1 Introduction: the rise of the fiscal state in Eurasia from a global, comparative and transnational perspective

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Introduction

This volume confronts the problem of the formation of fiscal states in Eurasia. Its chapters deal with a variety of phases in the formation of fiscal units deploying different approaches and methodologies. A variety of chronologies and a plurality of political boundaries qualifies notions of European exceptionalism and unity.[1] Europe appears as a diversified space where some polities look more similar to Asian cases than they do to their neighbours. Together, the essays collected here serve to degrade simplified modernization theories that contend that societies pass through the same stages to reach similar outcomes.

Although societies responded to the same stimuli in concrete but often comparable ways, this volume essentially supports the thesis that the formation of fiscal regimes can only be understood in terms of a heterogeneous historicity, varying in space and time. Eurasian history provides us with a set of case studies that undermines any simplistic views of Western primacy, demolishes the overly teleological Schumpeterian perspective on the formation of fiscal states and displays distinctions between fiscal regimes and 'fiscal states'. The latter term is reserved to describe nations and democratic states as they emerged over the nineteenth century.

I wish to thank Patrick O'Brien for his help, comments and encouragement when writing this chapter. I am responsible, however, for all the remaining shortcomings.

[1] Some chapters take as a reference the current nation-state framework rather than more heterogeneous political entities, for example Austria and not the Habsburg Empire. Others, however, aim to analyse the set of polities that preceded the nation-state: i.e. the group of Italian republics and kingdoms (and Papal States) prior to Italian unification. Some authors opt for a mix and sequential approach: Castile and then Spain, or even the different and changing territories that we today call China over a period of more than two thousand years. In many cases, such as France, Portugal, Belgium, the Netherlands and Japan, political stability over the centuries makes current borders a plausible way to define the geopolitical analytical framework. In other cases, authors have decided to look at imperial units and their processes of expansion, change and decline: the Ottoman Empire, the Mughal and East India Company and Russia.

Schumpeter's seminal essay constituted an attempt to understand the problems of Austria and its post-First World War crisis in terms of its fiscal history. For Schumpeter, the crucial step in the formation of fiscal states consisted in the shift from a system based on resources derived from the king's domain (a *domain state*) to another system where the kingdom became involved in providing the prince with funds (*tax state*).[2] Taxes became the backbone of the 'modern state' and something impersonal, 'a machine manner [sic] only by serving, not by dominating spirits'. For the Austrian economist, who assumed that the (fiscal) state works for the common good by creating the conditions for economic growth, the fiscal state is a product of Western history linked to the rise of the nation-state and democracy, and distinct from the private and public spheres.[3]

Almost fifty years after Schumpeter published these ideas, D. North opened a new debate on the subject. For North the key to economic growth was not fiscality, but rather the formation of a state that defended property rights, that led to economic change. Yet this state obviously attained a monopoly over violence as well as the capacity to obtain private resources in order to use them to defend the social order and well-defined individual property rights, with the consequent reduction of transaction costs. Thus, North's fiscal state was one that exchanged services of protection and order for fiscal resources as efficiently as possible to facilitate economic growth. According to North, such conditions appeared precociously in late-seventeenth-century England.[4]

[2] This shift flowed from the exhaustion of the royal domain and the increasing needs of the state. Thus the fiscal state implied the rise of a public sphere that differed fundamentally from the private sphere of the prince and that already anticipated the rise of democratic fiscal states. Several stages can be distinguished in the process identified by Schumpeter. First, the king had to tax the wealth and incomes of those who controlled the kingdom's resources. Second, taxes were assessed and collected by kings who came to represent states: 'l'état c'est moi!'. This implied the dissolution of feudal communities and the emergence of individuals as key nodes in the relationship between state and society. The final step, democracy, placed control of fiscal systems with the people. Schumpeter's (and Goldscheid's) fiscal sociology represented the fiscal system as a reflection of the nature of a society, of its political structure as well as its spirit, and the 'fiscal history of a people is above all an essential part of its general history'. J. A. Schumpeter, 'The crisis of the tax state', in R. Swedberg (ed.), *J. Schumpeter, the economics and sociology of capitalism* (Princeton University Press, 1991), pp. 99–140.

[3] Ibid., p. 111. The term 'fiscal state' is used by authors in this volume in a general way not always associated with the ideas of Schumpeter. Instead of relying upon Schumpeter, I will try to maintain a distinction between fiscal regimes and fiscal systems not necessarily linked to the nation-state and tax states. See R. A. Musgrave, 'Schumpeter crisis of the tax state: an essay in fiscal sociology', *Journal of Evolutionary Economics* 2 (1992), 89–113.

[4] See mainly, D. North, *Structure and change in economic history* (New York: Norton, 1981).

This introductory chapter attempts to offer an overview of the interactions between different fiscal regimes, and the global, comparative and transnational perspectives essential for understanding processes of divergence and convergence as a background to the ways in which fiscal states evolved during the nineteenth and twentieth centuries.[5] It will also propose a cross-reading of the different chapters, aiming to place them within the context of Schumpeter's and North's theories on the rise of fiscal states and the modern nation-state's political economy.

War and international trade as forces in fiscal history: a global and long-run perspective

Today historians recognize the importance of war and international commerce as forces that have promoted the development of fiscal systems and states to change. Schumpeter and North themselves emphasized both phenomena. Nevertheless, with the exception of certain recent work, the application of such reasoning to only European cases has facilitated some misconceptions.[6] Let me, however, undertake a series of reflections, even at the risk of repeating ideas familiar to specialists.

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From Marco Polo until *c.* 1713 important changes took place in the interlinking of different fiscal systems.

In the fifteenth century Eurasian trade and commerce across the Mediterranean not only increased rivalries among republics, such as Genoa and Venice, that aimed to control trade routes, but also provided them with the necessary resources for the taxation of international commerce.[7] Inserted in that trade, the Ottoman Empire is a good example of how combinations of war and trade affected fiscal development in the fifteenth century.[8] Military expansion under the rule of Mehmed II and

[5] J. L. Cardoso and P. Lains (eds.), *Paying for the liberal state: the rise of public finance in nineteenth-century Europe* (Cambridge University Press, 2010).

[6] An excellent exception that, nevertheless, does not exhaust the subject of how the interaction of different fiscal systems through war affected each of them, is R. Findlay and K. O'Rourke, *Power and plenty. Trade, war, and the world economy in the second millennium* (Princeton University Press, 2007).

[7] See Pezzolo, Chapter 11 in this volume. For the Venetian case and the wars with Genoa and then with the Turks, which had a crucial impact on expansion to the mainland and the formation of the fiscal state, see F. C. Lane, *Venice. A maritime republic* (Baltimore and London: The Johns Hopkins University Press, 1973), pp. 189–201, 225–39 and 324–7; and S. R. Epstein, *Freedom and growth. The rise of states and markets in Europe, 1300–1750* (London: Routledge, 2000), pp. 149–51.

[8] For a general perspective, F. Braudel, *The Mediterranean and the Mediterranean world in the age of Philip II* (London: Collins, 1972) Vol. II, chapter 2, remains useful. See also different works by Pamuk and particularly Chapter 13 in this volume.

his successors was a way of controlling resources by the state, while the stability of the whole imperial system was based on long-distance trade networks.[9] The essays on the Italian states (Pezzolo, Chapter 11) and the Ottoman Empire (Pamuk, Chapter 13) also highlight the key role of competition between states to capture international commerce in order to favour merchants' property rights, which constituted a powerful agent of change in fiscal systems. These developments, as predicted by North's general theory but contrary to his historical analysis, occurred not only in Europe, but in other areas as well.

European expansion overseas stimulated political competition, increased globalization and effected the development of fiscal regimes in different ways depending on local circumstances.

Denis O. Flynn has related European Atlantic expansion to the need for precious metals generated by the development in China of tax payments in coin from the fifteenth century.[10] Although the idea may require certain nuances, it will certainly be decisive to a better understanding of fiscal systems from a global perspective in the future. Whatever the answer to this question might be, oceanic expansion is certainly important to the history of fiscality in Eurasia (and not just Europe). Until about 1580, Portugal enjoyed an exceptional situation derived from its status as a pioneer in voyages of discovery. This initial advantage may have enabled Portugal to confront important changes in relative prices without the need for a profound fiscal reform. Under Portuguese law, the monopoly on overseas trade was automatically recognized as a regal right, which placed huge resources in the king's hands.[11] But this situation also meant that the fiscal regime did not imply any deep societal or parliamentary involvement in the kingdom's fiscal system. Portugal remained a sort of *domain state*, like England, Denmark, the German states (M. North, Chapter 6) and many other polities in Europe during the same epoch, where the king's domains constituted the main sources of crown income.[12] Furthermore, Portugal was also a *rentier state* in

[9] I. Wallerstein, H. Decdeli and R. Kasaba, 'The incorporation of the Ottoman Empire into the world-economy' in H. Islamoglu-Inan (ed.), *The Ottoman Empire and the world-economy* (Cambridge University Press, 1990), pp. 88–97.

[10] D. O. Flynn and A. Giráldez, 'China and the Manila Galleon', in D. O. Flynn (ed.), *World silver and monetary history in the 16th and 17th centuries* (Aldershot and Brookfield: Ashgate, 1996), pp. 71–7.

[11] An excellent and brief analysis of the Portuguese empire and its impact on the Portuguese economy is J. M. Pedreira, '"To have or not to have". The economic consequences of Empire: Portugal (1415–1822)', in P. K. O'Brien and L. Prados de la Escosura (eds.), *The cost and benefits of European imperialism from the conquest of Ceuta, 1415, to the Treaty of Lusaka, 1974. Revista de Historia Económica* 1 (1998), 93–122.

[12] L. E. Petersen 'From domain state to tax state (synthesis and interpretations)', *Scandinavian Economic History Review* 23 (1975), 116–42.

that a high proportion of its revenues did not come from the kingdom's economy, but from other territories. Mata's essay (Chapter 9) shows that the royal fiscal system hardly penetrated Portuguese society until the eighteenth century, though very clear symptoms were already present by 1630–50.[13]

The Castilian case looks different. Atlantic expansion also augmented royal income from overseas, which allowed the crown considerable autonomy. At the same time, the Treaty of Tordesillas (1494) avoided whatever type of overlap with Portugal that would lead to competition between the two states in order to guarantee the general property rights of each of their mercantile classes. The American empire created, moreover, significant differences between the king of Castile and other princes whose capacity for gathering tax revenues was strongly constricted by their parliaments.[14] Castile did not, however, evolve into a *rentier state* because its fiscal system penetrated deeply into Castilian society and economy. On the other hand, and in contrast to Portugal, the fact that Castile's society numbered among Europe's most urbanized and dynamic favoured the formation of a relatively efficient fiscal regime capable of responding to international credit and supporting a fiscal system largely dependent upon Genoese and German bankers with tax revenues paid to the crown.

The global scope of these Iberian fiscal regimes, particularly the Castilian tax regime around which the Habsburg dynasty built an international composite monarchy, brought radical changes to American societies where tribal polities and two empires – the Inca and Aztec – were much weaker in military and fiscal terms and were easily taken over by the military–fiscal might of Castile. Differences appear immediately between the relationship of Castile to America and that of Portugal to Asia. In Asia, Portuguese power faced problems derived from the opposition of stronger fiscal and military enemies. Spaniards in America interacted with weaker states and pre-Colombian fiscal systems. At the same time, the fiscal regime of Spain's composite monarchy was marked by enormous asymmetries across its territories. Castile's capacity to mobilize resources from a dynamic domestic economy and its colonies in the Americas created conditions for a political stalemate that retarded the need for reforms in the kingdoms of Aragon, Valencia, Catalonia, Navarre, Sicily, Sardinia and Naples.[15] In this respect, the

[13] Pedreira, "'To have or not to have'".
[14] B. Yun-Casalilla, *Marte contra Minerva. El precio del Imperio español, c. 1450–1600* (Barcelona: Crítica, 2004), chapters 5 and 6.
[15] M. Rodríguez Salgado, *The changing face of the Empire. Charles V, Philip II and Habsburg authority, 1551–1559* (Cambridge University Press, 1998).

fact that the Hispanic monarchy, with Portugal added to it in 1580, was a dynastic and 'multinational' composite monarchy would also be decisive. The monarchs of Castile were much more active than is usually thought in guaranteeing their subjects positive conditions for commerce and property rights.[16] Yet it is no less certain that, de facto, these advantages (and certain problems derived from them) were guaranteed to political and financial allies, like Genoa, or to the subjects of the monarchy's other territories, such as the Catholic Low Countries.

Clashes on the battlefields between the Castilian and other fiscal systems became a crucial factor in European history. The Ottoman Empire had created a relatively efficient fiscal system, but it became necessary to develop it further to confront the Habsburgs' power in the sixteenth century (Pamuk, Chapter 13). Confrontation with Castile from the end of the fifteenth century led to reforms in an archaic French system (Bonney, Chapter 4). In Italy, the involvement of the different polities in the wars between Spain and France led to changes in the fiscal regimes of Milan, Venice and the Duchy of Tuscany. The changes in the Austrian system were related to wars in Central Europe, but also to more global confrontations with the Ottoman Empire (Pieper, Chapter 7).

During the seventeenth century, wars, the expansion of oceanic trade and colonization continued to be decisive for the evolution of fiscal regimes throughout Eurasia. Glete has characterized the period 1560–1660 as a second phase in the formation of European fiscal–military states.[17] The war against the Spanish Habsburgs and the need to expand a colonial system were decisive for the formation of a relatively efficient fiscal system in Holland, where a combination of medieval parliamentarianism and republicanism led to a financial revolution and facilitated the development of international banking and the foundation of the Bank of Amsterdam in 1609. During the early modern period 'war remained the major driving force in Dutch state formation' (Fritschy, 't Hart and Horlings, Chapter 2). Thanks to the reforms of Richelieu, which were also closely connected to the wars with Spain, the Thirty Years War and Louis XIV's wars with England and Holland, the fiscal regime also changed in France. Sweden, deeply involved in warfare, also combined components of archaism and a modern fiscal system.[18] In Central Europe, where colonial expansion had little

[16] Yun-Casalillla, *Marte contra Minerva*, pp. 161–5.
[17] J. Glete, *War and the state in early modern Europe. Spain, the Dutch Republic and Sweden as fiscal-military states, 1500–1600* (London and New York: Routledge, 2002), pp. 22ff.
[18] Ibid., passim.

impact, war played a key role. The threat from a 'Swedish military state was the direct cause of the development of Denmark–Norway and Brandenburg–Prussia into similar states'.[19] In the latter the fiscal reforms that began in 1647 were directly related to warfare in the region (M. North, Chapter 6). For Austria and some of the territories federated into the Holy Roman Empire, these were also key years for fiscal reforms (M. North and Pieper, Chapters 6 and 7). In the Catholic Low Countries, whose status as a political frontier had prevented the Habsburgs from making burdensome fiscal demands, Janssens notes (Chapter 3) that the *benevolences* increased during the seventeenth century. Similarly, in the Papal States, 'Papal finances developed under the influence of political and military emergencies' (Piola Caselli, Chapter 12). The same could be observed for Milan, Naples and other Italian states within the Spanish Habsburg system, where the crown's fiscal pressure increased during the seventeenth century as never before, as the system moved towards the formation of a tax state.[20] A crucial step towards the formation of the western European tax state was taken in England in 1688, when a fiscal revolution took place there that combined parliamentary control of taxes and the accumulation of debt with the formation of a central bank to support public credit. The outcome was a system in which a political and social consensus among the elites became the basis for the reduction of risk associated with monarchical taxation and borrowing.[21]

Yet a European perspective on these phenomena is not sufficient. The essays brought together here demonstrate that the leap towards globalization led by Portugal, Castile and then Holland and England, also became important for the workings of Asian fiscal systems. It is better known that Castilian monetary stability was only maintained until 1609 thanks to the remissions of American silver that made it possible to avoid debasement measures especially negative for Castilian society. It is also possible that American silver may have helped attain monetary

[19] Ibid., p. 28.

[20] Apart from chapters 11 and 12 in this volume, see A. Calabria, *The cost of Empire. The finances of the kingdom of Naples in the time of Spanish rule* (Cambridge University Press, 1991); G. Muto, *Le finanze publiche napolitane tra riforma e ristaurazione (1520–1634)* (Naples: Edizioni Scientifiche Italiane, 1980); A. Bulgarelli Lukacs, '"Domain state" e "Tax state" Nel regno di Napoli (secoli XII–XIX)', *Società e storia* 106 (2004),781–812; L. Pezzolo and E. Stumpo, 'L'imposta diretta in Italia dal medioevo alla fine dell'ancien regime', *Nota di Lavoro. Dipartimento di Scienze Economiche* 12 (2007) (accessed 6 December 2010 at www.dse.unive.it/fileadmin/templates/dse/wp/Note_di_lavoro_2007/NL_DSE_pezzolo_stumpo_12_07.pdf).

[21] J. Brewer, *The sinews of power. War, money and the English state, 1688–1783* (Harvard University Press, 1990); and Daunton, chapter 5 in this volume.

stability from 1481 to 1585 in the Ottoman Empire, where debasement had been habitual in the fifteenth century. To what extent might this have been behind the relative efficiency of the sixteenth-century Turkish bureaucratic and fiscal system? Figures offered by deVries suggest that a very high the proportion of American silver travelled east to Asia even in 1600, and the studies of Pamuk demonstrate considerable monetary circulation in the Ottoman Empire.[22] American silver also oiled the fiscal system of the Mughal empire, which was based on a strongly monetized economy (Richards, Chapter 17). It is also clear that Chinese commerce with Europe, whether through the Pacific or the Indian Oceans, had a positive effect on the workings of the fiscal systems of the countries involved by providing them with the supplies of silver necessary to make them more liquid and to render the payment of part of the Chinese taxes in coin more frequent.[23] Tilly observed that, in the development of fiscal systems, the degree of urbanization and circulation of money played a fundamental role.[24] It is very probable that American silver, although not the sole cause of their development, was one of the factors that *helped* societies not very urbanized but where markets were energetic to build up more sophisticated financial–fiscal systems.

The worldwide circulation of American silver was not the only effect of the incipient globalization that impacted the different fiscal systems. It also coincided with what we might call the globalization of military techniques. The growth of military expenditures and international connections among fiscal regimes also became evident in the Eurasian empires, from Turkey to China, the Mughal empire

[22] J. deVries, 'Connecting Europe and Asia: a quantitative analysis of the Cape-route trade, 1497–1795' and S. Pamuk, 'Crisis and recovery: the Ottoman monetary system in the early modern era, 1550–1769', both in D. O. Flynn, A. Giráldez and R. von Glahn (eds.), *Global connections and monetary history, 1470–1800* (London: Ashgate, 2003), pp. 35–106 and 133–48.

[23] Of course one should admit qualifications. The circulation of silver did not make a similar quantity available to pay taxes. An important part of the silver was retained from Seville itself to the coasts of the Indian and Pacific Oceans. It is evident, moreover, that the capacity to pay taxes in coin depended upon the degree of mercantile development and not the amount of metal available. On the other hand, the largest share of the taxes in all of these countries was not paid in silver but rather in coins of worse quality. It is no less certain, however, that the abundance of silver encouraged international commerce and displaced a good part of the money of lesser value into more modest circuits that nourished taxes, and provided security for the systems of loans between the great financiers and the fiscal systems. These ideas have been developed in different essays by D. O. Flynn and A. Giráldez. See, for example, 'China and the Manila Galleon'.

[24] C. Tilly, *Coercion, capital, and European states, AD 990–1990* (Cambridge, MA: Blackwell, 1990).

and Japan, where the effects were even more contradictory than in Europe.

New techniques of warfare developed during the military revolution in the West were imported into China via Islamic networks, Portuguese, German and Dutch soldiers, and even through the movements of Jesuit missionaries in different parts of Asia.[25] By 1640, the Ming dynasty's fiscal-cum-military weaknesses were exposed by Manchu invaders who had managed to acquire European technologies for warfare.[26] Unsurprisingly, shortly after the Qing dynasty was established the state began to develop a fiscal apparatus designed to be prepared for warfare. Extra funds came partly from the imperial domain (5 per cent of cultivated land and property), but mainly from the extension of the tax base across the whole empire. The Chinese fiscal regime continued to be more benevolent than its European counterparts, but it too made demands for more taxation.[27] In India the continued expansion of the Mughal empire fed the insatiable 'appetite for resources' of a 'Leviathan' and warfare became the main force leading to an increasing penetration of the fiscal system into local societies and economies (Richards, Chapter 17).[28] In Japan, the reforms of the 1590s led to a fiscal system based on taxes collected in rice, which could add up to 40–50 per cent of its gross output (Nakabayashi, Chapter 16). This was so in spite of the Japanese fiscal regime being a prototype *domain state*.

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The period *c.* 1713–1815 continued to witness fiscal changes derived from the combination of warfare and global trade. This history, well known for European states, acquires greater meaning when placed in the framework of Asian states and the relationships between them and European polities. In Europe, colonial conflicts and maritime wars led to huge efforts to fund armed forces, particularly navies. But in almost all countries warfare and mercantilist policies promoted attempts to rationalize and homogenize the tax systems to fund rising naval and military expenditures.

[25] See N. Di Cosmo, 'Did guns matter? Firearms and the Qing formation', in L. A. Struve (ed.), *The Qing formation in world-historical time* (Cambridge, MA: Harvard University Press, 2004) pp. 121–65.

[26] Di Cosmo, 'Did guns matter?'.

[27] E. S. Rawski, 'Was the early Qing "early modern"?' in Struve, *The Qing formation*, pp. 213–18.

[28] Quoted in T. Raychaudhuri, 'The Mughal empire', in T. Raychaudhuri and I. Habib (eds.), *The Cambridge economic history of India*, Vol I: *c.* 1200–*c.* 1750 (Cambridge University Press, 1982), p. 173. See also chapter 17 in this volume by J. F. Richards, and 'Mughal state finance and the premodern world economy' in J. F. Richards, *Power, administration and finance in Mughal India* (London: Ashgate, 1993), chapter 5.

At the same time, an expanding world economy led to massive flows of new products into Europe, which paved the way for significant changes in tax structures. This process had already begun in the fifteenth century when Asian commerce, especially products like spices, became crucial for the functioning of the fiscal systems of mercantile Italian republics. Customs duties on imports of raw materials and exotic products (tea, tobacco, cocoa and even coffee) became increasingly important in comparison with traditional levies on land (paid mostly by the third estate) and customary indirect taxes on the consumption of such basic foodstuffs as wine, beer, meat and oil. Many states established monopolies for the distribution of imported commodities from which additional revenue was obtained.

All this had two effects. On the one hand, until these exotic products became widely consumed, it shifted the burdens towards the middle classes and privileged elites (nobility and clergy) who consumed these imports. On the other hand, such taxes were easier to collect because per capita incomes of the middle classes were rising. From the theoretical perspective of D. North, it could be said that different European states attempted to take advantage of the displacement of relative prices in order to adapt their systems of resource extraction to changes in the structure of international commerce and consumption. The political effects were also crucial in the sense that the theory predicts. The expansion of colonial and global trade reinforced agreements between princes and merchant groups in the international arena. The mercantilist state exploited external opportunities for its own internal articulation by offering defence for external and domestic markets. At the same time, in Europe, states found themselves obliged to compete to guarantee and defend the property rights of the mercantile classes. Very meaningfully, the resort to debasements, a negative policy for traders that strained relations between them and their princes, became rarer. Again, the case studies presented here are very significant in this respect. Debasements became inconceivable in countries with strong parliaments such as England or the Netherlands, but still took place in Russia. They were also less frequent in absolutist systems such as Spain or Brandenburg–Prussia – a fact less emphasized by historians and absent from D. North's narrative. Trade led to the fiscal regimes' greater independence from aristocracies and corporate towns, which smoothed their relations with princes. Quite logically, but also paradoxically if we consider the common narrative on this matter, new opportunities for taxation prolonged traditional alliances between old elites and the state because they reduced the latter's need to instigate fundamental changes in