴⁵

As a result, the relationship between a lord and his subjects was not one of command but rather one of negotiation and exchange. A lord might call for men and resources. But to ensure that they actually appeared, he had to be ready to negotiate terms and perhaps to offer concessions in return.⁴⁶

⁴⁴“The ruler's policies will be more favorable toward those on whom he depends and more exploitative of those on whom he does not.” (Levi 1981) p439. See also (Levi 1988) Ch. II.

⁴⁵(Greif 2005) notes the power subjects derived from their role in the collection of resources. (Bates and Lien 1985) notes that that power was greater when such collection was easier to avoid—taxes on ‘moveable’ property (on commerce) as opposed to those on fixed property (on land).

⁴⁶(Marongiu 1968).

The forum for such negotiation was the lord's council or court: for the ruler, this meant the Great Council; for the local lord it meant the manorial court.⁴⁷ Consequently, the council or court performed not only an administrative and judicial function, as we have seen, but also one of governance. Through it, the actions of the ruler were controlled, or at least influenced, by the ruled.

Rights and privileges

The subject of negotiation in these forums were the rights and privileges of the respective parties. Of course, those long established by custom were largely taken for granted. But deviations from custom and new rights and privileges required bargaining and consent.

The rights in question were primarily economic rights—rights of exaction and of exemption from exaction; the amount and form of exaction; who was to collect it (and so decide how the burden was to be allocated); and rights of monopoly. Political rights were negotiated too, although mainly to buttress economic rights.

The most important political right was the right to self-government. Villages and cities often agreed to bear increased exaction in exchange for recognition of their right to govern themselves—with their own formal order, their own elected officials, and their own collection of taxes, both for the lord and to fund their own governments.

Rights were generally rights of groups rather than of individuals. As we have seen, it was an important function of associations of producers and merchants, as well as of associational governments to negotiate such rights.⁴⁸

And rights were specific to a particular group rather than universal. Indeed, the rights of one group (say, an exemption from tolls) frequently impinged on the rights of another (the right to collect a toll). Groups therefore struggled with one another as well as with their lords to establish rights and to defend them.

⁴⁷See (Reynolds 1997) Ch. 5 on the latter.

⁴⁸(Homans 1960) Ch. 20; (Hilton 1975) Ch. 4. There were benefits of scale in negotiation, since a larger group had greater bargaining power (transactions costs were also lower). Solidarity within the group was, of course, essential in supporting this bargaining power.

The threat of revolt as a constraint on ruler power

Of course, matters were not always settled by negotiation. Members of the nobility were violent, proud, and impulsive, and they resented the idea that their actions should be constrained in any way by rules or agreements.⁴⁹ Moreover, the urgency of circumstances—particularly in time of war—might preclude protracted give and take.

So lords often ignored rights and procedures and imposed on their vassals and subjects exaction beyond the accepted limits. Frequently, the result was armed revolt—the obvious need to defend one’s rights reinforced by moral outrage.⁵⁰ Rebellion was indeed endemic, and the ever-present threat of revolt was an important incentive for lords to negotiate.⁵¹

One particularly important example was the revolt of the great vassals of England that ended with the granting of the Magna Carta in 1215. Embroiled in war with France, King John lost Normandy, the source of half his domain income, and inflation eroded much of the rest.⁵² In response to the consequent fiscal crisis, John imposed a series of arbitrary taxes on his vassals and subjects. When he suffered a major military setback at Bovines in 1214, the barons were sufficiently emboldened to rise up and demand recognition of their rights.⁵³ The most important right that John had to concede, and to which he bound his heirs, was that no taxes should be imposed without the consent of ‘the kingdom’. Such consent was to be sought from an assembly of the great vassals and bishops summoned for the purpose.

THE COMMERCIAL REVOLUTION AND THE EVOLUTION OF GOVERNMENT

From the seventh century, with the establishment and subsequent expansion of the Frankish empire, the economy of western Europe began to recover from its late Roman collapse. As we saw in Chapter 2, spending by the nobility—newly enriched from

⁴⁹(Britnell 1996) Ch. 3.

⁵⁰(Finer 1997) V 2 Ch. 5.

⁵¹(Bloch 1966).

⁵²See (Ormrod and Barta 1995) on the former and (Harvey 1973) on the latter.

⁵³“Whatever other personal and political factors were involved, it was the king’s continual financial exactions of one sort or another that lay at the root of the rebellion of 1215.” ((Harvey 1973)p14). See also (Britnell 1996) Ch. 6 and (Ertman 1997) Ch. 4.

increased exaction and conquest—provided the initial stimulus; but as trade expanded, multiplier effects reinforced the recovery.

Feudal government seemed to provide an environment conducive to continued economic progress. In Chapter 12 we will examine why this was so and how more generally government affected economic progress. But here our focus will be on the converse effect—how economic progress during the Commercial Revolution affected the evolution of government.

The impact of the Commercial Revolution on government revenue

Continuing economic progress during the Commercial Revolution increased the resources available to governments.

The increased income and improved liquidity of the nobility

The expansion of trade increased the income of agricultural producers by boosting the demand for their output and by inducing a restructuring of agriculture that raised their productivity.⁵⁴ Since the income of the nobility consisted largely of exaction from agricultural producers, that rose too. For example, the kings of France became more powerful in the twelfth century because of the increased income from their domains in the Seine valley—the principal source of grain for the growing cities of Flanders.⁵⁵

Commercialization increased not only the amount of resources available to the nobility but also their liquidity. Revenues had previously been collected mostly in kind, as produce or labor. But with commercialization, revenues became monetized: taxes and rents were increasingly collected in cash, and obligations of service were increasingly commuted to money payments.⁵⁶

Cash could be transferred more easily from place to place and spent on whatever the lord or ruler wished. One consequence of this was that rulers, previously obliged to move from manor to manor to consume their income in kind, were now able to settle in one location, establishing permanent capitals.

⁵⁴See Chapter 3.

⁵⁵(Ertman 1997) Ch. 2.

⁵⁶See Chapter 3.

The growing importance of revenue from taxes on trade

As trade expanded, taxes on trade became increasingly important as a source of revenue. This was especially true in the urbanized central regions of the two zones of European trade—northern Italy and the Low Countries. However, there was also a significant increase in toll revenue along the trade routes through Switzerland and France that linked these two regions.

With the earlier fragmentation of predatory government, rights to collect tolls and market taxes had largely been arrogated by local lords. Now, as these sources of revenue became increasingly more valuable, rulers began to reclaim their rights.

Taxes on trade also enabled some rulers to tax indirectly the lands of their vassals, something they had no right to do directly. For obvious geographic reasons, the rulers of England and Sicily found it relatively easy to impose taxes on exports of wool and grain, respectively. The incidence of these taxes fell largely on the producers, most of them outside the ruler's domain.⁵⁷ It was this *de facto* ability to tax large parts of their kingdoms that made the rulers of England and Sicily the most powerful in Europe.

The growing importance of the minting of coin

The minting of coin was another source of revenue that became increasingly valuable as trade expanded. The lord of a mint derived income from it through the taking of seigniorage—a part of the bullion brought in to be coined that the mint deducted as payment for the service.⁵⁸

Mints at this time were small and served only a small area, and there were hundreds of them scattered across Europe. The right to mint coin had traditionally been a prerogative of the sovereign. However, by the eleventh century, mints—like taxes on trade—had largely fallen under the control of local lords. For example, of the sixty to eighty mints in France, no more than twenty were controlled directly by the king.

But now, as trade expanded and minting became more lucrative, rulers reasserted their rights over the coinage. They asserted too a related right over the mining of

⁵⁷(Power 1942).

⁵⁸The collection of seigniorage was possible, because the convenience of using coin supported a premium in its value over the value of the bullion it contained.

monetary minerals such as gold, silver, and salt.⁵⁹ With the expansion of economic activity, these rights too became increasingly valuable, particularly in central Europe where large deposits of silver were discovered in the twelfth and thirteenth centuries.

The increased revenue of associational governments

The impact of the expansion of trade on the revenues of associational governments was even more dramatic. As we have seen, economic activity was concentrated in the cities—the centers of commerce and entrepreneurship and the home of the new manufacturing industries.

The Commercial Revolution greatly increased both proportion of the population living in cities and the size of individual cities. As the size and income of the cities increased, so did the revenues of their governments.

The impact of the Commercial Revolution on the organization of predatory government

Increasing commercialization of the economy opened up new ways to organize predatory government. As we have seen, the principal problem of the predatory enterprise was the misbehavior of its distant representatives. Salaried officials appointed to collect revenue had only weak incentives to do their work and found it easy to keep for themselves much of what they did collect.

We saw in Chapter 7 how commercial enterprises solved a similar problem with their own distant representatives: they replaced salaried employees with commission agents. This transformed a problematic command relationship within an enterprise into a much more satisfactory market-mediated relationship between enterprises.

Increasing commercialization of the economy allowed predatory governments to apply this same principle of ‘outsourcing’ to solve their own problem of representation. There were two variants—the farming of revenue and the sale of offices.

⁵⁹(Ormrod and Barta 1995).

The farming of revenue

With the farming of revenue, a private enterprise paid a government in advance for the right to exploit a specific source of revenue and to keep whatever it collected.⁶⁰ This addressed both the problem of incentives and the problem of misappropriation.

The selling government could capture the full value of the expected revenue by selling the tax farm through some sort of competitive process like an auction. A prospective farmer of revenue would bid no more than he expected to collect, and the force of competition would force him to bid no less.⁶¹

Tax farming had the additional advantage that the farmers, usually merchants, brought to the task administrative and technical skills that members of the nobility did not themselves possess. For example, when Edward I of England established an export tariff on wool in 1275, his 'family firm' completely lacked the administrative and accounting skills needed to collect it effectively. He sold the farm of the tariff to the Ricciardi, a major Italian merchant bank, which had the required skills in abundance.⁶²

A variety of sources of revenue were farmed in this way. They included not only taxes but also manors, government-enforced monopolies, the operation of mints, and mining rights.

The sale of offices

A different way to sell rights to future revenues was through the sale of offices. The office in question might, as with farming, involve the actual collection of revenues. But it

⁶⁰Farming was not, of course, new: as we have seen, it was standard practice under the Romans. However, it had largely disappeared in the early Middle Ages and only reappeared with the economic expansion of the Commercial Revolution.

⁶¹The farmer generally assumed the risk that revenue would be less than expected. However, some contracts allowed for *ex post* adjustments if revenue was adversely affected by an external event such as a war ((Wolfe 1972)).

⁶²(Goldthwaite 1973).

might also provide the purchaser with different opportunities for gain—gratuities and bribes, for example, or the right to sell subordinate offices.⁶³

For example, the Norman kings of England appointed a shire-reeve or sheriff in each shire or county to administer their domains there.⁶⁴ The sheriff was responsible for the collection and disbursement of royal revenues, the provision of justice, and local defense; he generally sub-farmed the individual manors and other sources of revenue. The king sold the office of sheriff to the highest bidder for a fixed annual sum, usually for a limited number of years.⁶⁵

The sale of offices, like the farming of revenue, strengthened the incentives of representatives to maximize revenue and also enabled the seller to capture the value of that revenue. It also had another important advantage. In the feudal culture of medieval Europe, official positions tended to become ‘property’. That is, office-holders established ‘ownership’ and passed on the office to their heirs as a part of their inheritance. Selling the office for a fixed period of time made it easier for the seller to regain control of the office in question.⁶⁶

The impact of the Commercial Revolution on war

The Commercial Revolution also had a considerable impact on the waging of war.

Replacing wooden fortifications with fortifications of stone

The resulting increase in government resources made possible a significant improvement in the quality of fortifications. From the eleventh century, castles and city walls were built increasingly of stone rather than of wood.⁶⁷ Stone was vastly superior for this purpose, as it was far more durable and nearly invulnerable—particularly to fire.

⁶³Purchasers of office “recouped themselves for their capital outlay, not only by the legitimate profits of office but still more by the unlawful but customary peculations and extortions in which the early mediaeval functionary delighted.” ((Tout 1916) p15)

⁶⁴(Strayer 1970) Ch. 1.

⁶⁵(Harvey 1973).

⁶⁶(Fischer and Lundgreen 1975).

⁶⁷(Brice 1990).

However, stone fortifications were also much more expensive. Construction took years and required the skills of specialized masons and scaffolders, as well as planning and supervision by professional architect-builders. The necessary stone usually had to be brought from a distance. And all of this had to be paid for in cash.

It was not, therefore, any advance in the technology of construction that explained the increasing number of stone castles and city walls. Rather, commercialization of agriculture increased the income of the nobility and the expansion of trade increased the income of the cities. Increased income supported a growing demand for stone construction.⁶⁸ In response, a commercial construction industry developed, and this was responsible for some important advances in design and construction techniques. Technological progress was therefore the result—not the cause—of the boom in construction.⁶⁹

The impact of stone fortifications on the nature of war

Stone fortifications changed the nature of war. Set-piece battles became increasingly rare, and war became a series of sieges.⁷⁰ In these sieges, the advantage was with the defender.

Stone fortifications could not be carried by force and those inside could be subdued only by starvation. However, the besieging force—which needed to be much larger than the defending one—was only slightly less vulnerable to starvation and considerably more susceptible to disease.

Stone fortifications, therefore, had the important effect of partly neutralizing the advantage of scale in the use of force. This made it possible for smaller powers such as cities and local lords to defy successfully larger and more powerful adversaries.⁷¹

⁶⁸The boom in stone construction included—in addition to fortifications—churches, cathedrals, and bridges.

⁶⁹The pattern should be familiar: it is one more example of the general pattern of technological progress that we discussed in Chapter 4.

⁷⁰(Bean 1973).

⁷¹The right to build stone fortifications, therefore, became an important issue for vassals and cities ((Tracy 2000)).

The growing importance of infantry

Commercialization of the economy also altered the military balance between armored cavalry and infantry. As cities grew in size, they were able to put larger forces in the field. And as they grew in wealth, they were able to improve their effectiveness.⁷² Cities rediscovered the tactics of massed infantry, that had been largely lost since antiquity. And, as centers of manufacturing, they were able to develop and to produce weapons suited to their needs. The prime example was the crossbow.⁷³ While expensive, it was easy to use and a much safer bet for the weekend warrior than hand-to-hand combat with lance or sword. The crossbow was especially effective in defending city walls and in naval warfare.

As a result of these improvements, urban infantry was able increasingly to hold its own against the armored cavalry of the nobility.⁷⁴ At Legnano, in 1176, the cities of northern Italy defeated the knights of the German emperor—leading, a few years later, to the emperor's recognition of their independence. At Courtrai, in 1302, a Flemish army consisting largely of urban militias defeated a larger French force made up mostly of mounted knights.⁷⁵

Village infantry could be no less formidable. Swiss villagers repeatedly defeated the knights of their Hapsburg rulers to eventually gain and maintain their independence: William Tell, famously, was a crossbowman.

Increasing dependence on mercenaries

As we saw in Chapter 4, the commercialization of government organization encompassed not only civil administration but military forces too. Both rulers and cities,

⁷²(Downing 1992) Ch. 3.

⁷³(Hall 1997) The crossbow was far from new: it had been in use in China since the fourth century BC, and it had been known to the Romans. Only during the Commercial Revolution, however, did its use become widespread in Europe: technological progress lowered its cost and rising urban incomes made it affordable.

⁷⁴While commercialization of the economy improved the quality of urban infantry, it decreased the proficiency of knights as nobles devoted more attention to managing their estates and less to military training.

⁷⁵(Rogers 1995).

for different reasons, came to rely increasingly on mercenaries. In both cases, military organization based on association was replaced by military organization based on the market.

Rulers turned to mercenaries because of the deficiencies of the feudal military.⁷⁶ Noble cavalry did not train as a group and it therefore lacked coordination and discipline: individual knights might break off in the middle of a battle to take hostages or to engage in plunder. Feudal infantry was often untrained and poorly armed, although its improvement was not necessarily desirable: as we have seen, in the examples of northern Italy, Flanders, and Switzerland, militias could turn against their lords in rebellion. Another problem of feudal armies was mobilization. Vassals showed up with smaller forces than promised or failed to show up at all. When they did, they expected to serve for only a limited time, and they often refused to serve in foreign campaigns.⁷⁷

Because of these problems, rulers increasingly chose to free their vassals from the obligation to serve in exchange for a payment in cash (scutage). They then used the proceeds to hire mercenaries in their place. Trained professionals were both more effective and more reliable.

Cities too faced problems with their armies.⁷⁸ The growing size of the cities weakened social bonds, so that citizens felt less keenly the obligation to serve in the militia. And economic growth raised the value of their time, making training and service more onerous. Moreover, internal conflicts—between rival factions and clans or between merchants and artisans—made an armed citizenry less desirable.

The hiring of mercenaries offered a solution to all these problems. And, of course, full-time specialized professionals were more effective. The independent cities of northern Italy began to hire mercenaries in the late thirteenth century, and, by the mid-fourteenth, citizen militias had become a rarity.⁷⁹

⁷⁶(Downing 1992) Ch. 3.

⁷⁷(Finer 1997) Vol 2 Ch. 5.

⁷⁸(McNeill 1982) Ch. 3.

⁷⁹(Nicholas 1997) Ch. 5; (Hall 1997).

The impact on war at sea

Commercialization of the economy and the expansion of long-distance trade increased the importance of naval warfare. On land, the specialists in the use of force were the nobility; but at sea, it was the merchants. Merchants had no choice in the matter, since there was no-one to protect them at sea but themselves. Consequently, merchant ships always went well armed, whether alone or in convoy, and merchants, of necessity, were skilled in naval combat.

The major commercial cities of the Mediterranean were highly dependent on their maritime trade and so maintained permanent fleets of specialized warships to protect it. In contrast, in the northern zone, there were no major commercial cities, and maritime trade was also less hazardous. So there was no construction of specialized warships.

Although rulers did not maintain permanent navies, in times of war, they nonetheless needed ships. They needed them to carry troops and supplies. They needed them as well as weapons of economic warfare—to interrupt the trade of their enemies and to protect their own trade. The interruption of trade could be decisive, since it deprived a belligerent both of supplies and of revenue, thereby diminishing its capacity to wage war.

Rulers obtained the ships they needed in times of war by requisitioning them from their merchants or by hiring mercenary fleets.⁸⁰ For example, Philip VI of France, hired a Genoese fleet and brought it from the Mediterranean to the Channel to harass English trade and attack English coastal cities.⁸¹

The growing importance of money as a source of military power

Military power was a function of the number of men a government could put in the field. Under feudal arrangements this had meant the number of vassals a feudal ruler could summon or the size of a city's citizen militia. But with governments increasingly relying on mercenaries—on land and at sea—the size of their forces depended primarily on how much money they could mobilize. Mercenaries expected to be paid promptly and in cash: there was later a saying—*pas d'argent, pas de Suisse*.

⁸⁰(Mallett 1994).

⁸¹This fleet sacked Southampton in 1338 ((Scammell 1981) Ch. 4). Genoese naval contractors provided war fleets to rulers from France to Persia.

The increasing prevalence of siege warfare only increased the importance of money, because it meant that wars tended to drag on for years or even for decades without resolution. As a result, ultimate victory often went to the side with the greater economic staying power.

The impact of the Commercial Revolution on government borrowing

The commercialization of war increased governments' need for money, but continuing economic progress made it easier for them to find it. In particular, governments found it progressively easier to borrow. Borrowing provided them with financing; but even more important, it provided them with liquidity.

Ruler borrowing from merchants and merchant banks

By the twelfth century, the growth of commerce had concentrated substantial liquid wealth in the hands of merchants, and rulers began to turn to them for loans. Initially, they borrowed from individual merchants. The wealthy cloth merchants of Arras, for example, were early sovereign lenders.⁸²

However, as we saw in Chapter 9, by the late thirteenth century, there had developed organized financial markets. Merchant banks were able to borrow in these markets to fund much larger loans to rulers. Rulers could take advantage of such lending only if they possessed reliable cash flows to serve as security. The rulers of Sicily and England were fortunate in that their export taxes on grain and wool respectively generated cash flows that were ideal for this purpose.⁸³ The rulers of France, however, lacked a similarly reliable cash flow that could serve as security, and they therefore found it much more difficult to borrow.⁸⁴

The farming of revenues and the sale of offices as sources of financing

The purchase of a farm or of an office involved making a loan to the ruler: in both cases, the purchasers paid in advance the capitalized value of the stream of revenue they expected to derive.⁸⁵ In addition, office-holders, as members of the machinery of

⁸²(Pirenne 1937).

⁸³(Pryor 1979). (Kaeuper 1973).

⁸⁴(Kaeuper 1988)..

⁸⁵In this, these arrangements resembled the purchase of an annuity: see Chapter 9.

administration, were expected to show their loyalty by lending to the ruler whenever liquidity was tight. The rulers of France, because of their difficulty in borrowing from merchant banks, were forced to rely much more on these alternative sources of financing.

Borrowing by cities

Associational governments too met their growing need for cash by borrowing. As we saw in Chapter 9, their credit was far better than that of predatory governments, so they were able to borrow directly in financial markets without the help of intermediaries.

Nonetheless, the borrowing of cities, like that of rulers, was often secured—in this case, by earmarking specific taxes to pay off the loans. For example, as we saw in Chapter 9, cities in northern Italy securitized their tax revenues by creating special institutions, *Monti*, to issue securities and to collect the taxes dedicated to paying them off.

The impact of the Commercial Revolution on the balance of power

The Commercial Revolution shifted the balance of power between predatory governments and their subjects towards the latter. The reason for this shift was the growing *economic* power of producers and merchants and of the associational governments of their cities.

The growing economic power of commercial cities

We have seen that with the commercialization of war, military power depended less on the size of the population from which an army could be drawn and more on the ability of a government to mobilize resources. Here, the great commercial cities had the advantage. The revenues of some independent cities equaled or exceeded those of rulers who controlled much larger territories and populations. For example, in the 1330s, Milan's revenue of 700,000 florins a year was greater than that of Edward III of England and was only slightly less than that of Philip IV of France.⁸⁶

Subject cities too were empowered by their increasing wealth. Earlier, in negotiating with their rulers, their only bargaining chips had been threats—to withhold the payment

⁸⁶(Pryor 1979).

of taxes or to rise up in rebellion. Now they could also offer inducements—particularly in the form of financial support.

Financial support could take the form both of tax revenue and of loans. We have seen that cities and merchants played a vital role as financial intermediaries. But both were themselves also a major source of lending to rulers.⁸⁷ This gave them considerable bargaining power, and it also gave rulers a significant and immediate interest in their prosperity.

City charters and rights of self-government

Cities, therefore, could now purchase rights of self-government for which earlier they would have had to fight.⁸⁸ Such rights were often spelled out in a formal charter—a written agreement between city and ruler.⁸⁹

One of the rights most important to cities was the right to pay a lump sum in place of a tax levied by the ruler. For the ruler, this was no more than a variation on the farming of revenue—a sale of a stream of revenue for a fixed sum. For the city, however, it was much more, because it made it possible for the city to change the *form* of the tax collected.

If the original tax had been particularly damaging to economic activity, the city could raise the same sum in a different way that was less damaging.⁹⁰ For example, in the fourteenth century, the cities of Castile agreed to pay the king an annual sum in place of the *alcabala*, a tax on transactions that increased trading costs significantly and thereby impeded commerce. The cities raised the required amount through a variety of taxes and fees that were economically far less damaging.⁹¹

⁸⁷“A country abounding with merchants and manufacturers... necessarily abounds with a set of people who have it at all times in their power to advance, if they choose to do so, a very large sum of money to the government.” ((Smith 1776 [1776]) #787}, quoted by (Tilly 1990))

⁸⁸(Nicholas 1997) Ch. 5.

⁸⁹The practice seems to have originated in the twelfth century ((Bartlett 1993; Nicholas 1997; Reynolds 1997)).

⁹⁰(Nicholas 1997) Ch. 7; (Miller 1971).

⁹¹(Thompson 1994).

Even some villages became wealthy enough to buy off burdensome forms of exaction. For example, in 1280 the village of Hemingford in England bought out for a payment of £40 a year all the rents and services the villagers owed their lord.⁹²

Rulers and contracts

During the Commercial Revolution, therefore, rulers entered increasingly into a variety of agreements, both with their subjects and with foreigners; these included the sale of charters to cities, the sale of offices, the sale of farms, the hiring of mercenaries, and various kinds of borrowing. These agreements were much like commercial contracts in that they involved immediate performance by one party in exchange for a promise of future performance by another.

Of course, others were willing to accept rulers' promises only if they could be trusted to keep them. As we have seen, this was a problem: members of the predatory class were known for their impulsive and arbitrary behavior, and keeping their word was not notably one of their cherished values.⁹³ For example, in the twelfth century, Richard I of England sold the office of sheriff of each of the counties to raise the money he needed before he set off for the Crusades. When he returned, he needed more money, so he removed the incumbent sheriffs and sold the positions again to others.⁹⁴

There did exist third-party enforcers. Many territories boasted a relatively independent judiciary. We have seen that the ruler's great council initially played a judicial role. However, as cases proliferated, the judicial function was typically delegated to a sub-council or high court; over time, the high court detached from the council and spawned specialized sub-courts. The result was a separate judiciary, staffed by legal professionals. The judiciary often enjoyed a considerable degree of independence from the ruler. Indeed, a ruler's courts were quite capable of deciding against him in a dispute.⁹⁵ The Church too could sometimes act as a third-party enforcer. It took sworn

⁹²(Homans 1960). This too was equivalent to the farming of revenues—the farming of a manor to its tenants ((Reynolds 1997) Ch. 5).

⁹³(Jacobs 1992)

⁹⁴(Swart 1949) Ch. 3. Presumably, Richard's second sale brought a much lower price!

⁹⁵(Kaeuper 1988), (Henshall 1992) Ch. 1.

oaths very seriously, and the breaking of an oath could lead to excommunication—even for a ruler. However, formal order was only of limited effectiveness. The courts and the Church did have moral authority, but neither had the means to force an unwilling ruler to comply.

Even so rulers, rulers frequently heeded their decisions, and, more generally, they usually honored their agreements. They did both primarily to protect their credit. If rulers wished to continue to enter into agreements, they needed to establish and to maintain a reputation for keeping their word and for respecting the law. Moreover, a ruler's reputation was indivisible: breaking one agreement affected his ability to enter into others. So by the fourteenth century, behavior such as Richard's had become increasingly rare.⁹⁶ While rulers were not strictly subject to any formal order, they—just like everyone else in an increasingly commercialized world—were subject to an informal order.

The discipline of competition

Commercialization created another constraint on the arbitrary behavior of predatory governments—competition. In earlier times, subjects had been able to respond to excessive or arbitrary exaction only by rising up in revolt—with 'voice'. Now they could also respond with 'exit'.⁹⁷

With increasing commercialization, oppressed peasants had other options. They could migrate to one of the growing cities or to one of the new colonies in eastern Europe or the Mediterranean. Oppressed merchants could relocate to a different city—one that was either independent or subject to a different ruler.

Exit was a much more effective check on the behavior of predatory government than voice. An uprising required the coordinated effort of many and entailed enormous costs and significant risks. In contrast, individuals could choose on their own to migrate and the risk of doing so was comparatively small. So exit offered a quicker and more finely tuned response to the abuse of power.

In addition, the development of transportation and market infrastructure increased competition among trade routes and market centers. This made it harder for predatory

⁹⁶(Thompson 1998)

⁹⁷(Hirschman 1987).

governments to extract revenue from them. If one route was over-burdened with tolls, merchants could now choose another. For example, there was considerable competition for the traffic between the two zones of European trade.⁹⁸ One major route passed through Switzerland and another through France. Initially, most of the traffic took the more direct Swiss route. However, rising tolls in the twelfth century caused an increasing number of travelers to choose the route through France. The Swiss responded by lowering their tolls.

Similarly, if one market center was taxed or regulated excessively, commerce could shift to another. For most of the Commercial Revolution, Champagne was the northern center for inter-zone trade. However, from the late thirteenth century, it steadily lost business to Bruges. There were many reasons for this, but the French takeover of Champagne in 1285 certainly contributed: the takeover was soon followed by rising taxes, debasement, and increasing interference with trade.

The consequences of the shift in the balance of power

Overall, therefore, the Commercial Revolution changed the relative power of associational and predatory governments and created new incentives that effectively constrained the behavior of rulers. There were two important consequences for the evolution of government. The first was the growing independence and security of cities and even of villages. The second was the establishment of the rule of law.

The growing independence of cities

Cities achieved differing degrees of independence in different parts of Europe. In Italy, they won actual, formal independence, and by the end of the twelfth century there were some 300 self-governing city states.⁹⁹

Elsewhere, cities remained formally subject to local lords or to territorial rulers, but many nonetheless achieved considerable independence *de facto*. This was particularly true in Germany, where predatory government was especially fragmented and weak.¹⁰⁰ In contrast, where predatory government was strongest, in England and in Southern Italy

⁹⁸(Lopez 1987) p373.

⁹⁹(Epstein 1999).

¹⁰⁰(Hocquet 1995)

and Sicily, cities were least successful in freeing themselves from the control of their territorial rulers.¹⁰¹

In the Low Countries, the cities were particularly wealthy—the annual income of Ghent alone, for example, rivaled that of the Count of Flanders; so they were able to purchase a considerable degree of independence.¹⁰² In France, which was more agrarian and less urbanized, cities were correspondingly weaker and less independent. The cities of Spain gained considerable political power as a result of their important military contribution to the *reconquista*.¹⁰³

The rule of law

Even before the Commercial Revolution, rulers were not free to treat their vassals and subjects arbitrarily. As we have seen, to violate their customary rights was to invite armed rebellion—with possibly disastrous consequences for the ruler. A wise ruler respected custom and negotiated any desired departure from it.

The Commercial Revolution strengthened these constraints on ruler behavior. Now, it was not only customary rights that rulers had to respect, but also a range of commitments and agreements into which they had entered. As we have seen, to break their word was to damage their credit—with dire fiscal implications.

The effect of these constraints, old and new, on rulers' actions was to create a *de facto* rule of law.¹⁰⁴ A ruler could not act as he pleased; rather, like any one else, he had to play by the rules or face unpleasant consequences. Historians have described the resulting regime as 'Medieval Constitutional Government'.¹⁰⁵

¹⁰¹On the contrast between northern and southern Italy, see (Putnam 1993). On England, see (Reynolds 1997) Ch. 6.

¹⁰²(Blockmans 1997).

¹⁰³(Elliott 2002); (Thompson 1994) describes Castile as “an aggregate of barely articulated city states, held together by the coordinating power of monarchy.” p142

¹⁰⁴(Hayek 2007 [1944]) defines the rule of law as obtaining when “government... is bound by rules fixed and announced beforehand—rules which make it possible to foresee with fair certainty how the authority will use its coercive powers in given circumstances.” p112.

¹⁰⁵(Downing 1992).

CONCLUSION

Economic progress and political evolution interact. In this chapter, we have seen how economic progress can affect political evolution. Economic progress—in the shape of the Commercial Revolution helped to create strong, self-governing cities and to establish the rule of law: as we will see, both are important conditions for economic progress.¹⁰⁶ So economic progress helped create political institutions that were conducive to further economic progress. In this respect too, therefore, economic progress can be self-reinforcing.¹⁰⁷

But not all of the interactions between economic progress and political evolution are benign. Rulers never lacked the motivation to go to war, but they often lacked the means. The Commercial Revolution provided them with the means by increasing their revenues and by improving their liquidity.¹⁰⁸

It was, for example, the new export tax on wool and the consequent access to borrowing that emboldened Edward I of England to pursue his dynastic claim to the throne of France. Edward's regular income was no more than a fifth that of the king of France, but borrowing enabled him to sustain—at least for a while—a comparable level of military expenditure.¹⁰⁹ The commercialization of war helped too. Confidence in his mercenaries was another reason Edward felt able to take on a larger and more powerful adversary.¹¹⁰ He invaded France in 1294, setting in motion a series of events that developed into the Hundred Years War.

While independent cities did not suffer from dynastic ambitions, they nonetheless found themselves frequently at war. Cities sought to extend their control over the surrounding country largely for economic and fiscal reasons.¹¹¹ However, this inevitably brought them into conflict with neighboring cities: between 1190 and 1250 alone, there

¹⁰⁶More on this in Chapter 12.

¹⁰⁷We could call this a political multiplier.

¹⁰⁸(Körner 1995).

¹⁰⁹(Kaeuper 1988) Ch. 1.

¹¹⁰(Ertman 1997) Ch. 2.

¹¹¹(Nicholas 1997) Ch. 5; (Koenigberger 1995).

were some 1,465 minor wars between neighboring city states in northern Italy.¹¹²

Commercial cities also fought over access to markets—the most famous conflict was that between Venice and Genoa over the markets of the Levant.

The Commercial Revolution facilitated the escalation of these conflicts in the fourteenth century. Cities, like rulers, had access to greater resources with which to wage war. Cities, more easily than rulers, were able to borrow when necessary. And cities relied increasingly on mercenaries to fight their wars rather than inconveniencing their own citizens.

The wars of the long fourteenth century brought to an end the remarkable economic progress of the Commercial Revolution. And, to a significant extent, it was the economic progress of the Commercial Revolution that made those wars possible.

¹¹²(Finer 1997) vol 2 Ch. 7.

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