

# ECONOMIC GOVERNANCE AND THE RISE OF EUROPEAN CAPITALISM, 1350–2000

*Philipp Robinson Rössner, Manchester*

**ABSTRACT:** Over the last five to six hundred years most European governments (kings, princes, councils, states) were actively involved in shaping the economic process, promoting capitalism and even actively supporting and encouraging economic growth and development. My paper will provide a short comparative synopsis of the main aspects of pre-industrial state intervention and then offer some new interpretations. A first section discusses methodological problems in our assessment of state intervention and the question in which ways states could make a positive contribution to the economic process at all. A second section looks at urbanisation and cities as foundational metric for economic development in historical perspective. The third section discusses the main menu of choices of economic intervention in the age of capitalism's ascendancy, 1300s-1850s. A fourth section provides a short global comparison and conclusion. I argue that, since the Renaissance the menu of state intervention was richer than usually acknowledged and that, by a long history of trial-and-error since the last six or seven centuries the European states and states-in-the-making got increasingly better at governing the economy, laying the foundations for modern capitalist development and modern economic growth.

*Keywords:* Economic Development, Economic Gouverning, Europe, Capitalism, Early Modern Period, Modern Period

Over the last five hundred years or so most European states were actively involved in shaping the economic process, promoting capitalism, even actively supporting and encouraging economic growth and development. Peer Vries has argued that the Chinese state was significantly weaker in terms of resource extraction and the promotion of domestic economic growth than England's fiscal-military state.<sup>1</sup> Albeit Vries's argument has not gone unchallenged<sup>2</sup>, this may in the end help explain why England experienced faster economic growth triggering the process known as industrialisation and the Great Divergence. Hoffman, Tilly and others have made similar claims as to European states' competitive edge in military and state power, albeit Rosenthal and Bin Wong highlight the different

- 1 Peer Vries: *State, Economy and the Great Divergence. Great Britain and China, 1650s–1850s.* London 2015.
- 2 Roy Bin Wong: *Divergence Displaced. Patterns of Economic and Political Change in Early Modern and Modern Global History*, in: *COMPARATIV/Zeitschrift für Globalgeschichte und vergleichende Gesellschaftsforschung* (3:2016), pp. 71–100. Jean-Laurent Rosenthal / Roy Bin Wong: *Before and Beyond Divergence. The Politics of Economic Change in China and Europe.* Harvard 2011.

nature of state involvement in the Chinese economy. Compared to the European case, the Chinese state acted on different levels, sometimes with a remarkably laissez-faire or hands-off approach, but prima facie may have been no less effective in governing the economy than European fiscal-military states.<sup>3</sup> Parthasarathi's argument on the role of the English fiscal-military state and the pricing-out of Indian cottons out of the world market has staked similar claims<sup>4</sup>, emphasising the proactive-aggressive nature of the English state, in particular by protecting the domestic cotton industry by a series of tariffs and prohibitions which by and large corresponded to what twentieth-century development economics knew as "infant industry protection." A growing number of studies has emphasised similar rationales for European states.<sup>5</sup>

Discussions on the role of the state in the economic process have sometimes switched to property rights, inclusive vs. exclusive institutions, regulatory competition ("institutional arbitrage"), law enforcement and state capacity, as measured

- 3 Roy Bin Wong: *China Transformed. Historical Change and the Limits of European Experience*. Ithaca / London 1997.
- 4 Prasannan Parthasarathi: *Why Europe Grew Rich and Asia Did Not. Global Economic Divergence, 1600–1850*. Cambridge 2011.
- 5 On Germany in the early modern period, see, e.g., Fritz Blaich: *Die Wirtschaftspolitik des Reichstags im Heiligen Römischen Reich. Ein Beitrag zur Problemgeschichte wirtschaftlichen Gestaltens*. Stuttgart 1970; id.: *Die Bedeutung der Reichstage auf dem Gebiet der öffentlichen Finanzen im Spannungsfeld zwischen Kaiser, Territorialstaaten und Reichsstädten (1495–1679)*, in: Aldo De Maddalena / Hermann Kellenbenz (eds.): *Finanzen und Staatsräson in Italien und Deutschland*. Berlin 1992, pp. 79–112, esp. at pp. 111–112; and Fritz Blaich: *Die Epoche des Merkantilismus*. Wiesbaden 1973. An interesting case study for Württemberg around 1500 is Karl Weidner: *Die Anfänge einer staatlichen Wirtschaftspolitik in Württemberg*. Stuttgart 1931; for early modern Britain, see Julian Hoppit: *Britain's Political Economy: Parliament and Economic Life, 1660–1800*. Cambridge 2017; William J. Ashworth, *Customs and Excise: Trade, Production, and Consumption in England, 1640–1845*. Oxford / New York 2003; Julian Hoppit: *Bounties, the Economy and the State in Britain, 1689–1800*, in: Perry Gauci (ed.): *Regulating the British Economy, 1660–1850*. Farnham (Surrey) / Burlington, VT 2011; Julian Hoppit: *The Nation, the State and the First Industrial Revolution*, *The Journal of British Studies*, 50/2 (2011), pp. 307–331; Raymond L. Sickinger: *Regulation or Ruination. Parliament's Consistent Pattern of Mercantilist Regulation of the English Textile Trade, 1660–1800*, in: *Parliamentary History*, 19/2 (2000), pp. 211–232; Anna Gambles: *Free Trade and State Formation. The Political Economy of Fisheries Policy in Britain and the United Kingdom, circa 1780–1850*, in: *Journal of British Studies* 39/3 (2000), pp. 288–316; and C. Dudley: *Party Politics, Political Economy and Economic Development in Early Eighteenth-Century Britain*, *Economic History Review*, Second Series, 66:4 (2013), pp. 1084–1100. In a wider context, see Erik S. Reinert: *How Rich Countries Got Rich and Why Poor Countries Stay Poor*. London 2008; or Peer Vries: *Governing Growth. A Comparative Analysis of the Role of the State in the Rise of the West*, *Journal of World History*, 13 (2002), pp. 67–193. On states and property rights in terms of general models, see, e.g., Douglass C. North / Robert Paul Thomas: *The Rise of the Western World. A New Economic History*. Cambridge 1973; Daron Acemoglu / James Robinson: *Why Nations Fail. The Origins of Power, Prosperity and Poverty*. London / New York 2011; Oscar C. Gelderblom: *Cities of Commerce. The Institutional Foundations of International Trade in the Low Countries, 1250–1650*. Princeton 2013; or David Stasavage: *States of Credit. Size, Power, and the Development of European Polities*. Princeton 2011.

by per capita taxation. More recently, historians have underlined the early modern state's capacity of waging of war as a crucial factor for economic development.<sup>6</sup> The latter argument, however, somewhat flies in the face of most Ancien régime European history and political or reason of state theory of the past six or seven centuries, which always stressed that good rulers should refrain from war wherever they could. Instead they should strive to promote the domestic common weal (German: *der Gemeine Nutzen*) using benevolent means. Kings, princes, councils and other temporal authority ("governments") could do so by a wide range of strategies, including a sound and stable currency, good government, fair law-making and impartial judgement, good market governance, the upholding of good Sunday sermons in the churches and a generally well-spirited Christian common weal, supervision and safe-conduct on public roads, the avoidance of winter wars, but also proactive support of domestic industry and manufacturing with potential for development. These are less familiar in the current economic-historical literature. In fact, it has been recently argued, with regard to industry promotion and in perfect unison with the neoliberal worldview, that "Contrary to the claims of heterodox development economists like Chang there are few clear-cut examples of successful state-led 'industrial policy' in this period".<sup>7</sup>

This argument is, overall, worth revisiting. This is because the historical record provides ample evidence to the contrary. Since the sixteenth century, sometimes even earlier, temporal authority and states began to actively support domestic industry with the mix of strategies and tools that has become known from 20<sup>th</sup> century development theory. Not all of them were successful; much of it was trial-and-error, i.e. a learning process; moreover, we still lack an uncontested bullet-proof definition or measuring concept of "state success" when it comes to promoting capitalism and economic development. The last comprehensive studies were Heckscher (on mercantilism) and Sombart's *Der moderne Kapitalismus* (final version 1927), which provide ample and incontrovertible evidence of the positive contribution of the early modern European fiscal-military state (a term coined much later but, essentially, covering what Sombart had in mind) to European economic development. Concerning industrial policy the argument is worth restating, particularly in the light of recent studies for early modern England.<sup>8</sup> Just because – to take but one example – some state-run manufactories (for uniforms and arms) in eighteenth-century Prussia or Austria (note the *Zeughaus*) in some years had low or no profits does not mean they did not make a long-term positive contribution to economic growth and development. Lateral, forward and backward linkages of state investment in the economic process could be manifold, various and –

6 Rosenthal/Bin Wong: *Before and Beyond Divergence*; Philip Hoffman: *Why Did Europe Conquer the World?* Princeton 2015. Werner Sombart, *Krieg und Kapitalismus*. München 1913.

7 Noel D. Johnson / Mark Koyama: *States and economic growth. Capacity and constraints, Explorations in Economic History* 64 (2017), pp. 1–20, at p. 3. The explicit reference is to Ha-Joon Chang: *Kicking Away The Ladder: Development Strategy In Historical Perspective*. London / New York 2002.

8 Parthasarathi: *Why Europe Grew Rich*; Ashworth: *Customs and Excise*.

especially with lateral linkages (“spill-overs”) essentially unquantifiable. In full-fledged form, these instruments can be found, as an applied policy as well as paradigm, in mid-eighteenth century Scotland, Flanders and certainly elsewhere. Industrial policy, infant industry protection and import substitution were no nineteenth- or twentieth-century inventions.<sup>9</sup> Secondly, state intervention went far beyond industrial policy narrowly framed, today as well as in the six centuries of European capitalism in its ascendancy, 1250s–1850. If we limit historical discussions of the state and its role in the economic process to industrial policy, we miss out on a much broader picture.

A *longue-durée* historical argument on “Bringing the state back in”<sup>10</sup> should therefore rest on much more than industrial policy and economic growth as narrowly defined in the modern economist’s literature, and it certainly was much more than coincidentally brought out as a by-product of war-faring states, by good institutions, commitment of rulers to safeguarding property rights and bolstering fiscal capacity by commitment to creditworthiness. My paper will provide a short comparative synopsis of the main aspects of pre-industrial state intervention and then provide some new interpretations. A first section discusses methodological problems in our assessment of state intervention and the question whether states could make a positive contribution to the economic process at all. A second section looks at urbanisation and cities as foundational for economic development in historical perspective. The third section discusses the main menu of choices of economic intervention in the age of capitalism’s ascendancy, 1300s–1850s. A fourth section provides a short global comparison and conclusion. I would like to argue that the menu of state intervention was richer than usually acknowledged and that, by a long history of trial-and-error since the last six or seven centuries the European states and states-in-the-making got increasingly better at governing the economy, laying the foundations for modern capitalist development and modern economic growth.

## I.

Any historical discussion on the role of the state in the process of economic development, especially when covering a larger time span and the pre-industrial period, hinges on problems. To name just the most obvious ones:

(1) The modern state as we know it was only in the making during the Renaissance and early modern period. Even in the nineteenth century age of industrialisation and globalisation it looked very different from the twentieth- and twenty-

9 See Ann Coenen’s chapter on eighteenth-century Flanders in Philipp R. Rössner (ed.): *Economic Growth and the Origins of Modern Political Economy. Economic Reasons of State.* London / New York 2016.

10 Peter B. Evans / Dietrich Rueschemeyer / Theda Skocpol (eds.): *Bringing the State Back In.* Cambridge 1985.

first century one. During the centuries of modern capitalism's ascendancy since the late medieval age and early modernity some features existed, or began to develop, that were – or became increasingly – similar to what modern states are and what modern states do. However, some historians would even deny that such thing as a “state” existed in medieval and early modern Europe. The older German literature often applies the word “state” to the late middle ages and early modern period quite uncritically, speaking of “*Staat*” when actually referring to what Kings and princes did, and what was captured under royal or princely prerogatives that usually only covered a very limited band of social and juridical influence (such as the regalian rights to minting and mining, right to call parliament, infrequent and irregular taxation, law-making and high justice). The more recent literature has stressed the fluidity of pre-modern states, state-hood and statecraft.<sup>11</sup> In the middle ages and early modern period the legislative, executive and judicative powers of rulers were limited. States and jurisdictions were fragmented or contested between kings or rulers and their native nobility.<sup>12</sup> Notions of “private” vs. “public” – as in authority or property rights, the former becoming an increasingly characteristic notion of the modern state – were only in the making.<sup>13</sup> Linear concepts of borders and modern definitions of state, citizenship and state denizenship either did not exist or were in the making during the early modern period. Often “state-like” authority was enacted on the local or regional level (English justices of the peace), by networks of actors rather than impersonal and centralized decision making processes that have become known as central features of “state” as defined in modern legal theory and sociology following Max Weber and others.

(2) Secondly, states, and what was the state, changed and varied considerably over time and space. There certainly never was a linear, unidirectional or exclusive trajectory towards the modern state. Therefore, in order to assess the state's role in the economic process, we first need to define what the state actually was, and for medieval and early modern Europe, this often means to define “who” the state was, by identifying the main individual actors, carriers and “containers” of statecraft and statehood. Clearly, this can only be done by means of regional or specific case studies, but never in a comprehensive or general survey, lest the discussion and its result become tautological. Therefore, the following discussions will limit itself to selected features or “possibilities” of statecraft and the promotion of capitalism and modern economic development, without claiming completeness.

(3) Third, it is not clear, and probably impossible to accurately quantify what the role of the state in the capitalist process was, or measure its contribution, posi-

11 Michael Braddick: *State Formation in Early Modern England c. 1550–1700*. Cambridge 2000; Martin van Creveld: *The Rise and Decline of the State*. Cambridge 2009; Wolfgang Reinhard: *Geschichte der Staatsgewalt. Eine vergleichende Verfassungsgeschichte Europas von den Anfängen bis zur Gegenwart*. Munich 2002.

12 Stephan R. Epstein: *Freedom and Growth. Markets and States in pre-modern Europe*. London / New York 2000.

13 Rafe Blaufarb: *The Great Demarcation. The French Revolution and the Invention of Modern Property*. Oxford 2016.

tive as well as negative, to economic development. Estimates of GDP per capita – one of the traditional mainstays of historical economic analysis, are shaky and very unreliable for most countries, apart from England, before 1850.<sup>14</sup> Moreover, economic growth, when commonly defined as the change in real per capita gross domestic product, is not an ideal measure of societal well-being – which would be one of the obvious metrics of state efficiency in influencing the economic process. States did more, or wanted to do more – if states, in an abstract way, actually “want” to do something – than simply promoting economic growth, which is broadly true for today as well as back then. We may, for instance, want to capture income distribution (social inequality), which may be more skewed in some countries than others whilst still resulting in broadly similar values for per capita income or increases in per capita GDP. It does not account for capability, denoting access to economic, social and political resources, such as basic political and individual legal rights, healthcare, sanitary facilities and a general increase in life expectancy. Economic growth as commonly defined is different from total factor productivity – which could be an alternative metric for assessing the role of the state played in the economic process; since the Renaissance promoting technology, useful knowledge and efficiency were explicit goals of temporal authority or state policy.<sup>15</sup> We know from the contemporary literature on manufacturing that since the sixteenth century rulers, princes and “states” were increasingly keen on promoting domestic productivity – from Giovanni Botero’s *Ragion di Stato* and his treatise on cities (1588/9), to the seventeenth and eighteenth-century economic literature ranging from Antonio Serra’s *Breve Trattato* (1613)<sup>16</sup>, Philipp Wilhelm von Hörnigk’s *Oesterreich über alles, wann es nur will (Austria Supreme if Only It Wills So, 1684)*<sup>17</sup>, to Johann Heinrich Justi’s many works on Cameralism, economics and manufactures.<sup>18</sup> In contemporary nations, this is one of the primary worries of governments, but historically speaking, both today as well as in the six or seven centuries before us, state goals have always included more. Fiscal data (on tax yields or related metrics) can be quite shaky for most periods before the Glorious Revolution, albeit they have been widely used for even global compari-

14 Stephen Broadberry et al: *British Economic Growth, 1270–1870*. Cambridge 2015.

15 Erik Reinert: *Role of the State in Economic Growth*, *Journal of Economic Studies* 26 (1999), pp. 268–326.

16 Sophus Reinert (ed.): *A ‘Short Treatise’ on the Wealth and Poverty of Nations* (1613). London / New York 2012.

17 Philipp Robinson Rössner (ed.): Philipp Wilhelm von Hörnigk. *Austria Supreme (if it so Wishes)* (1684): *A Strategy for European Economic Supremacy*. London / New York 2018.

18 Jürgen Backhaus (ed.): *The Beginnings of Political Economy*. Johann Heinrich Gottlob von Justi. New York 2009.

son<sup>19</sup>, which makes quantifications of state activity in the economic process difficult. Nor were most pre-1900 European economies, except for England, possibly the Netherlands, so integrated and differentiated and aligned to monetary-based market exchange in the way most twentieth century economies were. If we assume that money, markets and monetary transactions were equally important in every European or world region, we face an inherently questionable proposition. This lies in the assumption of the market being the main or even major clearing agent for transactions, demand and supply of productive factors and other resources, i.e. goods, services, capital, labour etc. Recent studies in the history of European development, as well as general work relating to modern developing or “less developed countries” (LDCs), however, demonstrate that this is too simplistic. The non-marketed and non-monetized (there is a difference between the two) sectors of the economy may be significant in terms of their contribution to overall economic activity but remain inherently unquantifiable using monetary values when the inputs in the productive system were sourced outside the market. This applies to redistributive, extractive and other means of (dis)appropriation, as documented widely for many pre-industrial enterprises in the feudal and demesne systems, particularly but not exclusively east of the River Elbe.<sup>20</sup>

(4) Then, political economy enters the game. Even in the post-1648 age of princes, formerly called “Age of Absolutism” – a concept now given up by most historians – rulers were never fully sovereign (as much as some claimed they were, as the example and Age of the French Sun King Louis XIV has shown). Power was always divided between king and nobility, cities and other intermediaries, between rulers and their agents, who acted in the king’s (or prince’s) stead, but often on their own account and so on. Some state policies, e.g. levying import taxes upon imported English cloth, harmed other producers, such as the French wine growers of the outer provinces of the French kingdom, who vehemently opposed such measures of protectionism that were suggested by merchants and officials of the manufacturing areas within the inland provinces. They thus lobbied for “free trade” around 1700, but not because of common sense, but in order to keep the English market open for their wine exports

19 But see the excellent survey and data in Mark Spoerer: *The Revenue Structures of Brandenburg-Prussia, Saxony and Bavaria (Fifteenth to Nineteenth Centuries): Are They Compatible with the Bonney-Ormrod Model?*, in: Simonetta Cavaciocchi (ed.): *La fiscalità nell’economia europea secc XIII–XVIII: atti della “Trentanovesima Settimana di Studi”*, 22–26 aprile 2007; vol. 2 = *Fiscal systems in the European economy from the 13th to the 18th centuries*; vol. 2. *Fond. Ist. Internazionale di Storia Economica “F. Datini”*, Prato: S. 2, *Atti delle settimane di studi e altri convegni*, 39, 2. Firenze University Press, Florence, pp. 781–791, the global survey in: Bartolomé Yun-Casalilla / Patrick K. O’Brien (eds.), *The Rise of Fiscal States: A Global History, 1500–1914*. Cambridge 2012; or K. Kivanç Karaman / Şevket Pamuk: *Different Paths to the Modern State in Europe. The Interaction between Warfare, Economic Structure and Political Regime*, in: *American Political Science Review*, vol. 107(3), pp. 603–626.

20 Witold Kula: *An Economic Theory of the Feudal System*. London 1976. An excellent recent survey is Markus Cerman: *Villagers and lords in Eastern Europe, 1300–1800*. Basingstoke 2012.

(5) Whilst every state has some sort of economic policy, *nolens et volens*, as Noble Laureate Joseph Stiglitz has recently mused<sup>21</sup>, it is rather difficult to formulate causal arguments and quantitatively testable models of state policy and economic development, especially when seen in a deep-historical perspective. To what extent is one particular economic policy successful or not, and how do we prove or measure this?

(6) There may be a lack of sources and documents, which precludes us from accessing, in precise terms, everything the state, or ruler or government did, including the possible outcomes of such policy across the whole spectrum of economy and society. Historians are aware that what has been left in archives only represents a snapshot of what happened in reality; we can never be sure about this snapshot's representativeness for the whole.<sup>22</sup> Often the state or public authorities only recorded in writing – by means of acts, deeds, edicts and proceeds – when things went wrong. Good times and normal conditions were not recorded in the same density and with the same degree of coverage and hardly made it into the archives. Moreover, poststructuralist theory has stressed the nature and origin of the archive as a human-discursive process and pre-selection of data, adducing a fundamental bias to any historical narrative that is based on written relics.

(7) In the same way, we cannot always know whether those historical subjects who made such decisions and policy considered in the same way what we consider as economic or economic policy.<sup>23</sup> The separation of the “economic” from the “political” and “social” is a brainchild of the European enlightenment and represents a massive historical fiction.<sup>24</sup>

(8) Moreover, there may be an asymmetry between the state's intentions regarding a particular economic policy or measure of policy and the actual or documented outcomes. Many of these outcomes could be unintended, and thus fail to be accurately covered in the historian's archival record.<sup>25</sup> They may be much weaker and less pronounced than originally anticipated by government. Years may pass between a peculiar policy or strategy and the time when this policy began to make itself felt within the market process, i.e. to pay off. There is always a degree of time-indeterminacy in the process. The costs of a particular policy may outweigh the recorded, observed or imputed benefits.

(9) Lastly, there may be spillovers and lateral linkages into sectors other than those originally targeted by the government or temporal authority, which are hard to measure or even comprehensively detect. This may compound the problem of determining the “success” of a particular economic policy, then or now.

21 See, e.g. Joseph E. Stiglitz / Justin Lin Yifu (eds.): *The Industrial Policy Revolution I: The Role of Government Beyond Ideology*. Basingstoke 2013.

22 Markus Friedrich: *Die Geburt des Archivs*. München 2013.

23 One of the most recent discussions of this can be found in Julian Hoppit: *Britain's Political Economies. Parliament And Economic Life, 1660–1800*. Cambridge 2017.

24 Pankaj Mishra: *Age of Anger. A History of the Present*. London 2018.

25 Lars Magnusson: *Nation, State and the Industrial Revolution*. London / New York 2009, esp. chs. 1, 2. Rosenthal/Bin Wong: *Before and Beyond Divergence*, ch. 1.

Political economy, mentioned above, has always been a tricky game, not only in modern societies. Dictatorship and democracy alike have been open to factions, lobbying and rentseeking, albeit fragmented states and autocratic regimes certainly provide more scope for any of these welfare distortions.<sup>26</sup> The post-1688 English state, which counts amongst many historians as amongst the first “modern” states<sup>27</sup>, remained profoundly corrupt, exclusive and non-democratic until late.<sup>28</sup> Scotland, one of the fastest-growing modernising countries after 1740 was ruled by a class of aristocrats and their voice and headmaster, the Scottish “viceroy” and Duke of Argyll, who governed Scotland by direct correspondence with the English First Minister Sir Robert Walpole, with only a handful of Acts of Parliament passed after 1707 that directly related to Scottish affairs.<sup>29</sup> Many aspects of English, and after 1707 British politics and policy cannot reasonably classify as anything else than rent seeking, factionism, cronyism and a closed-shop game. Even though Parliament (mainly the House of Commons) attained an increasing significance in discussing, shaping and configuring economic policy between 1650s and 1850s, and a lot of economic measures and initiatives initially tied to particular interest or pressure groups began to generate positive spill-over effects for the British economy at large.<sup>30</sup>

One could argue that regulation and economic intervention should follow “defensible reasons of economic or social policy” (McLean). Nevertheless, quite obviously, no regulative policy, however well defensible in the interest of the common weal has ever passed, nor ever will, the litmus test of complete impartiality. This applies to modern democracies in the West, in the same way as to less inclusive societies elsewhere, present and past; it is the forms, which the negotiation of the political process takes, and the degree of involving the governed and enfranchisement of the ruled that determines about the degree of “inclusiveness” of the politico-economic process. To briefly elaborate, as a *pars pro toto*, a point made below: The history of tariff legislation in France around 1700 shows this nicely: what the chambers of the manufacturing inland provinces demanded, arguing in favour of a tariff on imported English manufactures, would be common sense to any modern development economist. So would, in the ear of the modern Ricardian “free trader”, the argument proposed by the agrarian provinces of France at the same time, which ran contrary to the discourse propagated by the French inland provinces. The representatives of the French agrarian provinces, heavily depending upon viniculture and wine exports, called for free trade, or an abolition on

26 Daron Acemoglu: *Economic Origins of Dictatorship and Democracy*. Cambridge 2009; Acemoglu/Robinson: *Why Nations Fail*.

27 Acemoglu/Robinson: *Why Nations Fail*.

28 On economic administration in eighteenth-century England, see, e.g. Ashworth: *Customs and Excise*; Julian Hoppit: *A land of liberty? England 1689–1727*. Oxford 2003; Hoppit: *Britain’s Political Economies*.

29 Bruce P. Lenman: *Enlightenment and Change. Scotland 1746–1832*. Edinburgh 2009; Alexander Murdoch: “The people above”. *Politics and administration in mid-eighteenth-century Scotland*. Edinburgh 1980.

30 Hoppit: *Britain’s Political Economies*.

import duties on English cloth, to promote wine exports free of customs duties to England.<sup>31</sup> Here the free trade argument was purely ideologically motivated. The Council of Commerce under Jean Baptiste Colbert would always reflect some vested interests, by private persons, merchants, manufacturers and entrepreneurs, even though the factual results of policy decisions were usually portrayed as something that advanced the common weal, regardless which side – free traders or protectionists – won the case in each instance. That means that particularly in early modern Europe behind many a piece of major economic and commercial legislation in the early modern period there stood a powerful agent or interest group. Throughout Europe since the Renaissance, merchants were called for advice, as in most countries in early modern Europe. Often, when it came to implementing economic regulation relating to coinage and currency, markets and manufacturing, merchants had the best insights into the workings of the contemporary market economy. This does not necessarily make some of their ideas better, or less driven by self-interest than others. It is important rather to understand some of the tools in the box of policy and market intervention since the Renaissance and to see them as fundamentally embedded into wider, and often strictly non-economic, contexts of society, culture, and political economy. The latter may well include politics, finance and war; as is well known, late medieval and early modern states were bellicose, and they developed an increasingly sophisticated taxation apparatus, political process and fiscal infrastructure to finance a growing demand for armed militia and military materiel. Werner Sombart was amongst the first to highlight the strong, almost intrinsic connexion between the merchant as military entrepreneur, running state-privileged cloth (uniforms) and arms manufactories and iron works privileged by the respective rulers of the age, as was the case in seventeenth- and eighteenth-century Prussia, Habsburg-Austria, Denmark-Norway, Sweden – where a lot of the ironworks were run not by native Swedes, but immigrant Scotsmen.<sup>32</sup> This also underlies the increasing international dimension and international networks of what has become known as “fiscal-military state.” In early modern England, as well as many other developing fiscal-military states, policies of taxation or promoting certain parts of economy, industry and technology may purely follow a military expenditure rationale, and Charles Til-

31 Moritz Isenmann: *From Privilege to Economic Law. Vested Interests and the Origins of Free Trade Theory in France (1687–1701)*, in: Philipp R. Rössner (ed.): *Economic Growth and the Origins of Modern Political Economy. Economic Reasons of State*. London / New York 2016, pp. 105–121.

32 Steve Murdoch: *Network North: Scottish Kin, Commercial and Covert Associations in Northern Europe, 1603–1746*. Leiden 2006.

ly's dictum that "states made war and war made states", whilst being a pun, is fundamentally true.<sup>33</sup>

## II.

Historical economists nowadays often use comparative urbanization levels to approximate historical economic growth in long-run and cross-sectional perspective<sup>34</sup> (avoiding speculative per capita GDP figures which are artificial before 1850), even though here is a variety of measuring biases as well. There are two rationales, methodologically as well as historically, why urbanization figures tell us a lot about a society's capacity to raise well-being and nourishment amongst its population, and why this matters for the overall test on the role of the state in the economic process. The first is about productivity and the capacity to nourish people. In pre-modern pre-industrial economy, urban, i.e. non-agrarian populations only grew over time when the remaining agrarian population became more productive than previously. Thus, wherever we find urban growth this must mean by default – disallowing for trade (imports, exports) – that some transformation in productivity, division of labour, market integration and income growth in the surrounding agrarian regimes would have been the likely cause and effect at the same time.<sup>35</sup> Indeed, since the Renaissance there was growth in European urbanisation, literally everywhere, humble and less pronounced in Poland, Scandinavia and the Holy Roman Empire, and more dynamic in early modern England and the Netherlands, which matches the record of agrarian productivity change particularly in the agrarian hinterlands of the big cities. Scotland and England exhibited most dynamically growing urbanisation rations, 1600–1850.<sup>36</sup> Depending upon the threshold or benchmark figure chosen for defining what a big "city" was, urbani-

33 Charles Tilly: *Coercion, Capital, and European States. AD 990–1992*. Cambridge MA 1992; Patrick O'Brien: *The Nature and Historical Evolution of an Exceptional Fiscal State and its Possible Significance for the Precocious Commercialization and Industrialization of the British Economy from Cromwell to Nelson*. *Economic History Review*, Second Series 64:2 (2011), pp. 408–446; William J. Ashworth: *The Demise of Regulation and Rise of Political Economy. Taxation, Industry and Fiscal Pressure in Britain 1763–1815*, in: Philipp R. Rössner (ed.): *Economic Growth and the Origins of Modern Political Economy. Economic Reasons of State, 1500–2000*. London / New York 2016, pp. 122–136.

34 See, e.g. Daron Acemoglu / Simon Johnson / James Robinson: *The Rise of Europe. Atlantic Trade, Institutional Change, and Economic Growth*. *American Economic Review* 95:3 (2005), pp. 546–579; or Daron Acemoglu / Davide Cantoni / Simon Johnson / James A. Robinson: *The Consequences of Radical Reform. The French Revolution*, *American Economic Review*, Vol. 101, N. 7 (2011), pp. 3286–3307; Davide Cantoni: *Adopting a New Religion. The Case of Protestantism in 16th Century Germany*, *Economic Journal*, Vol. 122, N. 560 (2012), pp. 502–531.

35 E. A. Wrigley: *A Simple Model of London's Importance in Changing English Society and Economy 1650–1750, Past & Present* 37 (1967), pp. 44–70.

36 Thomas M. Devine: *Urbanisation*, in: Id. / Rosalind Mitchison (eds.): *People and Society in Scotland*, Vol. I: 1760–1830. Edinburgh 1988, pp. 27–52.

sation and economic performance improved considerably over time, most impressively in the cases of those countries which have identified as “first modern”, i.e. England and the Netherlands, and which also exhibited, since the middle ages, fairly well-founded, even centralised, forms of government or “strong” states.<sup>37</sup>

The second reason why urbanization was essentially important for economic development was laid out by Giovanni Botero, who wrote, in Book Eight of his *Ragione di Stato*, originally part of his other opus magnum *Delle cause della grandezza delle città* (Rome, Martinelli, 1588) but since 1589 included in the *Reason of State*:

Nothing is of greater importance for increasing the power of a state and gaining for it more inhabitants and wealth of every kind than the industry of its people and the number of crafts they exercise. (...) These crafts cause a conflux of money and of people, some of whom work, some trade in the finished products, some provide raw materials and others buy, sell and transport from one place to another the fruits of man’s ingenuity and skill. (...) Since art is the rival of nature I must consider which is of more importance to make a state great and populous, the fertility of the soil or the industry of man. Without hesitation I shall say industry. Firstly, the products of the manual skill of man are more in number and of greater worth than the produce of nature, for nature provides the material and the object but the infinite variations of form are the result of the ingenuity and skill of man. (...) And how many people depend for their livelihood upon their skills rather than directly upon nature. Such is the power of industry that no mine of silver or gold in New Spain or in Peru can compare with it, and the duties from the merchandise of Milan are worth more to the Catholic King than the mines of Zacatecas or Jalisco. (...) A prince, therefore, who wishes to make his cities populous must introduce every kind of industry and craft by attracting good workmen from other countries and providing them with accommodation and everything convenient for their craft, by encouraging new techniques and singular and rare works, and rewarding perfection and excellence.<sup>38</sup>

It was in cities, Botero argued, where we would be most likely to find manufacturing. Manufacturing meant transforming physical matter, say iron ore, into something that would be worth more in the end than the total sum expended on acquiring all the initial ingredients – say, by smelting the iron into bar iron, using ovens and hearths, charcoal (or mineral coal) as well as a certain number of workers necessary for the process. This entailed capital layouts, for machines, tools, ovens, implements, or houses in which manufactures were made and workers were assembled. But most importantly it was the ingenuity of the smelter and the men who had designed and created smelting ovens, and who had worked out the technique of reliably smelting high-quality bar iron, something which early modern

37 Jan de Vries: *European Urbanisation 1500–1800*. London 1984; Jan de Vries / Ad van der Woude: *The First Modern Economy. Success, Failure, and Perseverance of the Dutch Economy, 1500–1815*. Cambridge 1997; Maarten Prak: *The Dutch Republic in the Seventeenth Century. The Golden Age*. Cambridge 2005; Paul M. Hohenberg / Lynn Hollen Lees: *The Making of Urban Europe, 1000–1994*. Cambridge, Mass. 1995.

38 Giovanni Botero: *The Reason of State / Della ragione di stato*, transl. P. J. and D. P. Waley, with an introduction by D. P. Waley & *The Greatness of Cities*, translated by Robert Peterson 1606. New Haven 1956, pp. 150–153.

Swedish iron makers and iron works were proverbial for.<sup>39</sup> Moreover, the income elasticity of demand for non-essentials such as manufactures is higher than for foodstuffs and other essential goods such as grain. This means that demand for manufactures can grow more dynamically over time than demand for foodstuffs and other primary goods. Botero's text bears out a sense of appreciation of this simple causal mechanism. He disregarded the rural manufacturing activities that spread across late medieval and early modern Europe, known to scholars by names such as "Proto-industrialization" and the rise of "domestic" or *Verlag* industry" and emphasised the locational-agglomerative advantage provided by cities.<sup>40</sup> Later, eighteenth-century German Cameralist writers from lesser-known characters such as Johann Daniel Crafft (1683) to the proverbial Arch-cameralist Johann Heinrich von Justi (1717–1771) habitually emphasised that manufacturing must be located in cities, not the countryside, to achieve an even process of social and economic development.<sup>41</sup> It was cities where manufacturing was considered to be most dynamic; and since the Renaissance manufacturing accordingly stood at the heart of development theory.

### III

What arguments can be constructed historically on the role of the state and economic development? The most obvious one seems a story that connects the rise of the modern state, often depicted as the "fiscal-military state" to the rising demands on states due to an increase in warfare and warlike conflicts, or else the need to raise the opportunity costs of warfare by a competitive arms race. Kennedy most elegantly told the story<sup>42</sup>, but many other historians studying the virtues and vices of the early modern European "fiscal-military state" have adopted the

39 Chris Evans / Göran Rydén: *Baltic Iron in the Atlantic World in the Eighteenth Century: Atlantic World. Europe, Africa and the Americas, 1500–1830*. Leiden 2007.

40 The literature on the putting-out or *Verlag* system, as well as the concept of proto-industry and proto-industrialisation is certainly vast; see the good surveys in: Sheilagh C. Ogilvie / Markus Cerman: *European Proto-industrialization. An Introductory Handbook*. Cambridge / New York 1996; on (mainly) urban craft guilds, see Stephan R. Epstein / Maarten Roy Prak (eds.): *Guilds, Innovation, and the European Economy, 1400–1800*. Cambridge 2010. The classic study on proto-industrialisation is Peter Kriedte / Hans Medick / Jürgen Schlumbohm: *Industrialisierung vor der Industrialisierung. Gewerbliche Warenproduktion auf dem Land in der Formationsperiode d. Kapitalismus*. Göttingen 1977. On Botero, from the viewpoint of his 'demographics', see the recent study by Justus Nipperdey: *Die Erfindung der Bevölkerungspolitik. Staat, politische Theorie und Population in der Frühen Neuzeit*. Göttingen 2012, pp. 65–98, with references to literature on Botero on pp. 65–66.

41 Marcus Sandl: *Ökonomie des Raumes. Der kameralwissenschaftliche Entwurf der Staatswirtschaft im 18. Jahrhundert*. Köln 1999.

42 Paul M. Kennedy: *The Rise and Fall of the Great Powers. Economic Change and Military Conflict from 1500 to 2000*. New York 1987.