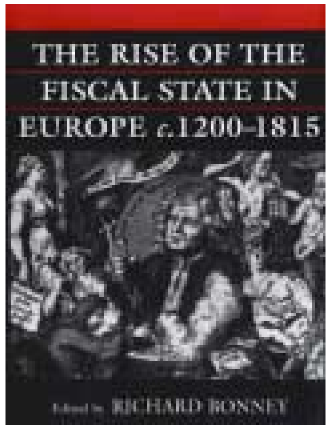
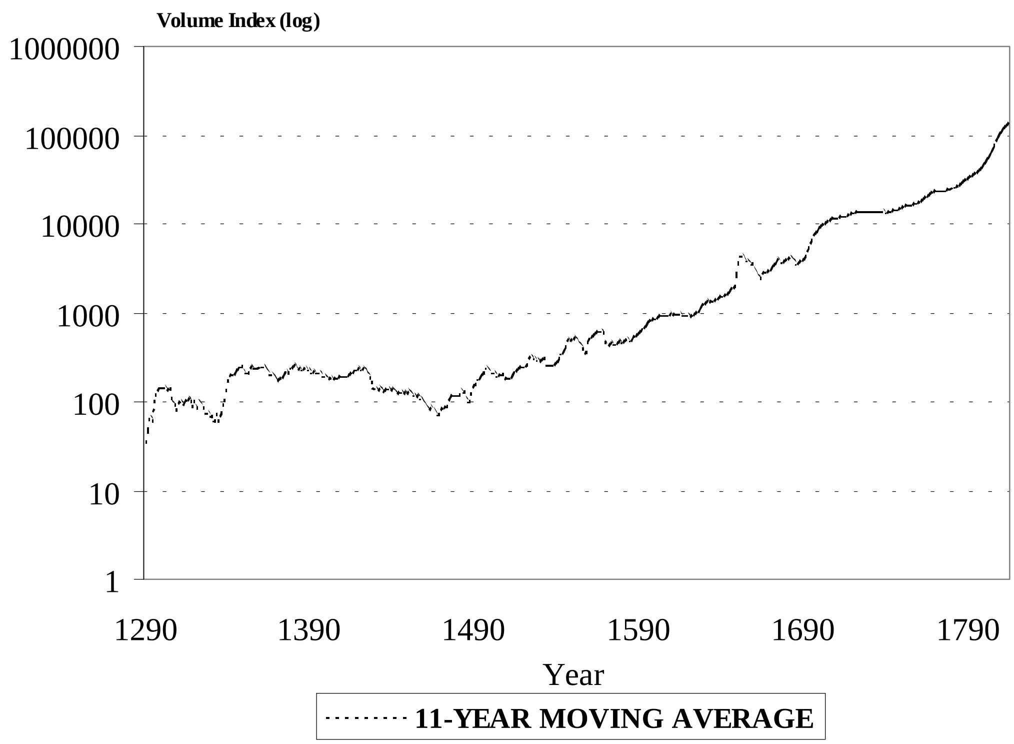


The Rise of the Fiscal State in Europe c. 1200—1815. Edited by Richard Bonney. Oxford University Press. Oxford 1999.

The Rise of the Fiscal State in Europe c. 1200—1815, a compilation of articles edited by *Richard Bonney*, is the third volume of mainly the same researchers covering the formative years of European fiscal history. As Bonney points out in the Introduction, it is essential to investigate the evolutionary development of fiscal systems in order to understand their development in the industrial age. Partly it is also conducive to observe the historically developed constraints of these systems as they headed into an age of total warfare and increased welfare spending of the 20th century. This study, or more correctly a collection of studies, provides country surveys on most European states, with the surprising exception of the Nordic countries. For example, Sweden's Great Power status and comparatively modern administrative system of the 17th century surely would have enriched the scope of the book. Overall, however, this study is a superb example of comparative economic history with a long-run perspective.

For most of the countries the analysis begins with an evaluation of the medieval state-building paths and the impact of the duality of direct versus indirect taxation. As the authors stress correctly, the power to tax is indeed the most familiar form of government coercion to achieve some ”collective” (often representing the interests of a small elite) objective. Thus, during the Middle Ages in most European states the government, equaling more or less the still disintegrated yet emerging nation state, became the owner and defender of certain rights, including property and commercial rights, and began to exercise a monopoly on violence. Bonney et al. essentially rely on four ”ideal types” in their dichotomy of the evolution of fiscal regimes: tribute, domain, tax, and, ultimately, fiscal state. Most of these states were either tribute or domain states, thus relying extensively on the medieval feudal tax structures, in the beginning of the period under review, and were either overtly predatory in their revenue collection (i.e., revenue maximizers) or the rulers were weak and dependent on the grants from their limited domains. The authors maintain that crises occur within these fiscal systems but do not change their basic nature, yet revolutions, whatever they may be, move fiscal systems from one system to another. They also argue that these fiscal systems were often self-sustained, implying a path dependence of sorts. The states of the Early Modern period were almost without exception tax states relying on indirect taxation, due to the requirements of the more massive armed forces in the gunpowder age. Thus, the most successful states were the ones that were also strong commercial nations such as the Netherlands and England. The next stage was not reached until the Napoleonic wars, which swept away many of the existing tax states as they found themselves unable to survive in the era of Clausewitzian-type total war and mass conscription.

Figure 1. 11-year Moving Averages of Real (=Deflated) Index Numbers for Revenue from Total Taxation in England, 1290—1815: (Base Index=1451—75)



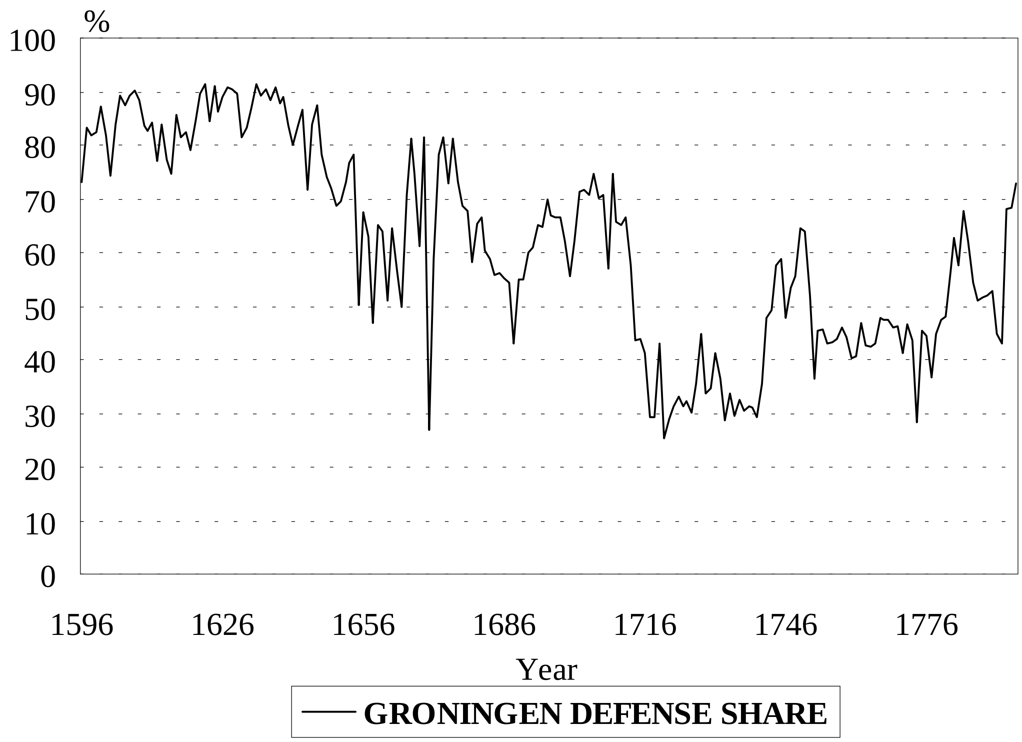
Source: European State Finance Database [online]. Contributor: Patrick O’Brien, obrien/engm002.txt [quoted 1.2.2001]. Available in www-format: <URL: http://www.le.ac.uk/hi/bon/ESFDB/frameset.html>.

By the 19th century, as *W.M. Ormrod* hints in his article on England in Middle Ages and *Patrick O’Brien* and *Philip A. Hunt* argue in their piece on England’s rise to commercial and later industrial dominance, England was the only real fiscal state, i.e. being able to defend itself from another military superpower and able to survive periods of sustained economic warfare. A key element in this transformation was the adaptation of direct taxation on more frequent and eventually permanent basis, as well as such institutional and political structures that guaranteed the government long-term credit almost indefinitely. Direct taxation, a revenue tool experimented with by the Italian city-states, emerged on contingency basis in the 12th and 13th centuries in England, yet indirect taxation became the key tool in revenue extraction during the second half of the 14th century. Direct taxation did not become a revenue extraction tool for European nation states on permanent basis until the 19th century. The real value of English revenue, as seen in Figure 1 below, began a steady growth from the mid-15th century onwards, yet relatively, as argued by O'Brien and Hunt, up until the Civil War and the Glorious Revolution the English revenues stagnated. After this turning point, there was exponential growth in tax receipts up until the 1820s.

The French case was quite different right from the outset of the creation of the nation state. As Bonney remarks in his article: ”The history of the central direction of French finance is that of commitments entered into by kings in the realm of foreign policy and warfare, and the detailed decision-making and control of fiscal policy asserted by successive finance ministers in the seventeenth and eighteenth centuries.” (Bonney, Richard, 'France, 1494—1815'. In *The Rise of the Fiscal State in Europe c. 1200—1815*. Edited by Richard Bonney. Oxford University Press. Oxford 1999, 126). A key question for France, like the other nation states, was the financing of its military exertions. According to Bonney, the cost of France's armed forces in its era of ”national greatness” were stupendous, with expenditure on the army by 1708—1714 averaging 218 million livres, whereas during the Dutch War of 1672—1678 it had averaged only 99 million. This was due to both growth in the size of the army and the navy, and the decline in the purchasing power of the French livre. As for all the main European monarchies, it was the expenditure on war that brought fiscal change in France, especially after the Napoleonic wars. Between 1815 and 1913, there was a 444 per cent increase in French public expenditure and a consolidation of the emerging fiscal state. This also embodied a change in the French credit market structure. As seen most drastically in the case of Early Modern Spain (covered by *Juan Gelabert*), the ability to rely on credit was an essential part of a successful fiscal regime. In the Spanish case, the lack of fiscal reform before the Thirty Years' War, corruption, mismanagement etc. brought the Spanish state finances to numerous bankruptcies and undermined its ability to maintain a Great Power status.

Another success story was the Dutch state in the Early Modern period. As *Marjolein 't Hart* notes, the domestic investors were instrumental in supporting their new-born state as the state was able to borrow the money it needed from the credit markets, thus providing a stability in public finances even during crises. This financial regime lasted up until the end of the 18th century. Here again we can observe the intermarriage of military spending and the availability of credit. One of the key features in the Dutch success in the 17th century was their ability to pay their soldiers relatively promptly. The Dutch case also underlines the primacy of military spending in state budgets and the burden involved for the Early Modern states. As we can see in Figure 2, the defense share (military expenditures of central government spending) of the Dutch region of Groningen remained consistently around 80—90 per cent until the mid-17th century, and then it declined, at least during periods of peace.

Figure 2. Groningen Defense Share (=Military Expenditures of Central Government Expenditures), 1596—1795: (%)



Source: European State Finance Database [online]. Contributors: L. van der Ent, W. Fritschy, E. Horlings & R. Liesker, \neth\netd002.txt [quoted 1.2.2001]. Available in www-format: <URL: http://www.le.ac.uk/hi/bon/ESFDB/frameset.html>.

The role played by wars in forcing a fiscal regime to adopt new ways of extracting revenue, and even leading to an entirely new fiscal regime, was instrumental, especially in creating persistent budget deficits and economic hardship. This is one of the crucial themes in this collection of articles, although the authors fail to emphasize this point even more in the book's Introduction, especially in distinguishing between the sizes of conflicts and their subsequent consequences for public finances. Also, as noted by this reviewer elsewhere (Eloranta, Jari, 'National Defense**'.** Forthcoming in *The Oxford Encyclopedia of Economic History*. Edited by Joel Mokyr, 2001), it is equally important to take into account the changing nature of warfare and its costs, beginning with the gunpowder revolution all the way to the mechanization of warfare in the 19th century. Moreover, it is imperative to analyze the changes in the composition of military expenditures, namely the consumption and the capital costs. As *Jean-Claude Hocquet* argues aptly in the case of medieval Venice, ”war was the key to expenditure, notably on the wages and food required by the mercenary companies and their captains (*condottieri*).” (Hocquet, Jean-Claude, ‘Venice’. In *The Rise of the Fiscal State in Europe c. 1200—1815*. Edited by Richard Bonney. Oxford University Press. Oxford 1999, e.g. 382—384). However, he also mentions that the capital costs of war increased significantly in the 16th and 17th centuries, especially due to increased naval and other heavy equipment costs. One has to take into account the devastating effect of the major conflicts in the period on the durability of these economies and their ability to support the ever-growing armed forces.

This multi-faceted and proficient study is also supported by an even more extensive state finance database (*European State Finance Database*) on the Internet, maintained by Richard Bonney. Moreover, it provides materials, albeit on limited basis, even on countries not included in this study, such as the Nordic countries. Some scholars will surely also appreciate Bonney’s extensive datasets on the French public finances, including data from different sources and various interpretations. The only critical point one could make about the database is that such a common file format as Excel is not included here, although the text files are not difficult to convert to another format either. This worthwhile find on the Internet can be located at: http://www.le.ac.uk/hi/bon/ESFDB/frameset.html.

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