Political Economy

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Abstract

This chapter surveys research on political economy in economic history. It discusses the integration of the public choice/political economy approaches with economic history. It provides a thematic survey of topics such as the origins of the state, different regime types, labor coercion, warfare, religion, and state capacity. The chapter also provides detailed illustrations of how economic historians have investigated specific historical episodes such as the Glorious Revolution, French Revolution, the consequences of European empires, and the rise of democracy.

Keywords

Political economy · Public choice · State capacity · Conflict

Introduction

Economic historians have always been interested in political economy. However, for a long time, political economy was resistant to cliometric approaches. In the work of Frederick Lane (1958) and John Hicks (1969), economic theory was a metaphor to illuminate topics such as conflict, war, and state development. This approach was insightful, but it stopped short of the aim of cliometrics: to derive predictions from theory that can be tested using historical evidence.

To summarize progress since Lane and Hicks, I first consider the relationship between cliometrics and political economy, before providing a thematic survey of how cliometrics has advanced our understanding of state formation, warfare, public debt, the state, and religion. The final part of the chapter considers some case studies, including the Glorious Revolution, French Revolution, the political economy of empire, and the rise of democracy.

Early cliometric work focused on employing neoclassical economics to understanding historical questions. These included the productivity of the slave economy in the American South or contributions to US growth in the late nineteenth century. This work is well represented by the research which won Robert Fogel and Douglass North their Nobel prizes.[1]

At the same time as economic history was revolutionized by cliometrics, the field of political economy was reborn in the hands of public choice scholars in Chicago, Rochester, and Virginia. This work was, by and large, abstract, theoretical, and ahistorical, as exemplified by classics such as *The Calculus of Consent* (Buchanan and Tullock 1962), *The Theory of Political Coalitions* (Riker 1962), *The Logic of Collective Action* (Olson 1965), and *The Theory of Economic Regulation* (Stigler 1971). Empirical work inspired by Buchanan, Tullock, Riker, Olson, and Stigler

[1] The Nobel Prize was awarded to Fogel and North for pioneering cliometrics, specifically, "research that combines economic theory, quantitative methods, hypothesis testing, counterfactual alternatives and traditional techniques of economic history, to explain economic growth and decline" (*The Prize in Economics 1993 – Press Release* 1993).

followed, but, initially focused on elections, voting systems, and regulation, it was somewhat removed from the concerns of most economic historians.

Public choice contrasts with conventional public finance exemplified by Musgrave (1959). The pioneers of postwar public finance explicitly differentiated it from older work which “proceeded in a historical and institutional context” (Musgrave 1959, v). Public finance began with the assumption that the optimal policy can be implemented by a social planner. It is normative rather than positive, focusing on what policies should be followed to maximize a social welfare function.

Public finance does not explicitly model government agents as rational actors. Such institutional-free analysis had little role for history. Public choice, in contrast, imposes behavioral symmetry. Its predictions are made on the basis of the self-interested behavior of politicians, bureaucrats, and voters. In the 1980s and 1990s, this public choice approach integrated into mainstream political science and economics, acquiring the label, political economy.[2]

The Introduction of Political Economy into Cliometrics

The influence of North, and the new institutional economics, was crucial to the integration of political economy into economic history.[3] North helped introduce cliometric approaches to economic history, both in his own research and through his editorship of the *Journal of Economic History*. Then, beginning in the late 1960s and early 1970s, North began to focus on institutional economics. Initially, he worked under the assumption that institutions were efficient (North and Thomas 1973). Recognition that this was not necessarily the case turned North’s attentions toward political economy (see North 1981).

Through his status as a leading cliometrician, North bridged the historical literature and public choice and political economy scholarship. His influence did not stem from the fact that his writings were particularly quantitative. They were not. North framed his arguments in a way that was attractive to more quantitatively orientated scholars and suggested ways that it *could* be tested. North’s work inspired other scholars to build on his arguments or to challenge them.

Following North, interest in political economy topics among economic historians blossomed. Many strands of research employ the Northian emphasis on “rules of the game” and take into account the self-interested behavior of politicians, elites, voters, and bureaucrats. Engerman and Sokoloff (1994, 2000) traced the connection between factor endowments, institutions, and differential economic development in the Americas. Stephen Haber and coauthors applied institutional arguments to the complex political economy environment that is Latin America (Haber 1997; Haber

[2]The political economy label is particularly associated with the works of Persson and Tabellini (2000), Alberto Alesina, and Dani Rodrik.

[3]See discussion in Diebolt and Haupert (2018) of the impact of Fogel and North on economic history.

et al. 2003). North himself revised his institutional framework throughout his career; the final iteration was the natural states to open-access framework of North et al. (2009).

The first generation of research relied on a combination of theory and analytical narratives (Bates and Lien 1985; Levi 1988; North and Weingast 1989; Greif et al. 1994; Bates et al. 1998). Since the seminal attempt to measure the impact of colonial institutions (Acemoglu et al. 2001), this line of research has fused with empirical research that attempts to identify the impact of institutions.[4]

Two approaches to research design have become particularly influential, instrumental variables (IV) and regression discontinuity design (RDD), in part because economic historians can rarely run experiments and often lack the panel data required for a difference-in-differences approach (DID).

Melissa Dell's (2010) influential study of the long-run effects of Peruvian Mita, for example, popularized the use of RDD. Recent papers that employ IV approaches include Dippel (2014) who instruments for the forced integration of Native American communities by using data on historical mining rushes.

Not all topics in political economy are amenable to causal methods. In politics few things are truly exogenous. Instruments that satisfy the exclusion restriction are difficult to come by. Political borders often arise endogenously making RDD designs challenging. Therefore, it is important that economic historians studying political economy employ mixed methods. Formal models (as in the analytical narrative tradition), qualitative evidence, and descriptive econometrics all have a place in improving our understanding of the interaction of politics and economics. In political economy, perhaps more than in other fields, understanding the historical context and the data generating process remains of paramount importance.

In his presidential address to the Economic History Association, Hoffman (2015, 305) argued that "we still know too little about what determines the laws, regulations, and policies that states adopt or what goods and services they provided . . . Worse yet, we do not even understand how states arise in the first place or how they gain the ability to tax." I will take a different view and argue that progress has been made in understanding both the rise of states and the development of modern welfare states. To substantiate this, the next section provides a thematic approach to major cliometric contributions to political economy.

[4]The current state of the field is influenced by Acemoglu et al. (2001, 2005a) who took Northian arguments and tested them econometrically using innovative empirical methods. Following the success of Acemoglu et al. (2001), this approach has bloomed both within economic history and in the related fields of growth economics, development and political economy. Other important publications by Acemoglu and Robinson and their coauthors include Acemoglu et al. (2005b); Acemoglu (2006).

A Thematic Overview

Origins of the State

In contrast to the assumption of a benevolent social planner maximizing a social welfare function, political economy begins by considering states as they actually are – i.e., organizations that are made up of the same individuals who populate private firms. Rather than taking the economy as its starting point (and treating it as an autonomous segment of society that can be analyzed independently of politics), political economy concerns itself with the interaction between the state and the economy. A natural starting point is the origins of the state.

Speculation about the emergence of states goes back millennia. But while it is possible to begin with Aristotle or Hobbes, modern social scientific analysis can be traced to Oppenheim (1922) and Carneiro (1970). In economics, Brennan and Buchanan (1980) developed a simple model of a revenue-maximizing leviathan state. These ideas were combined in Mancur Olson's stationary bandit model (1993). For Olson, organized states arise from violence and disorder. The presence of competing warlords or roving bandits causes poverty, as each warlord robs without taking into account the damage he causes. However, if a single bandit establishes a monopoly of violence, such a stationary bandit will have a more encompassing interest in the society that he now "governs." Olson's story is both a parable and a model with testable predictions.

A key problem for such a stationary bandit is that mobile populations cannot be compelled to pay taxes; they can move to avoid fiscal extraction. Allen (1997) applied these ideas to ancient Egypt. Egypt developed a stable and long-lasting state because its geography made it easy for rulers to corral tax payers. Geographical circumscription was possible earlier than elsewhere because agriculture first developed along the fertile Nile valley, and this area of lush farmland was surrounded by inhospitable desert. Early statehood brought stability, but may have made the average Egyptian worse off, as the surplus created by agriculture could be extracted by the political elite.

For both Olson and Carneiro, agriculture was a precondition for statehood because farming produces a storable food surplus. Mayshar et al. (2017), however, note that a slow rise in productivity alone could not have generated a surplus, since in a Malthusian environment, population size adjusts to prevent the creation of such a surplus. Only where output was transparent and storable could states emerge. Mayshar et al. (2017) contrast the pattern of state development between Egypt and ancient Mesopotamia. Nile agriculture relies on flooding. How much the Nile flooded was public information, transparent to the Pharaoh. Hence the Egyptian state could extract all the surplus. Egyptian peasants were tenant-serfs; elites were dependent on the Pharaoh. In Mesopotamia, however, agricultural productivity, while transparent to local elites, was opaque to a centralized state. Hence, authority tended to be organized at the city level. Consistent with this prediction, states were less stable in Mesopotamia than in Egypt.

City-States and Republics

The earliest large states that we know about were autocracies. Wittfogel (1957) ascribed the prevalence and resilience of autocracy in much of Asia to the demands of irrigation-based agriculture. He argued that such systems of irrigation required strong, centralized state control. Where agriculture was heavily dependent on river water, rather than being rainfed, strong and centralized autocratic states were likely to arise, such as the Pharaohs of Egypt, the Assyrian, Babylonian, Persian Emperors of Iraq and Iran, and the Emperors of China. Wittfogel's original hypothesis has been widely criticized. Recent empirical work suggests some support for it. Bentzen et al. (2017) find that irrigation-based agriculture is more likely to be associated with autocratic rule. Elis et al. (2018) argue that there are optimal climatic conditions for the emergence of participatory democracy.

An alternative political organization to autocracies was the city-state. The best known city-states were the *poleis* of classical Greece. In comparison to the ancient empires, these were egalitarian. They permitted self-government among strata of the population, either wealthy landowners in oligarchies or free males in democracies.

To understand how democracies emerged in ancient Greece, Fleck and Hanssen (2006) develop a model based on a time inconsistency problem. According to their account, democracy came about when and where there were productive opportunities for investment for the demos.[5] Democratic rights ensured that these investments would not be expropriated by a ruler or an elite. Another hypothesis for why democracy emerged in ancient Greece is that ecological conditions produced a relatively egalitarian distribution of income and a large population of smallholder farmers. The development of the hoplite military formation also empowered these smallholders and necessitated their political representation. In Athens, the rise of a navy was crucial in cementing the power of the demos (Kyriazis and Zouboulakis 2004).

Classical Greek *polis* witnessed an economic, cultural, and intellectual flourishing (Ober 2015). But they were limited in size and scope – unable to integrate outsiders – and in a state of constant hostility with one another. Inter-polis conflict was responsible for the catastrophic Peloponnesian War. The rise of Rome led to the establishment of an imperial monarchy, and monarchy was the main way subsequent European states organized themselves into the modern period.

The medieval period saw the revival of the city-state, especially in Italy and the Low Countries (Pirenne 1925). These city-states evolved institutions that sought to limit social conflict, as analyzed in the Genoese case by Greif (1998, 2006). But like their ancient counterparts, most medieval city-states were limited in size.

Medieval city-states are often viewed as economic success stories (Cipolla 1976). Their institutions were indeed conducive to initial economic growth, but as Stasavage (2014) documents, the constitutions of medieval city-states became

[5]Fleck and Hanssen (2013) discuss how the institution of tyranny – stable autocratic rule – helped to pave the way for democratization.

more oligarchic over time. As this occurred, the growth advantage enjoyed by city-states declined. Using city population as a proxy for economic development, Stasavage finds that overall autonomous city-states did not grow faster than other cities on average. City-states that had been independent for less than 200 years grew faster; then, after 200 years of independence, they grew more slowly than other cities.

Stasavage interprets this in terms of a model of oligarchies proposed by Acemoglu (2008). In this model, as oligarchic societies represent the interests of producers, they tend to protect property rights and to impose low taxes. But they also erect barriers to entry which can result in sluggish growth in the long run. In contrast, democracies impose higher taxes, redistribute more, but also tend to allow free entry. Oligarchic societies, therefore, tend to experience initially rapid growth followed by stagnation.

An example of this process is Venice, where the prosperity associated with trade made merchants politically powerful. They ended the hereditary rule of the Doge in 1032, which became an elected office, and, in 1172, established a Grand Council to further constrain executive authority. Tracing family names of the Council members, Puga and Trefler (2014) show that there was considerable mobility into and out of the Council, suggesting that membership of the political elite was fluid. However, this mobility threatened the profits of established merchants. This led to a period known as the Serrata ("closure") in which the established merchants used their power in the Council to pass laws to close entrance. A law in 1297 restricted new entrants in the Council, and one in 1323 restricted entry into long-distance trade. This speaks to the general trend: city-states were associated with impressive but transitory prosperity.

Medieval States and Feudal Institutions

An alternative to large empires or city-states were territorial states. Huning and Wahl (2016) argue that more observable agricultural output is associated with the emergence of larger territorial states. Testing this model using the Holy Roman Empire, they find higher observability leads to larger and longer-lasting states.

The larger territorial states that emerged in medieval Europe were feudal. Feudalism has a bad reputation among economic historians. It represented the dispersal of coercive power to such an extent that some historians deny that feudal polities were "states" (Strayer 1965). Blaydes and Chaney (2013) find that feudalism led to greater political stability in Western Europe. Under feudalism, rulers relied on powerful nobles for military support, and in return for their support, they granted these nobles privileges and political power. These bargains helped to solidify the nascent polities of Western Europe. After 900 CE, Blaydes and Chaney (2013) find a divergence in the duration of Christian and Muslim rulers, in favor of the former (Fig. 1).

Greater economic opportunities and constraints on the executive accompanied the increased stability of European monarchies. This more stable environment promoted urbanization and a Commercial Revolution. Feudalism ensured that monarchical

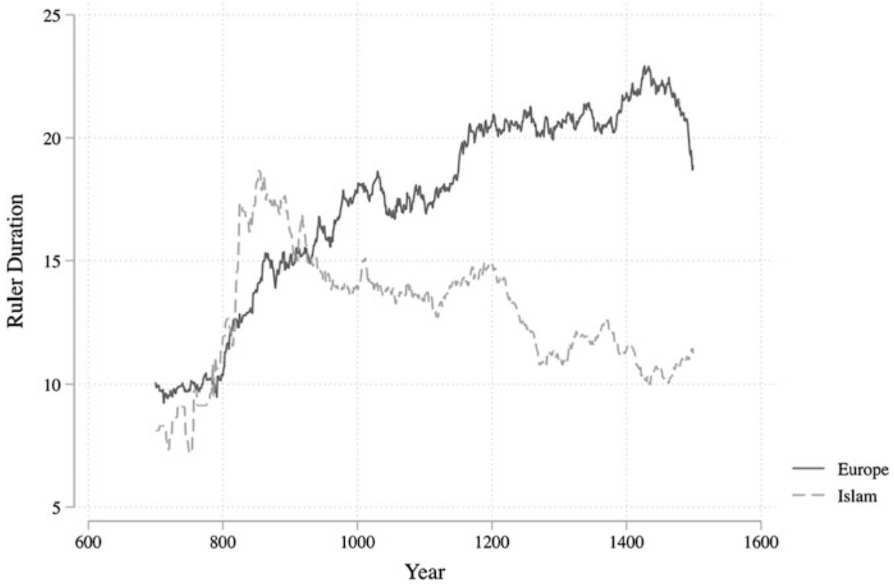

Fig. 1 100-year moving average for ruler duration in Europe and the Islamic world. (Data from Blaydes and Chaney 2013)

abuses were self-limiting. Political elites had the military power to stand up to overbearing monarchs (Blaydes and Chaney 2013). Perhaps the most well-known instance of this was the ability of the English barons to force King John to sign the Magna Carta (Koyama 2016).

Salter and Young (2018) argue that medieval polities were successful because they aligned the incentives of landowning elites. Political rights in medieval societies were bundled with property rights. According to this view, medieval lords were incentivized to pursue policies that were beneficial to development because they had economic property rights in their realms. And unlike satraps or appointed governors in centralized empires, they had the right to bargain with their sovereigns and to hold them to account.

For Blaydes and Chaney (2013), the rise of feudalism has implications for the divergence between Europe and the Middle East. In contrast to Western Europe, Islamic states came to rely on slave soldiers. Landlords were alienated from political power. Levels of political stability in these two regions of the world thus diverged centuries prior to the divergence in per capita income (Blaydes 2017).

Acharya and Lee (2018) point to the role of economic development in the formation of the European state system. They argue that when trade and commerce are underdeveloped, and hence the value of governance is low, there is no incentive for territorial states to emerge. In this world, there will be pockets of state authority but no territoriality. Territoriality emergences when there are overlapping markets for protection.

Labor Coercion

Feudal societies relied on labor coercion. North and Thomas (1971) hypothesized that serfdom arose as a quasi-voluntary institutional response to the frequent conflict and invasions that characterized the early Middle Ages. Domar (1970) argued that serfdom emerged where and when labor was scarce. This prediction can help to explain the emergence of serfdom in early medieval Europe and in Eastern Europe after c. 1600. Brenner (1976) noted that a purely demographic model was insufficient to explain the *decline* of serfdom in Western Europe following the Black Death; this phenomenon required studying political power and class relations. Labor scarcity increased the bargaining power of laborers contributing to a crisis of surplus extraction, in Marxian terminology.

These explanations can be reconciled. Wolitzky and Acemoglu (2011) build a principal-agent model to study the relationship between labor scarcity, outside options, and labor coercion. In this framework, coercion and effort are complements. Hence, when labor is scarce, there is a stronger incentive to employ coercion. However, labor scarcity also improves workers' outside options, which reduces the incentive to use coercion.

What were the economic consequences of labor coercion? Studying early modern Bohemia, Klein and Ogilvie (2016) show how coercive labor market institutions shaped economic incentives. In particular, under serfdom, landlords suppressed activities from which they could not extract rent. Close to urban centers, landlords were more likely to enforce coercive restrictions on labor. These findings suggest that the power of landlords to coerce labor in Central and Eastern Europe helps to explain their relative economic underdevelopment relative to Western Europe in the centuries leading up to the Industrial Revolution.

Serfdom persisted in Eastern Europe until the nineteenth century. Even in England, master and servant laws continued to be used to keep wages low in Industrial Revolution England (Naidu and Yuchtman 2013). Ashraf et al. (2017) explain the decline of serfdom in the early nineteenth-century Prussia in terms of the economic incentives facing landowners. They hypothesize that as skilled labor became more important in the production process, elites had an incentive to emancipate serfs in order to encourage them to invest in broad-based human capital. They find empirical support for this hypothesis using data on county-level emancipations from the nineteenth-century Prussia.

Conflict and Consensus

Politics involves competition over resources. Economics views efficiency as its central concern; the allocation of resources is determined by the price mechanism according to their highest-valued use. Political economy is concerned about the distribution of resources, in the absence of prices and in the presence of political power. Ogilvie (2007) discusses how paying attention to political power undermines the conclusion that whatever institutions exist are efficient. Institutions result from sociopolitical conflicts over resources, and the absence of a political Coase Theorem means that conflicts often result in inefficiency (Acemoglu 2003). Existing institutions need not be efficient.[6]

Institutions shaped by those with political power may be inimical to economic growth. The importance of political power can explain the attention that economic historians have devoted to understanding institutions that constrain the powers of rulers and represent the interests of non-elites. In European history, the most important such institutions are the parliaments, which emerged in the twelfth and thirteenth centuries.

De Long and Shleifer (1993) provide evidence that representative institutions were associated with economic growth in medieval Europe. Van Zanden et al. (2012) measure the frequency that parliaments or estates met across Europe. They document the rise and spread of parliaments and then their decline after 1500, outside England and the Netherlands. The underlying argument is that parliaments enabled merchants and the owners of capital to limit predation by rulers or landowning elites.

While parliaments contained rulers, recent research stresses that parliaments emerged out of councils that rulers called (Congleton 2010). Rulers recognized that parliaments could increase their ability to raise taxes and legitimize their rule. Boucoyannis (2015) discusses how the power of English kings, like Edward I, to compel attendance in Parliament ensured that it was a representative body. This perspective suggests that parliaments enabled, as well as constrained, premodern states.

A complementary hypothesis is offered by Leon (2018), who argues that the gradual expansion of the elite in medieval England helped lay the conditions for the peaceful transition to democracy. He develops a model in which the king expands the size of the elite to gain support against barons. Once this elite reaches a certain size, it becomes cheaper for the king to compensate them with rights rather than pay them directly, and this can make the rise of more representative institutions self-reinforcing.

The view that representative institutions were necessarily good for economic development has been challenged. Taking the examples of Poland and Wüttemberg, Ogilvie and Carus (2014) argue that parliaments which only represented landed interests tended to grant legal monopolies to elites at the expense of broad-based economic growth. The Dutch Republic too, they argue, stagnated after 1670 due to entrenched power of established business interests.

Under what conditions, then, are parliaments likely to produce conditions favorable to economic development? Acemoglu et al. (2005b) study how the rise of Atlantic trade interacted with institutional developments in northwestern Europe. According to this argument, the opportunities for trade and commerce that opened up

[6]For a contrary perspective on institutions, see Doug Allen (2011) or Peter Leeson (2017). My understanding of their argument is that existing power relationships should be viewed as constraints. Hence existing institutions can be viewed as efficient relative to the appropriately defined set of constraints.

after 1500 strengthened the nascent merchant class in societies like England and the Dutch Republic where the state was not too strong, but reinforced the positions of absolutist monarchs in Spain and Portugal.[7]

Another perspective is provided by Cox (2017b) who argues that independent city-states and national parliaments together provided the economic liberty that unleashed faster urban growth in the premodern period. Before 1100 inter-city urban growth rates were uncorrelated, but after 1100 urban growth rates in Western Europe – but not elsewhere – began to move together. In other words, economic liberty promoted growth clusters. Cox argues that political fragmentation could lead to competitive pressures, which could force rulers to charge lower tax rates on commerce and trade. The effects of political fragmentation were largest, he suggests, in the presence of parliaments in which merchants were represented. But what factors led to the representation of merchants in parliaments? And what ensured that merchants did not use their power to erect barriers to entry?

Warfare

Military competition played an important role in ensuring institutional innovation and openness. States like Poland and Wüttemberg that erected barriers to economic development and did not invest in state-building efforts were eventually subordinated by their rivals.

The role of warfare in state formation was stressed by Hintze (1906) and Tilly (1975, 1990). Economic historians have shown how frequent warfare led to investments in state capacity and to improvements in military technology. Hoffman (2011, 2015) documents how after 1500 technological innovations brought down the unit costs of guns and cannons in Western Europe. The military sector was one of the most innovative in the European economy in the period before the industrial revolution. Handguns, in particular, became both more effective and cheaper, lowering the costs of employing violence.

A theoretical perspective is required to understand why warfare promoted state development in some instances and state collapse in others. Gennaioli and Voth (2015) build a model that integrates insights from the Military Revolution literature (Parker 1976, 1988). In their model, the incentive to invest in fiscal capacity depends on the chances a state has of defeating its rivals. Increased military competition provides incentives for some (initially more homogenous) states to invest in standardizing their fiscal systems, in order to invest in more capital-intensive means of waging war. But other states (which may be initially more heterogeneous and hence have higher costs of centralizing) may not find this worthwhile and hence may end

[7]Economic historians have rightly criticized the coding and the depiction of Spain and France as governed by overly powerful absolutist monarchs as out of date. But this research showed what was possible with historical data.

up losing out as a result of this intensified military competition. This model is consistent with the observation that the pressures of military competition led the most advanced and centralized European states to invest even more in state capacity, while it led to the destruction of others.

War and state-building went together in Europe's most advanced states. What role did intensified military competition play in explaining patterns of economic development in Europe? Dincecco and Prado (2012) estimate the impact of fiscal capacity on modern development. Instrumenting for fiscal capacity with causalities in premodern wars, they argue that this relationship reflects the effect of premodern fiscal innovations on current fiscal institutions, and these current institutions have a positive impact on economic growth.

Another possible channel was via urbanization. Dincecco and Onorato (2016) argue that frequent warfare in medieval and early modern Europe led to urbanization and economic development. Cities acted as safe harbors from conflict. Conflict exposure was associated with between a 6% and a 11% increase in urban population over the course of a century. Dincecco and Onorato (2017) argue that this effect has persisted and explains regional level variation in economic development in Europe today.

Other authors push back on this bellicose hypothesis, however. For one, frequent warfare did not promote urbanization, economic development, or the rise of more inclusive institutions in other parts of the world (Centeno 1997). When population density is low, warfare may promote slave raiding rather than state-building (Herbst 2000). Warfare alone seems insufficient as an explanation.

Patterns of Political Fragmentation and Political Centralization

One reason why military intensification led to investment in fiscal capacity in Europe was the competitive European state system (Fig. 2). What then accounts for this competitive state system?[8]

Geography was an important factor. Diamond (1997) provided geographical hypotheses for why Europe tended to be politically fragmented, while China tended toward unification. Europe's mountain ranges and fractured coastline promoted fragmentation. Hoffman (2015) criticized this hypothesis on the grounds that China was more, not less, mountainous than Western Europe. Recent research does suggest that European geography helps to explain its political fragmentation (Fernandez-Villaverde et al. 2019).

Certainly, geographical factors intersect with political economic considerations. Ko et al. (2018) build on the research of historians of Central Asia and theoretical models of state size such as (Alesina and Spolaore 1997). They argue

[8] A literature extending back to Montesquieu and Hume argues that Europe's political fragmentation was key to its eventual rise and to modern economic growth (Baechler 1975; Jones 1981; Hall 1985; Rosenberg and Birdzell 1986).

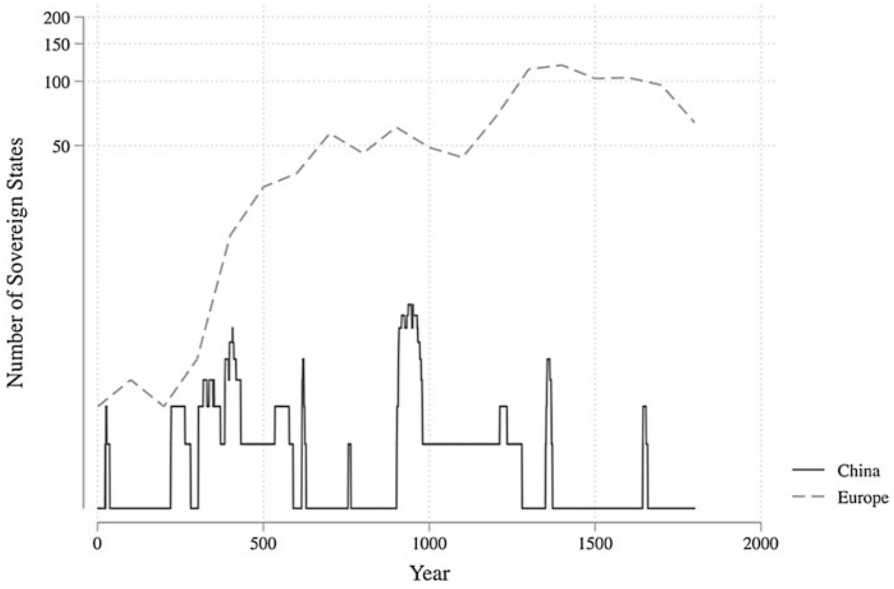

Fig. 2 Number of states in China and Europe, AD 0–1800. (Adapted from Ko et al. 2018)

that in comparison to China, Europe faced invasion threats from multiple directions, impeding the growth of a single European-wide hegemon. In contrast, China faced a single threat from the nomadic steppe. As a result, throughout Chinese history, a strong state tended to emerge in Northern China, and this state tended to be strong enough to establish an empire over the rest of the region. Ko et al. (2018) test their model using a combination of historical evidence and time-series analysis of the impact of nomadic invasions on political centralization in China.

What about the consequences of political fragmentation? Karayalcin (2008) introduced a model that predicts that fragmentation should have led to lower taxes in Europe. This is not what we observe, however. Taxes were higher in late medieval and early modern Europe than in either the Ottoman Empire or China. Ko et al. (2018) show that it might be in the interest of rulers of large empires to levy comparatively low taxes to reduce the probability of rebellion, but that this incentive is absent or much weaker in a competitive state system.

One insight from research is that political fragmentation was not an unambiguously positive factor in Europe's economic development. It imposed static costs and resulted in the multiplication of trade barriers and in an over investment in military power that was itself a cause of internecine warfare. In this respect, more centralized empires such as Qing China provided a potentially more fruitful environment for Smithian economic growth (as argued by Bin Wong (1997) and Rosenthal and Wong (2011)). There were, however, important *dynamic* benefits associated with political fragmentation and competition.

State Finances

One example of the institutional innovations associated with warfare is in the area of state finances. The Italian city-states were almost continuously at war. Venice and Florence pioneered institutional innovations like public debt, which enabled them to compete with much larger states and raise ever greater revenues to pay for their mercenary armies. The annual revenue of Florence in the fourteenth century varied between 250,000 and 350,000 florins, but historians estimate the direct cost of the 3-year war between Florence and the Papacy in 1375–1378 exceeded 2.5 million florins (Caferro 2008). To meet this shortfall, Italian city-states developed impersonal systems of public debt and permanent systems of taxation (Epstein 2000).

Epstein (2000) documents that throughout the late medieval and early modern periods, city-states and republics paid less interest on their debts than did territorial monarchies. Stasavage (2011, 2016) shows that representative institutions enabled city-states to borrow earlier and at lower cost. In city-states, the holders of capital were represented in government, ensuring that the promise to repay was credible. Figure 3, adapted from Stasavage (2011), is consistent with this argument (see also Chilosi 2014). Only in the seventeenth century did larger states, first the Dutch Republic and then England, develop institutions, such as the Bank of Amsterdam and the Bank of England, which replicated the success of smaller city-states (see section "The Glorious Revolution").

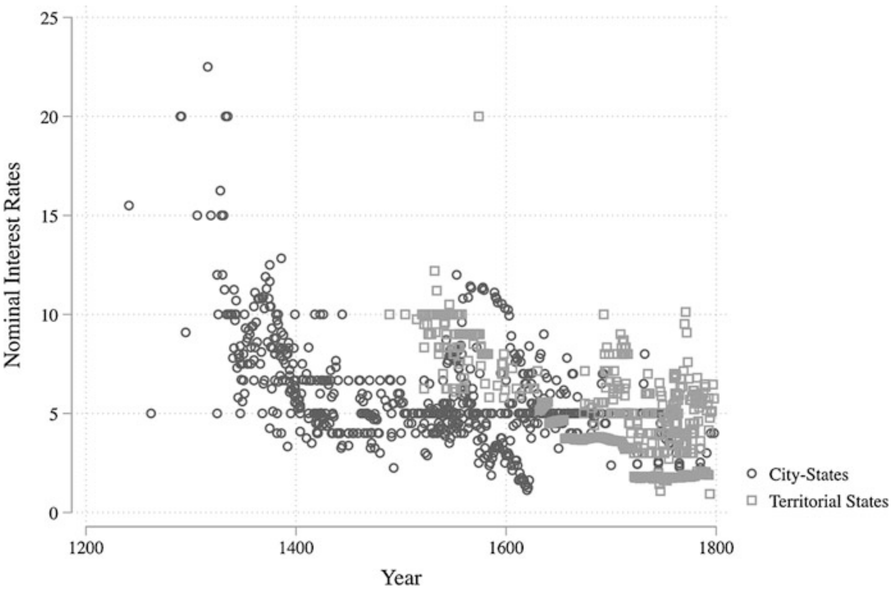

Fig. 3 Interest rates in city-states and territorial states. (Data from Stasavage 2016)

Religion

Despite the important role religion occupied in the studies of Weber (1922, 1930) and Tawney (1926), religion was neglected by cliometric historians until recently. A recent literature specifically focuses on the intersection of religion and political economy.

Kuran (2010) drew attention to the important role Islam played in shaping economic opportunities in the Middle East. He shows that Islam infused both the law and politics of Middle Eastern countries with important consequences for the formation of long-lasting business organizations and corporate institutions independent of the state, such as universities. Recent studies of the Reformation have moved away from studying the direct effects of religious change on economic growth toward discussing the institutional consequences of the Reformation (see Becker et al. 2016; Cantoni et al. 2018).

One area where the study of religion overlaps most significantly with political economy is in the relationship between the Church and the state. Throughout history, religion has played a key role in legitimizing political authority (Coşgel et al. 2012; Greif and Rubin 2015; Rubin 2017). Coşgel and Miceli (2009), for instance, develop a model of how a religious authority can lower the costs of taxation for the political authorities, the logic of which can be applied to numerous settings.

Chaney (2013) uses variation in the flooding of the River Nile in medieval Egypt to explore the relationship between religious and secular authorities. He finds that Nile shocks increased the political power of religious leaders. Nile shocks resulted in great potential for unrest, and this improved the bargaining power of religious authorities with respect to secular leaders. To neglect religion is to fail to understand many aspects of premodern political economy. In a recent contribution, Coşgel et al. (2018) compile a dataset of state religions going back to the year 1000 CE, which will prove usual for scholars working on these questions.

Rubin (2017) builds on these arguments to develop a novel account of the divergence that opened up between northwestern Europe and the Middle East after 1500. The greater power of religion to legitimize political authorities in the Middle East constrained the development of institutions and the adoption of new technologies such as the printing press. The comparative weakness of the religious authorities in northwestern Europe, however, set in motion institutional developments that helped limit government and provide the institutional preconditions for sustained growth.

Finally, Johnson and Koyama (2019) examine the rise of religious freedom from the medieval ages to the twentieth century. Given the centrality of religion to providing political legitimacy and enforcing institutional arrangements, they argue that the importance of religion to premodern polities meant that full religious freedom was inconceivable. Drawing attention to the various institutional arrangements premodern states used to deal with religious diversity, they point out their economic costs and the fragility of the resulting "conditional toleration" that resulted. In sum, religion cannot be ignored in studying the political economy of premodern states.

State Capacity

State capacity refers to the ability of the states to enforce property rights, implement policies, and provide public goods (Besley and Persson 2011; Johnson and Koyama 2017). It can be broken down into administrative capacity, legal capacity, and fiscal capacity. One challenge has been obtaining accurate measures of these concepts. Fiscal data now exists for a number of European countries from around 1650 onward (Dincecco 2009; Karaman and Pamuk 2013). But we lack comparable measures of other aspects of state behavior.

Preindustrial states were usually small and fiscally and legally fragmented. Fiscally fragmented regimes suffered from local tax free-riding. Fiscal centralization thus enabled states to increase revenues and often complemented the expansion of markets and the division of labor. This made it easier for responsible governments to follow sound fiscal policies and thus lowered credit risk. However, there was always the chance that rulers would waste the new funds on reckless wars. Thus, it was only the conjunction of limitations on the discretionary authority of government with centralized fiscal systems that enabled states to borrow at low cost.

Fiscal centralization was accompanied by legal centralization. Old Regime France was legally fragmented: customary law and the interpretation of Roman and canon law varied from place to place. During the seventeenth to eighteenth centuries, there was an effort to achieve some legal centralization. Johnson and Koyama (2014b) document how legal centralization and investment in state capacity was accompanied by a decline in witchcraft trials, in which obtaining convictions required a departure of standard legal procedures. Crettez et al. (2019) model the transition from legal decentralization to legal centralization in terms of a trade-off between allowing each region to choose its own idiosyncratic legal system and imposing legal centralization. The former allows a region to adopt rules closer to the preferences of its inhabitants; the latter eliminates legal disparities across regions. They apply this model to explain why the French Revolution was accompanied by a sharp move toward legal centralization.

Centralized fiscal systems were established comparably late in European history. Most European states achieved fiscal centralization and limited governments only after 1800. Dincecco (2009) dates the establishment of a centralized tax system in France and the Netherlands to the French Revolution. Centralized and limited regimes were only established in the Netherlands after 1848, in France after 1870, and in Spain after 1876. Only once European states established centralized tax systems, and limited government, did yields on public debt fall.

This account is consistent with the data provided by Karaman and Pamuk (2013), which depict marked increases in fiscal capacity in England, France, the Dutch Republic, Prussia, and Habsburg Austria after 1700, but no corresponding increase in fiscal capacity in the Ottoman Empire, Poland-Lithuania, Russia, or Sweden. Much of this increase in state capacity was associated with an intensification of interstate conflict. Karaman and Pamuk (2013) find that in states with representative institutions, such as parliaments, this increase in fiscal capacity was most pronounced. In contrast, in absolutist states, formal tax revenues were low. This was true of both the Ottoman Empire and Qing China. Due to a combination of economic growth and investment in state capacity and military technology, by the mid-nineteenth century a large gap in state power had opened up between Western European states and the states of Asia.

Why did Asian states fail to keep up with Western Europe? Fiscal centralization was a gradual process in Europe. State tax collection emerged out of private tax farming. Tax farmers organized in order to discipline and bind monarchs who had an incentive to expropriate tax collects when in need of revenue (Johnson 2006; Johnson and Koyama 2014a). Balla and Johnson (2009) discuss how the inability of tax farmers to organize in the Ottoman Empire meant that they were unable to constrain the Ottoman state. To explain why tax rates were low in Qing China, Sng (2014) argues that a severe principal-agent problem meant tax collectors could embezzle revenues and extort taxpayers. In response, the ruler had to keep taxes low to minimize the threat of revolt. Ma and Rubin (2019) build on this argument by highlighting the commitment problem autocrats face vis-a-vis their own tax collectors. In times of crisis or war, autocratic rules cannot credibly commit not to expropriate tax collectors and administrators. One way to overcome this problem is to pay tax collectors very low formal salaries but also to turn a blind eye to the private exactions of tax collectors by not investing in monitoring technology. This results in an equilibrium where formal tax collected by the center is low and informal corruption is high. But it precludes investment in administrative capacity.

What accounts for the relative failure of Qing China to deal with new political threats after 1800? As Ma and Rubin (2019) discuss, whether states invested in fiscal capacity was a political decision. Koyama et al. (2017) study patterns of state development in East Asia after 1850. They examine why Japan embarked on political centralization and reforms following the intrusion of geopolitical threats from the Western powers after 1850, but why in China political authority was decentralized and modernization efforts failed. They point to how geographical size constrained the options of political actors. In China, the conjunction of threats from both the north and the south necessitated decentralization, and, as a consequence, the Chinese state lacked the capacity to ensure that modernization could be forced through successfully.

In summary, recent work in economic history has greatly improved our understanding of the political economy of preindustrial states. As a result of this body of research, which draws on the work of economists, political scientists, and historians, we have better explanations of the determinants and consequences of regime type. We also have new theories about the causes and consequences of political centralization and fragmentation. Our understanding of the relationship between religious and secular authority in the premodern period has also been greatly enhanced. The next section considers several important areas of research in political economy.

Case Studies

The Glorious Revolution

An important case study is England in the centuries leading up to the Industrial Revolution. The Glorious Revolution represents a widely studied critical juncture in English institutional history (North and Weingast 1989; Pincus 2009; Pincus and

Robinson 2014; Acemoglu and Robinson 2012). It involved England in a global war against France and led to the foundation of the Bank of England in 1694. By making England a constitutional monarchy, it laid the foundations of the party system and cabinet government (Stasavage 2002, 2003; Cox 2016).

The roots of this institutional transformation go further back in English history. One critical juncture was the English Civil War (1642–1651). Building on a hypothesis advanced by Brenner (1993) on the role merchants played in the first English revolution, Jha (2015) uses novel data on individual MPs to explore how emerging economic opportunities overseas helped the formation of a coalition in favor of constraining the crown. He finds that MPs with financial interests in overseas trade were more likely to support Parliament in the conflict with the crown. Shares aligned the interests of non-merchants, who otherwise would have lacked exposure to lucrative trading opportunities and hence expropriation risks overseas, with merchants. Ownership of shares in overseas trade shifted the views of non-merchants, helping to consolidate support for reformers in Parliament.

Fiscal centralization also began before the Glorious Revolution. The previous "bureaucratic patchwork of authorities subject to uniform surveillance or direction" (Brewer 1988, 91) and private tax farming began to change during the Civil War. Parliament raised new taxes, including the excise tax, to fund a new professional army and navy (O'Brien 2011). Taxes and expenditure fell in the 1660s, but lessons about how to modernize England's fiscal system were learned. Tax farming of the customs and then the excise was slowly dismantled, and the Treasury was given oversight over revenues (Johnson and Koyama 2014a).

The increase in taxes after 1688 was important, however. There was greater reliance on indirect taxation – in particular the excise – collected by a professional bureaucracy. The customs, excise, and land tax accounted for 90% of revenue. From 1720 onward, these revenues enabled the British state to secure its debt at low rates of interest – a key development in the formation of a modern state.

Other aspects of state administration remained dominated by patronage and cronyism. Cox (2017a) highlights the importance of the civil list in the political economy of the Hanoverian state. After 1689, while Parliament controlled taxation and the military budget, civil positions remained controlled by the crown. This resulted in a commitment problem. Because MPs did not have control over the civil administration, they were reluctant to fund it, impeding the development of a civilian bureaucracy. Reform only came in 1831 with the Civil List Act, which established full parliamentary control over the civilian budget and made it feasible for the state to invest in a modern bureaucracy.

North and Weingast (1989) argued that the credibility of the English monarchy to repay its debts after 1688 translated into more secure property rights in general. While this claim has not survived subsequent scrutiny, in other respects there was an improvement in institutional quality after 1688. It became easier to reorder property rights in order to exploit new investment opportunities. Parliament became a forum where land could be reallocated toward more productive uses (Bogart and Richardson 2009, 2011). As a consequence, investment in road and river transport dramatically improved, with important consequences for subsequent economic growth (Bogart 2011). Prior to the

Glorious Revolution, estate bills often failed due to political conflict. As a consequence, investment in road and river transport dramatically improved, with important consequences for subsequent economic growth (Bogart 2011). Dimitruk (2018) finds that political and constitutional changes after 1688 resolved or changed the nature of many of the conflicts in government. After the king became dependent on Parliament, sudden closures of Parliament were less likely.

The English/British case study is illuminating because it points to the importance of doing serious historical work rather than relying on proxies for institutional quality, as in common in many areas of economics. For instance, according to standard measures, institutional quality was constant in England between 1689 and 1830. Maden and Murtin (2017), for instance, claim that institutions did not drive British growth because they were unchanged in this period. But this conclusion is unwarranted; this is precisely the period that economic historians have found marked improvement in actual institutional performance.

Interest groups continued to push for rent-seeking legislation and to block potentially productive improvements. North et al. (2009) use the term "open access" to describe modern, liberal, market economies in which entry is not controlled by political elites. One sign that eighteenth-century England was not yet an open-access economy is that political parties made a difference for investments in infrastructure. Bogart (2018) finds that periods of Whig dominance were associated with investments in productive infrastructure, particularly river projects.

Parliament did become less rent-seeking over time. Early eighteenth-century parliaments were notoriously venal, passing numerous acts that benefitted specific interests – most notably the Calico Act of 1721 – at the expense of the larger public. Members of Parliament were expected to look out for their own material interests and pursued what to modern eyes looks like corruption and venality (Root 1991). Over the course of the eighteenth century, this changed. Mokyr and Nye (2007, 58) note that "[p]urely redistributional actions, however, began losing their appeal. Many special interest groups' legislated privileges, monopolies, exclusions, limitations on labor mobility, occupational choice, and technological innovation found themselves on the defensive as the 18th century wore on."

Consider the position taken by Edmund Burke as an MP for Bristol. Bristol was a port that benefited from mercantilist policies, notably protective tariffs on Irish goods. In 1778, however, Burke argued in favor of free trade with Ireland. This motion was successful, but Burke was attacked by his constituents. He was unwilling to be bought off by his prosperous constituents and instead argued for the policies that he believed would benefit the country as a whole (see Prior 1878).

This process of institutional change can be understood through Olson's distinction between decentralized and centralized rent-seeking. Britain moved from decentralized to centralized rent-seeking (Ekelund and Tollison 1981). This was associated with a lot of competition over rents in Parliament, but the elimination or streamlining of local rent-seeking. By the nineteenth century, it became evident that the growth of the British economy as a whole was the surest way for elites to gain materially and to retain their status. The British landowning elite were not replaced; they came to benefit from the growth of a commercialized economy.

An important historical topic that has not yet received attention from cliometricians is the retrenchment of the fiscal-military state undertaken after 1815. While authors such as O'Brien (2011), Vries (2015), and Ashworth (2017) make strong claims about the economic benefits of the mercantilist policies pursued by the British state, the period in which economic growth was strongest and which saw substantive gains in real wages for ordinary works was the period during which the fiscal-military state was being dismantled by Peel and Gladstone. Gladstone's success in reducing the fiscal burden of the state was remarkable. But this period of British history has yet to receive as much attention from economic historians as that before 1815.

The Political Economy of Empire

Concern with the economic costs of empire extends back to Adam Smith, a sharp critic of British imperialism. An extensive scholarship studies the costs and benefits of colonial empire. Historians influenced by either Marxism or world-systems theory place tremendous explanatory weight on imperialism to explain sustained economic growth in Europe and North America.

This work was largely based on impressionist evidence, however, and the Hobson-Leninist theory of imperialism. No doubt Atlantic and colonial trade stimulated urbanization and economic growth, particularly in cities like Bristol, Liverpool, Bordeaux, and Glasgow. But these accounts are apt to neglect the importance of domestic over international commerce. As a proportion of GDP, trade with the imperial periphery was small (O'Brien 1982). Imperialism is ancient; sustained economic growth is not. Moreover, the development of overseas empires, first in Asia and then Brazil, did not prompt industrialization in Portugal. Spain was "cursed" by the abundance of silver, obtained during its imperial heyday (Drelichman 2005).[9]

Nevertheless, in the case of Britain, O'Brien and Escosura (1998) argue that the "mercantile and mercantilist matrix dominated by colonialization and commerce with continents beyond Europe" was important though not necessarily crucial for Britain's long-run economic success. As the argument cannot rely on the share of trade in GDP, which O'Brien himself established was small, it hinges on the importance of overseas markets as a source of demand for British products and on increasing returns associated with the Atlantic trading nexus. Allen (2009), for instance, pointed out a role for colonization in boosting British wages, especially in trading entrepôts like London. These high real wages then provided the incentive for labor-saving technological change. Findlay and O'Rourke (2007) also make the

[9]Note that the most recent research on the Spanish economy, for instance, points to domestic factors such as the absence of integrated markets or a standardized fiscal system (Grafe 2012; Álvarez Nogal and de la Escosura 2013). Many of the bolder claims made on the behalf of the importance of empire to the origins of growth in Europe are ably dismissed by McCloskey (2010).

case that colonial trade played a critical role in the British Industrial Revolution. But, without a model or explicit theory, it is all but impossible to quantify these external benefits or linkages; hence this is a topic that needs further research.

The impact of colonial institutions on colonized counties, in contrast, was of critical importance. This was because it not only changed the economy of colonized countries, but their political economy as well. Building on Sokoloff and Engerman (2000) and Acemoglu et al. (2001), a large literature finds that extractive colonial institutions can explain the persistence of poverty in developing countries today. Acemoglu et al. (2001, 2002) argued that the colonial period saw a reversal in economic fortunes. The most developed parts of the Americas and Africa attracted the attentions of European colonial powers and, as a result, were among the least developed parts of the world by 1900.

In a seminal contribution, Nunn (2008) showed that the transatlantic slave trade left a lasting negative impact on economic development in Africa. The slave trade also lowered population density, impeded the formation of states, and left a legacy of mistrust (Nunn and Wantchekon 2011). Other research has found long-lasting negative effects of the colonial rubber industry in the Congo (Lowes and Montero 2018). There was some investment in colonial empires, particularly in the form of railroads (see Jedwab and Moradi 2016). But in general the burden of empire was borne by the colonized (see Huillery 2014).

The impact of colonial rule on African society should not lead one to believe that Africa was a tabula rasa prior to the arrival of the Europeans. Gennaioli and Rainer (2007) and Michalopoulos and Papaioannou (2013, 2016) point to the importance of pre-colonial African states. Michalopoulos and Papaioannou (2013) find that the complexity of pre-colonial institutions is associated with economic development as measured by light density. This confirms the hypothesis of political scientists that a history of statehood is important in explaining outcomes today.[10]

The political economy of colonial India has also been subjected to cliometric scrutiny. Banerjee and Iyer (2005) find that under British ruler landlords given proprietary rights in land were unequal in the post-colonial period, spent less on development and public goods, and have experienced less of a decline in poverty. Iyer (2010) exploits a British colonial policy, whereby the territories of rulers of native states who died without a natural heir were absorbed into the British Empire, in order to generate exogenous variation in whether an Indian state received direct or indirect colonial rule. She finds that direct British rule was associated with less public goods provision in the post-colonial period: low availability of schools, health centers, and roads. This translates into higher levels of poverty and infant mortality. At the same time, British railroad investments played a crucial role in decreasing trade costs and raising incomes in colonial India (Donaldson 2018) and reduced the incidence of famine (Burgess and Donaldson 2017).

[10]This leads one to ask what determines patterns of pre-colonial state development in Africa. According to Fenske (2014), pre-colonial African states emerged in more ecologically diverse environments where the returns to trade were greater.

In India, the impact of colonial rule interacted with preexisting state structures and distributions of political and social power. Chaudhary (2009) finds that primary education in British India was particularly low in areas that were religiously diverse and which had greater caste differences. Chaudhary and Rubin (2016) find that literacy was lower in Muslim states than Hindu states. They interpret this finding in the context of a model in which rulers have a greater incentive to provide public goods where a higher proportion of the population is coreligionists.

Besides this discussion of imperialism, the state, and economic growth, other aspects of the political economy of European and American empires have also come under scrutiny by cliometricians. Mitchener and Weidenmier (2005) provide evidence that the implicit American empire in Latin America, associated with Theodore Roosevelt's Corollary to the Monroe Doctrine in 1904, brought economic benefits, as reflected in the price of Latin American sovereign bonds. Roosevelt made the US's threat to intervene in South America credible. US hegemony, they suggest, provided the public goods of peace and security in the region. Ferguson and Schularick (2006) similarly find evidence for a positive empire effect, which enabled countries on the poor periphery to benefit from cheaper capital. The mechanisms behind the empire effect were institutional: a common legal framework protected investor rights (Ferguson and Schularick 2006). Formal and informal empire reduced default risk.

Looking at the period between 1870 and 1914, Mitchener and Weidenmier (2008) find that belonging to an empire doubled trade relative to countries that were not empires or colonies. Important channels for this effect include trade policy and transaction costs. Empires were trading blocks, within which there was often a fixed exchange and free trade with the metropole.[11] Another approach is by Accominotti et al. (2010). Looking within the British Empire, they note that whereas the white dominions were able to benefit from the lower borrowing costs associated with empire, the crown colonies were not able to do so, as their fiscal policy was determined in London. Crown dependencies had very small levels of government debt, and hence did not benefit from the empire, as the white dominions were able to.

The Consequences of the French Revolution

While the French Revolution is the subject of a vast historical literature, it has not been intensively studied by economic historians. Until recently, research focused on the importance of government debt in prompting the crisis of 1789, the inflation that followed the Revolution, and the role that the Revolution played in the nineteenth-century economic divergence that took place between Britain and France.

Recent scholarship explore the political economy consequences of the Revolution. Acemoglu et al. (2011) discuss how the invading French armies dismantled the institutions of the Old Regime that had prevailed for centuries, abolishing serfdom

[11]These articles have come under criticism for not taking into account the full cost of empire (see Coyne and Davies 2007).

and guilds, emancipating Jews, and replacing existing elites. They find that cities in territories that happened to be invaded by the French then grew more rapidly in the following century.

What about the economic consequences of the Revolution in France itself? Rosenthal (1992) argued that Old Regime property rights impeded investment in irrigation and that the Revolution permitted the reallocation of these rights. The French Revolution was also characterized by the massive redistribution of Church property. Finley et al. (2017) exploit the extensive spatial variation in confiscations of Church property to investigate the importance of the initial allocation of property rights for the success of institutional reform. Church property was confiscated and redistributed by auction. Combining disaggregated data on revolutionary confiscations of Church lands with data from agricultural surveys between 1841 and 1929, Finley et al. (2017) find that in regions where more Church land was auctioned off, land inequality was higher in the nineteenth century. This wealth imbalance was associated with higher levels of agricultural productivity and agricultural investments by the mid-nineteenth century. The effects of revolutionary land redistribution on agricultural productivity declined over the nineteenth century as other areas gradually overcame the transaction costs associated with reallocating feudal property rights.

Political Repression

Another side of the state that is worthy of consideration is political repression. Premodern states frequently purged political enemies and scapegoated religious or ethnic minorities – the most frequent victims of this in European history were Jews (Anderson et al. 2017). But in general, they lacked the capacity to conduct political repression on a large scale and for prolonged periods. Society-wide repression and violence occurred, but it was highly destabilizing. Johnson and Koyama (2019) discuss how the extremely costly disruptions associated with the Reformation led European states to reduce their reliance on religion as a source of political legitimacy.

One important premodern example of sustained political repression was the Spanish Inquisition. Rather than being subject to the Pope, the Spanish inquisition was a tool of the Spanish monarchy. Vidal-Robert (2013) argues that the Inquisition was used to suppress domestic opposition when the crown was committed to overseas war. Using data from Catalonia, Vidal-Robert (2014) finds that inquisitional trials reduced population growth during the early modern period. Even today Vidal-Roberts finds people living in areas with historically more intense levels of inquisitorial activity are more likely to think that new technologies will harm them.

Qing China conducted a fierce suppression of "'word crimes" through so-called literary inquisition. Xue and Koyama (2017) study the long-lasting consequences of this political repression. The persecution of intellectuals for their speech and writing led to a fall in social capital – as measured by the formation of local charities – in the decades following a persecution. Over the longer run, areas affected by the literary inquisitions display lower levels of trust, greater political apathy, and worse provision of basic education during episodes of decentralization.

The most widely studied modern episodes of political repression are Nazi Germany and the Soviet Union (Gregory et al. 2011; Harrison 2013). Nazi Germany provides an important setting for investigating the consequences of political repression. More than 1000 academics lost their jobs between 1933 and 1934 because they were of non-Aryan descent (Waldinger 2012). Many were at the pinnacle of their relative fields and would go on to win Noble prizes. The emigration of prominent scientists had both a negative direct effect on scientific output and a negative indirect effect via collaborations and partnerships, worse outcomes for PhD students, and other peer effects.

Revolution, Democracy, Public Goods

Prior to the modern era, states provided few services beyond defense and law and order. The rise of states that provide a broad range of public goods and insurance services is a phenomenon of the last two centuries.

Lindert (2004) documents the gradual rise of public provision from the late eighteenth century onward. Large-scale investment in public education began in Prussia. The French state created a system of secular and compulsory education after 1870. In Britain, investments in public education were slower than elsewhere in Europe. In America, investments in schooling were more decentralized, but by the early twentieth century, the high school movement was giving ordinary Americans access to the best broad-based system of education in the world (Katz and Goldin 2008).

Social insurance and pensions were likewise introduced in Prussia first before spreading to other developed countries. In the United Kingdom, the foundations of the welfare state were laid by liberal government before World War I. In the United States the size and activism of the federal government remained constrained until the Great Depression, but state governments played an important role in providing public goods at the local level.

These investments were driven by political considerations. One influential way to think about these developments is through the threat of revolution. In Acemoglu and Robinson (2000, 2006) the masses threaten revolution to obtain redistribution. If this threat is permanent, elites have an incentive to extend the franchise to make credible their promise to redistribute in the future. Aidt and Franck (2015) find that mobilization, in the form of the Swing Riots, increased the vote share of pro-reform politicians in Parliament before the Great Reform Act.[12]

[12]Dower et al. (2018) address the relationship between the threat of revolution and the emergence of representative institutions using data from Russia during the Great Reforms that abolished serfdom. They find that peasants received less representation in local assemblies (zemstvo) in districts that experienced more frequent peasant unrest in the years preceding 1864. This result is consistent with Acemoglu and Robinson (2000), who predict that political reforms are most likely to be offered when the poor posed only a temporary threat to the establish order. When the poor pose a permanent threat, however, democratization is no longer the sole way the elite can credibly commit to future redistribution.

The revolutionary threat hypothesis is not the only explanation for the transition to democracy. Political scientists have focused on inter-elite bargains and the role played by conservative political parties (Dasgupta and Ziblatt 2015; Ziblatt 2017). Galor and Moav (2006) discuss how the growing importance of human capital in the economy undermined the incentives of workers to overthrow the capitalist system. Galor et al. (2009) argue that while landowning elites had an incentive to oppose the granting of compulsory education, industrialists could actually benefit from this, as the basic skills learnt at schools were complements to industrial production. This helps explain why a political base supportive of compulsory education emerged in the late nineteenth century.

Not all societies experienced a smooth transition to democracy in the nineteenth and twentieth centuries. Carvalho and Dippel (2018) study transitions in power from white planters to colored merchants in the Caribbean. Even though colored merchants were more politically accountable to the citizenry, political outcomes did not improve as much as one might expect. They identify three mechanisms by which an "iron law of oligarchy" persists even in an electoral setting. The legacy of oligarchy, ethnic fractionalization, and weak institutions play an important role in accounting for the relative underdevelopment of many countries in sub-Saharan Africa and the Middle East today as discussed in section "The Political Economy of Empire."

The rise of democracy did not necessarily have a monotonic effect on public good provision. Chapman (2016) argues that the expansion of the franchise in Britain was initially associated with increased public goods spending. However, as voting rights were granted to poorer citizens, spending on public goods and infrastructure actually decreased.

The United States established democratic institutions before any major Western European nation but lagged behind in terms of government investment in public goods. Troesken (2015) discusses the trade-offs faced by authorities in the United States in deciding whether to invest in public health improvements. The decentralized federalist structure of the United States allowed individual states to adopt different public health policies. This facilitated jurisdictional sorting and allowed states to respond to local epidemics. But it was not suitable for coordinating responses to diseases that cross state boundaries. Using the example of small pox, Troesken shows that federalism impeded the introduction of measures such as vaccination against small pox that were crucial for lowering mortality rates. He argues that this same federalist structure ensured greater protection for individual liberty and spurred economic growth, but it came at a cost in terms of public health.

Concluding Comments

Cliometrics is based on the application of economic methods to historical questions. Economic theory can clarify questions and crystalize them in the form of testable predictions that can be taken to the historical evidence. As this evidence is often quantitative, cliometric economic historians have been at the forefront of introducing more formal econometric and statistical methods to the study of history.

Political economy also involves the application of economic models to nonstandard settings. In its modern form, it also stresses the importance of using economic theory to guide the empirical analysis of political questions. Its practitioners likewise need to have command over both economic theory and econometric techniques and knowledge of institutional details and particularities. Cliometrics and modern political economy can thus be viewed as two closely related and complementary fields within economics.

In addition to those topics discussed in this chapter, many other subjects could have been touched upon. Studies of the development of banking institutions in the nineteenth-century United States, for instance, increasingly consider questions of political economy. To what extent did local elites dominate and control banking institutions and to what extent were these institutions characterized by limited versus open access (Bodenhorn 2017)? The topic of trade and tariffs also raises questions of power and the extent to which particular interests are represented politically (Irwin 2017). This chapter has surveyed some prominent topics in the literature from the emergence of the state, the rise of state capacity, the political economy of empire, and the consequences of revolution. Political economy questions intrude on almost all aspects of economic history, leaving much fertile ground for future research.

Cross-References

► Cliometric Approaches to War
► Institutions
► Merchant Empires

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