Institutions and economic growth.

- Why did some countries create efficient institutions?
- Why did others create inefficient institutions?
Charles VII takes over a destroyed country after Hundred Years War, 1422.

Medieval sources of revenue depleted by war.

Creating nation state requires large and growing revenues.
France.

- Charles effective in restoring order.
- Estates General must approve levies.
  - Estates anxious to restore order.
  - Special right to levy turns into a permanent right.
- Excluding nobles and clergy from taxation.

France.

- Guilds become fiscal agents for the crown.
  - Taxation more effective.
  - Strengthens guilds.
- Administrative bureaucracy.

Colbertism.

- Jean-Baptiste Colbert.
  - Finance minister under Louis XIV (1661-83).
  - Colbertisme synonymous with mercantilism.

- Economic reforms.
  - Efforts to reduce “particularism.”
  - But favored state monopoly and industrial control. Origin of *laissez faire*.
  - Frustrated by royal need for revenue.

- Prohibitive tariffs lead to war with the Netherlands.
Spain in 1492.

- Reconquest ends with capture of Granada, last Moorish stronghold.
  - Unification and consolidation of power.
  - Cortes grant taxing power.
    - Taxes increase 20 times between 1470 and 1540.
- Expulsion of the Jews (and then Moriscos in 1609).
  - Loss of artisanal, commercial, and agricultural skills.
- Columbus sets sail.

Queen Isabella of Spain. Ruled 1479-1504.
The Mestas.

- Sheep guild.
  - Granted Royal privilege in 1273.
  - Transhumance rights in exchange for funds to finance reconquest.
  - Decree of 1501 reserves in perpetuity all land on which sheep have ever grazed.
- Effect on enclosure.
  - Price controls on cereals.
- Consulado of Burgos.

Transhumance routes in Spain.
The Spanish empire.
The Spanish empire.

- Monopoly control.
  - *Casa de Contratación.*
  - Prohibition of colonial industry.

- Bullion and Inflation.
  - Looted and mined gold and silver floods Spain and Europe.
  - Prices increase by more than a factor of three in Spain, and a factor of five in Brabant and England.
The Spanish empire.

Index of silver imported to Seville, 1501-1660. (1591-1600=100).

The decline of Spain.

- **Revenues.**
  - Americas less than 20 percent.
  - Netherlands largest source.

- **Costs.**
  - Far exceed revenues.
  - Hapsburgs spend on military and wars to expand empire.

- **Effects.**
  - Borrowing and bankruptcy.
  - Fiscal spiral.
    - Confiscation, monopoly, sale of titles.

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The Netherlands.

- Passes from Burgundy to the Hapsburgs (1477).
- Both Burgundians and Hapsburgs encourage growth and trade.
  - Small taxes on many items in exchange for secure property rights.
  - Discourage monopolies, guilds.
- The goose that lays the golden eggs?

The Netherlands in 1543.
The Netherlands.

- Increased exactions lead to successful rebellion (1572-1581).
  - Antwerp sacked; commercial leadership moves to Amsterdam.
- By 17th century, Dutch become commercial leaders of Europe.
  - Economic diversification.
  - The Dutch East India Company (1602).
- “The First Modern Economy.”

Replica of Henry Hudson’s schooner, the Half Moon.
England.

- Government funded as an extended household.
- Expenditures exceed revenues from Crown lands.
- Sale of land to meet shortfall.
  - Elizabeth sells 25 per cent after 1588 war with Spain.
  - James I sells another 25 per cent.
  - Charles I (1625-1641) sells the rest.
- Parliament controls taxes and customs.
Stuart England.

Stuarts seek revenue outside parliamentary control.

- New customs impositions.
- Sale of monopolies.
- Expansion of peerage.
  - Packing the House of Lords.
  - James: a baronet for £1,095; price later falls to £220.
- Loans secured under threat.
- Purveyance.
  - Charles I seizes £130,000 of bullion stored in the Tower of London (1640).
Stuart England.

- Parliament withholds revenues.
  - Demands respect for traditional property rights.
- Common Law courts oppose monopolies.
  - Coke invokes Magna Carta.
- Charles responds with Royal Prerogative.
  - Prerogative courts.
  - Special laws for individuals.
  - Star Chamber.
  - Fires Coke and other judges.
The English Civil War.

- Coalition builds against the Crown.
  - Marginal incentive to support the king declines as costs of other people’s privileges mount.
- Unlike continental monarchs, English king has no standing army.

Execution of Charles I (1649).
The English Republic.

- Star Chamber Abolished.
- Restrictions against monopolies enforced.
- Regular standing parliament.
- Royal administrative mechanisms abolished.
- Act of 1660 abolished feudal tenures, effectively making England a fee simple society.

Oliver Cromwell (1599-1658).
The Restoration.

- Cromwell unable to find a stable form of government.
  - Son proves a poor successor.
- Stuarts restored to power (1660).
- Royal abuses begin again.
  - “Rechartering” the Whigs out of parliament.
- James II turns on his own followers (1686-88).

King Charles II (ruled 1660-1685).
The Glorious Revolution.

- Parliament welcomes invasion by William of Orange and Mary, Protestant daughter of James II.
- Parliamentary supremacy.
- Fiscal revolution underpins political revolution.
- A self-enforcing constitution.
A self-enforcing constitution.

- Required parliament’s assent for major policy changes.
  - Allowed wealth-holders to veto what wasn’t in their interest.
- Ways of reneging unilaterally eliminated.
  - Limited Crown sources of funds.
  - Audit expenditures.
  - Prerogative courts abolished.
  - Judicial tenure.
- Self enforcing.
  - Credible threat of dethronement.

John Locke (1632-1704). Published *Two Treatises of Government* (1690).
The fiscal revolution.

- Parliament agrees to put government on sound financial footing in exchange for veto power.
- Evidence: lenders now willing to supply funds.
  - After 1688, government has access to unprecedented funds.
  - Tenfold increase, 1688-1697.
The fiscal revolution.

- The Glorious Revolution as a “business merger” between Britain and the Netherlands.
  - Alliance with the House of Orange allows Britain to tap into sophisticated Dutch financial capabilities.
  - Territorial market-splitting between Dutch and British East India Companies.

William III (ruled 1689-1702).
Mary II (ruled 1689-1694).