

STATES OF CREDIT



Size, Power, and the Development
of European Polities

DAVID STASAVAGE

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OF EUROPEAN POLITIES

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TO MY CHILDREN

Rivka and Ezra

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Introduction

Among the many distinctive features of European state formation two have received particular attention—the invention of the concept of political representation and the development of a system of public credit. It is a matter of some debate whether Europe was unique in having a system of political representation—certainly rulers in other regions met with councils or assemblies—but it is probably not an exaggeration to say that this phenomenon initially advanced to its greatest extent in Europe. Likewise, while rulers in other regions developed mechanisms for deferring payment for goods or for receiving advances on tax collections, there seems little doubt that the most extensive early development of a system of public credit occurred in Europe. This parallel development of representation and credit suggests that a causal link might have existed between the two. Within Europe, states such as Venice or the Dutch Republic that are seen as models in the development of representative institutions can also be viewed as pioneers in the development of public credit, whereas polities such as France are considered as having trailed on both of these dimensions. Did the presence of an intensive form of representation facilitate access to credit for the former, allowing them to survive and their economies to prosper? If so, why did this intensive form of representation emerge in some places but not others? Finally, how did this joint development of credit and representation affect broader trends involving war, state formation, and economic growth? Despite the importance of these questions, no existing scholarly study examines these issues in a broad comparative context. This book is designed to fill that gap.

I will argue that the presence of an intensive form of representation characterized by an assembly that could monitor and modify expenditures was critical in facilitating access to credit by European states. But the existence of an assembly that would function in this manner was itself dependent on two underlying conditions. First, in an era of high communications and travel costs this intensive form of political representation could be maintained only in polities of limited geographic scale.¹ Second,

¹The importance of geographic scale in conditioning the type of political representation that could be sustained in medieval Europe has been emphasized by the medieval historian Wim Blockmans (1998, 1978).

assemblies of this sort were more likely to take actions consistent with the interests of state creditors in polities where the same merchants who invested in government debt were also predominant among the political elite. These two underlying conditions were most frequently, but not exclusively and not always, met in city-states where assemblies could be convened by devices as simple as the ringing of a town bell and where the same merchants who purchased public debt also served as magistrates on town councils. In the territorial states of Europe, in strong contrast, geographic scale often proved to be a fundamental obstacle, making it costly to sustain a representative assembly that would meet frequently enough to monitor public expenditures. Assemblies in European territorial states could be powerful, but their influence was of a more passive form involving the ability to veto requests by monarchs for taxation. The social composition of territorial state assemblies was also fundamentally different from that of the city-states. Merchants—those who lent most frequently to government—played a more limited role within them, a fact that had significant consequences for the behavior of these institutions.

In making the above argument about representative institutions, I am not suggesting that the dominance of mercantile interests necessarily led to democracy within city-states.² Certainly, none of the city-states considered within this study had the full characteristics of either a modern representative democracy or an ancient direct democracy. But more importantly, even within the group of city-states considered here, I will show that those that were more oligarchical in form tended to have better access to credit than did those with more open systems of political representation. Both my broad sample statistical tests and my qualitative case studies suggest that having a merchant oligarchy was the best recipe for obtaining access to credit. In contrast, when popular pressures led to city-states adopting more open political systems in which those who were less likely to own public debt gained seats on city councils, then access to low-cost credit was less certain. This points to a trade-off: a certain set of political institutions could reinforce the credibility of debt repayment, but

² Authors have held very different views on this issue with some, such as Guizot (1838), seeing those who governed medieval cities as the ancestors of the French revolutionaries while many others following Pirenne (1910, 1925) have taken a more skeptical view. The subject of medieval and early modern city-states has been an issue of concern for a wide number of authors including Guizot (1838), Sidgwick (1903), Weber (1921), Clarke (1926), van Werveke (1963), Rokkan (1975, 1973), Tilly (1990), Tilly and Blockmans (1994), Spruyt (1994), and Finer (1995), to name but a select list.

these institutions were inherently undemocratic (even by the standards of the time), and, as I will argue, closed political institutions may in the long run have helped to stifle economic innovation.

My conclusions have implications for three debates involving state formation and economic development. The first debate involves the role of warfare in state formation, and in particular the proposition that as military technologies changed, the optimal size of a polity increased and the city-state became outmoded as a form of political organization. The second debate involves the sources of early modern economic growth and the question whether free cities were engines of innovation during this period. The third debate involves the question whether the adoption of representative or democratic institutions can help solve commitment problems. I will first briefly introduce each of these debates before revisiting them in greater detail in the concluding chapter to this book.

In the first debate on war and state formation, conflict was according to a common narrative, the primary force driving state development within Europe. A key part of this argument is that exogenous changes in military technology—firearms, mass infantry, new styles of fortification—meant greater fixed costs in war-fighting, leading to an increase in the optimal size of states.³ Many authors also suggest that war was a powerful force prompting rulers to alter the structure of their polity's political and bureaucratic institutions.⁴ I will suggest that large size had both costs and benefits when it came to war mobilization, and therefore the effect of changes in military technology on the distribution and organization of European states was more muted than is commonly believed. As the size of armies required to engage in war increased, large states gained an advantage to the extent that they had large populations. However, in an era when armies were paid, rather than being conscripted, efforts to raise large armies also required the rapid mobilization of large sums of money. Access to credit was of the essence to meet this objective, and

³The clearest exposition of this argument can be found in Bean (1973), and his analysis was also adopted by North (1981). The same argument has been used by Boix, Codenotti, and Restá (2006) as a basis for their analysis. See Finer (1975) for an account of the relationship between state formation and what he calls the "format of the military forces."

⁴This has been emphasized at least since Hintze (1906) and more recently by authors such as Tilly (1975, 1990), Downing (1992), Ertman (1997), Mann (1986), and in a formal setting by Besley and Persson (2009, 2010). See Hui (2005) and Herbst (2000) for interesting accounts of the impact of war (or its absence) on state formation in other contexts.

here I will show that the smaller city-states had an advantage, because they established an intensive form of political representation in which merchants played a primary role. This same form of representation could not be maintained within the much larger geographic scale of a territorial state. It was arguably their better access to credit that allowed many city-states to survive far longer than we would expect, given the conventional “war and state formation” explanation. In the words of the noted German scholar Richard Ehrenberg (1928), “The credit of the cities therefore was accordingly their most powerful weapon in the struggle for their freedom.”

The second debate with which this book engages concerns the sources of early modern growth.⁵ Precisely because it is known that many economic innovations in Europe took place within politically autonomous cities, any explanation of how autonomous cities survived may aid our understanding of the political context for preindustrial growth. Discussions of city-states often emphasize their engagement in long-distance commerce. But many autonomous cities in Europe were also centers for technological innovation, and it may have been the case that political independence was necessary for this innovation to take place. One exposition of this idea is found in Mokyr (1995), who emphasizes that the initial development of Venice was attributable to its glassblowing industry, that other Italian towns were leaders in the production of textiles, that autonomous German cities were centers of instrument-making in the fifteenth and sixteenth centuries, and finally that Holland, in addition to being a trading state, was also an important site for invention.⁶ Economic activity in autonomous cities may have been less subject to dynastic ambitions of a territorial ruler.⁷ My study will not determine empirically whether autonomous cities did in fact experience higher average growth rates; instead my analysis of representation and credit will help account for the growth trajectory observed in many European autonomous cities—an initial period of innovation followed by one of economic stagnation. If those

⁵Acemoglu, Johnson, and Robinson (2005), Bosker, Buringh, and van Zanden (2008), Jones (1981), Mokyr (1995, 1994, 1990), North and Thomas (1973), North (1981), DeLong and Shleifer (1993), Epstein (2000), Voigtlaender and Voth (2009), Greif (2006), and Kohn (2008).

⁶See Hicks (1969) for an earlier expression of this idea with regard to the development of trade, and van Zanden (2006) as well as Bosker, Buringh, and van Zanden (2008) for empirical evidence. Many of the ideas about the economy of free cities can be traced back to Weber ([1921] 1958).

⁷Their institutions may also have facilitated enforcement of contracts for the reasons emphasized by Greif (2006). We should also recognize though that cities within territorial states also often had guild institutions or city councils that could have played a similar role.

cities that were the most closed and oligarchical in form had the best access to credit, then they may have been particularly likely to survive. Then again, oligarchical institutions may have created barriers to entry for groups or individuals with new innovations.⁸ Over time, members of a sitting oligarchy may have shifted their investments from engagement in active commerce toward investments in lower-risk assets like land and government debt, prompting them to favor more inward-looking policies, again potentially leading to economic decline. Oligarchic politics may explain why, by the end of the early modern period, numerous autonomous cities continued to survive, but as rentier republics. These cities continued to have access to credit at excellent rates, but they were no longer engines of economic innovation.

The third debate for which my conclusions are relevant concerns the effect of institutions on commitment, and in particular the idea that one group or individual in society can concede a degree of control to another group and so solve a commitment problem. It has long been suggested that in the European historical context a strong representative assembly served as a commitment technology; it provided a guarantee against opportunistic actions involving the property rights of state creditors, or the property rights of private individuals more generally.⁹ More recently, related arguments have been made about modern democracy being characterized by universal suffrage; it is viewed as a technology that allows commitment to a certain policy (in this case the economic policies preferred by the median voter).¹⁰ Common explanations offered for why we do not observe such institutional solutions whenever a commitment problem emerges refer either to the power of vested interests or to the fixed costs involved in creating an institution. My conclusions remind us of a third possibility—maintaining an institution may also have important ongoing costs. If for exogenous reasons these costs are too high, then either the institution will not emerge, or emerge but fail to solve the commitment problem. In medieval and early modern

⁸This idea is nearly as widely expressed as is the argument that city institutions facilitated growth; see Mokyr (1995, 1990), Epstein (2000), and Hicks (1969). See Acemoglu (2008) for a formalization of this idea in a more general context and Dessi and Ogilvie (2004) and Ogilvie (2007) for considerations of the stifling effect of municipal guild institutions on growth.

⁹North and Thomas (1973), North (1981), Levi (1988), North and Weingast (1989), Delong and Shleifer (1993), and Acemoglu, Johnson, and Robinson (2005). This argument is not without its critics including Epstein (2000), Clark (1996, 2007), and Sussman and Yafeh (2006).

¹⁰Acemoglu and Robinson (2006, 2000).

Europe the ongoing costs of maintaining an intensive form of political representation were prohibitively high in large polities, given the state of communications and travel technology. Today, for much (but not all) of the globe, geographic scale is no longer as much of an obstacle as it once was, but the underlying point remains; for representative government to function effectively individuals need access to information, and acquiring information can be costly - in some cases prohibitively so.

As a final step before proceeding further, given that my analysis places heavy emphasis on the difference between territorial states and city-states, it is worth pausing to say exactly how I will define a city-state for the purposes of this book. In its medieval and early modern European form a city-state was a city that exerted a substantial degree of autonomy over its economic and judicial affairs while also playing a key role in organizing its own defense. A city state might control territory outside the city walls, but political rights were restricted to inhabitants of the core city (a key difference with the classical polis). While it is useful to have an abstract definition of a city-state, it is important to recognize that autonomous cities within Europe each had their individual characteristics and relationships with outside powers, and in practice cities had varying degrees of autonomy with respect to princely overlords. The question is at what point should we say that a city with a degree of autonomy should nonetheless not be included in my dataset because it lacked sufficient independence? In constructing my sample I have chosen deliberately to cast a wide net, including both cities such as Florence and Venice that had essentially total autonomy, together with several Flemish and other cities that had much autonomy in practice but also a degree of subservience to princely overlords. The motivation for this choice is to avoid a potential bias in which I draw a general conclusion while focusing only on a restricted set of cities that come the closest to approximating a city-state in its ideal form. I will also discuss how my statistical results change when those cities that lacked full autonomy are dropped from the sample. In practice this sample change actually strengthens the results in favor of my main arguments.

REPRESENTATION, SCALE, AND CONTROL

Before proceeding with the historical analysis, it may first be useful to describe the problem I seek to analyze in a more abstract fashion. In chapter 4, I will provide a very simple game theoretic formalization of