

CHAPTER 3

FINANCIAL POLICY AND ECONOMIC INFRASTRUCTURE OF MODERN STATES AND NATIONS

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Introduction

THE BUILDING of the state and that of the nation cannot really be understood if we do not begin by looking into the practical, concrete and technical conditions in which states function today and have functioned in the past. What is true on the level of analysis is also true as far as putting it into action is concerned. Those who have insisted on disregarding this kind of consideration have never succeeded in constructing viable political entities. This preoccupation is perhaps best explained by different approaches all of which lead back to the different mechanisms by which the economic structure has been able to, and is able to, exert influence on the structure of the state or of the nation.

First Approach: Financial Bases of the State. Starting with those functions generally considered as essential, the first approach consists of defense, security, justice, education, etc. . . . When examined closely, each of these functions can help us to understand the basic features of the state.

However, we are naturally led to become interested in the common denominator of all the services which supplies them with that which permits them to function: finances. As Trivulce said to Louis XII who was preparing to invade Milan and who asked the *condottiere* how he thought to assure the success of the undertaking: “‘Most gracious King, three things are necessary: money, more money and still more money’” (Guicciardini 1583, quoted in Ehrenberg 1955: 3).

We could likewise quote the instructions of Charles V to his son Philip: “One has always seen that when he has to buy troops in Germany, it is necessary to be ready to shell out money, given this condition, you cannot miss . . .” (Le Her reproduced in Granvelle 1841-1852: III, 272).

It is possible that certain states may have existed within the limits of a subsistence economy of any economy which gave preference to the utilization of resources in kind¹—those states which we call modern do not give us this picture.² The Soviet state, for example, began to take shape with the return to hard currency and to the levying of taxes; even now we can conclude that the economic reforms of Eastern Europe are linked to the wise utilization of the fiscal system.

Finance means money, taxes, budget, credit, a system of banking, machinery for the activating of capital, etc. But, during the centuries prior to the nineteenth century, when the handling of money was especially difficult, taxes constituted the basic resource of the states.

Setting up taxes and collecting them may seem to be secondary considerations of interest only to the specialists. Writers of political science often have the impression that fiscal problems are worth paying attention to only to the degree that they can be explained in terms of the distribution of public obligations. They think that once the principle is decided upon, its effecting poses no serious problems.

This is totally wrong. We cannot understand the history of the state if we are not convinced of the idea that taxation is a very difficult operation, even under a good administration, and that this difficulty has always weighed heavily upon the state.

As evidence we could cite the place that fiscal problems have had throughout history. They are to be found in the beginnings of great social changes, such as the liberation of the serfs of Western Europe, the subjugation of the peasants of Eastern Europe, wars for independence (that of Portugal as well as that of the United States), revolutions, the creation of representative governments, etc.

As a matter of fact, the political repercussions of taxation are above all apparent during one particular period of history: the one which witnessed the development of the administrative framework of the modern state. Why was this so? Must one attribute it to the ignorance of the people of the times, or to their technical incompetence? To a certain extent this may be so. Nonetheless, even when

¹ In this regard, a detailed study could lead us to examine what must have been at given times the functioning of certain empires of the Orient, the importance of the cultivation of the demesne in the empire of Charlemagne, in certain Central European states up until a rather late period, and in given features of the Swedish state from the fifteenth to the seventeenth century, etc.

² With the reservation made for times of war during which certain financial systems are profoundly disturbed but do not cease to be, we might likewise make the observation that some economic techniques—price control, for example—often appear to be the means of effecting, under the best circumstances, financial policies.

they had capable finance ministers, rulers came up against an economy, the structure of which was poorly adapted to the levying of taxes by the state. Herein lies a basic phenomenon. An analysis of the system of taxation in contemporary times as well as in the past shows that *tax collection and assessment are indissolubly linked to an exchange economy*. The flow of goods and money are necessary for the understanding and especially for the evaluation of taxable materials. It is not enough to be aware of the volume of production because the economic structure sets a much lower limit. Agrarian societies of the past furnished the states with only minimal tax potential.

By means of this analysis we can understand how the economic structure governed the building up of the state, and why, during the centuries up until the eighteenth, if not even later, rulers continually came up against financial difficulty. For the same reason, the nineteenth century offered to those states affected by the Industrial Revolution ever-increasing possibilities of action, not only because greater production affords more extensive levying of taxes, but also because a more highly developed exchange economy allows one to establish taxes with greater accuracy.

What can be said of taxes can also be said of currency. One kind of economy adapts poorly to the use of bank-issued money, and for this very reason, to the most productive methods of inflation. To understand this it is enough for us to concentrate on the reality of the problem and to seek the reasons why in the case of hard money the inflationary machinery was so difficult to put into action, at the same time asking ourselves just what we would do if we had to do it in the conditions of the past. We would probably be more lenient *vis-à-vis* the behavior of the old mint officials (*officiers des monnaies*).

Second Approach: Uprisings and the Building of the State. The political influence of the economic structure on the state and on the nation has manifested itself in other ways. One of them consists of violent reactions on the part of the individual. One tends to think of uprisings as being annoying but chance happenings—as mere accidents—whereas they have played a really major role in the life of states, the formation of which cannot be understood if such events are disregarded. How can one explain Richelieu's system if he overlooks the fact that the cardinal had to cope with several hundred riots and mutinies among the urban classes alone?

Throughout one entire period of history, taxation was the outstanding instigator of rebellions. One could add the means of sustenances as an incentive to rebellion, but only secondarily. Religious phenomena alone, at least at some periods of time, have had greater emotional value for and appeal to insurrection.³ It would be inconceivable to think that states confronted by such threats would not have established their administration, their institutions, and their legal concepts in such a way as to withstand these threats. This is not a guess; when we study such a French institution—the intendants or administrative law—we discover that it has been created to withstand the unfavorable reactions of taxpayers.

If one had any doubts about this, all he would have to do would be to refer to the correspondence of statesmen. The letters of Richelieu, Mazarin, Séguier, Colbert, Charles V, or of Granvelle and of the officials who were their collaborators make clear their daily concerns. In certain cases, one can follow day by day (or almost) how they strove to predict revolts, put them down, and to avoid their recurring. Thus, for an understanding of the state, such correspondence constitutes a much more important instrument than official texts which are so often removed from reality, memoirs which allow the facts to be disguised, or histories which too frequently describe only the most superficial aspects. They are the means of grasping the structure of the state in its deepest meaning.

Third Approach: Class Contrasts and the Power of the State. The correspondence of statesmen allows us to perceive with accuracy another reality and leads to another approach.

When a riot is on the point of springing up, the minister in whose jurisdiction it lies asks himself and his correspondents who are those who are taking part in it. When all classes—peasants, artisans, bourgeois, and even aristocrats—are involved, he comprehends the extreme gravity of the situation. He then strives to isolate at least a

³ It goes without saying that in some other types of societies the majority of rebellions have had other causes: slave societies gave rise to slave uprisings. In Russia the uprisings of the serfs were relatively numerous. On the other hand, the *corvée* does not seem to have provoked, at least in Western Europe, many violent reactions. In the same way and in spite of the example set by the Catalan rebellion and the war of the Vendée, obligatory military service has not caused as many uprisings as has taxation. One might keep in mind though, the opposition to conscription during the First Empire, which can be explained by the extent of conscription judged indispensable in a time of almost unceasing wars.

part of these classes from the coalition, the nobility in the seventeenth century, if possible the bourgeoisie, in order to have a kind of auxiliary police force to reinforce the operative force of the army. The struggle against the government is generally accompanied by class conflict, which is more or less clear-cut and more or less deliberate, so the monarch's task is made easier. Here again we find the influence of the economic structure which gives rise to the class or classes without which the state could not be established except in a very different form.⁴

Of course, we can treat the problem in another way and maintain that the state, being no more than the emanation of the privileged classes, is deprived of all operational autonomy. Without underestimating the value of this approach, we must add that the sovereign, from the day of his investiture on, and from the moment in which he calls together a group of collaborators and clientele, has within his power a minimum of operational possibilities and can strive to play the role of arbiter between the various classes. Analyses of bureaucratic phenomena and of what is known today as the technostructure of the state lead to similar conclusions.

Fourth Approach: Economic Structure and the Building of the Nation. The economic structure acts in another way: it more or less inspires individuals with the eagerness to participate in it. In an agrarian society, such as existed in Europe from the fourteenth to the seventeenth century, with its small units of production and with its farms and villages having only a slightly open economy, the greatest aim of the people was to avoid the interference of the state in their affairs, since such interference meant exacting of them not only labor but above all money which was hard to come by. Members of the community in the small towns with their restricted commercial horizon had reactions of a similar kind.

For this reason the assemblies to which sovereigns had to resort in order to introduce taxation—succeeding to a certain degree—were reduced in importance except in mercantile states, particularly England where one segment of the population was sufficiently involved in business to realize the effects politics would have on their day-to-day interests.

⁴ It is fitting of course to proceed to a series of distinctions between classes and sub-classes, distinctions for which Marx has set a good example in his historical works, notably, in *The Eighteenth Brumaire of Louis Bonaparte* (Marx 1900). Cf. especially the work of the Russian historian, Boris Federovich Porshnev (Porshnev 1963).

The situation changed radically in the nineteenth century. The insurrections at the time of the Restoration and the July Monarchy, the unrest of English workers, especially Chartism, the Revolution of 1848, and similar movements in other countries, demonstrate significantly the need for participation that had extended itself throughout increasingly more numerous strata of the population.

Nations could not really take root, though, unless the constitutional systems, the details of which were developed at this time included at least a minimum measure of response to the needs of the masses: the personal income tax appeared to be the mainstay of this motion of solidarity.⁵ Now, this type of tax was linked to the economic structure. In those classes which hung on to many features of the old agrarian society, it yielded only incomplete results. In this lies one of the reasons for the different political evolution of northern countries as distinct from Mediterranean countries.

We must not conceal the fact that the awareness of belonging to a nation depends to a great degree upon the satisfaction that individuals derive or hope to derive from community life. In this respect, in contemporary industrial societies, we must attribute a very great importance to economic growth. Here too we find the effects of financial procedures. For more than twenty years, states have had new methods at their disposal, which have helped them avoid serious crises similar to those that precipitated the Second World War.

But these techniques themselves rest upon an infrastructure: industrial society, where the relatively harmonious advances of all the factors of production and trade permit fluctuations as regards the demand be expressed in terms of advances in production and not by bottlenecks which are in turn generating forces of inflation. Again we find the repercussions of the economic structure in political life, repercussions every bit as important as underemployment in constituting the most important cause of insurrection in our times.

Fifth Approach: Interrelations between the Economy and Institutions. An understanding of the mechanics of taxation, of its economic implications, and of its influence on the spirit of revolt allows us to chart accurately the correlations that exist between the institutions of different European countries throughout the different periods of their existence. In France during the reign of Louis XIV, there was a tight link between the centralized administrative regime, the ab-

⁵ Cf. as an example of this, the ideas and activities of Léon Bourgeois in France at the end of the nineteenth century.

sence of the Estates General, restrictions on local freedom as well as on individual freedom, a standing army composed in part of mercenaries, the existence of privileges accorded the Church, the nobility, and the bourgeoisie, the institution of the *garde bourgeoise*, and the venality of offices, etc. There is not one of these institutions that can be understood without understanding another, and, more often than not, by the need to levy taxes, and to prevent or retard the occurrence of rebellions. Inversely, in the England of Charles II and William of Orange, the existence of Parliament, the habeas corpus, the place of duties in the fiscal system, the existence of a stock market and local self-government were no less bound one to the other.

All of this goes to show clearly the existence of relationships analogous to those in the field of ecology. Disturbances provoked in nature by the disappearance of a given species find their equivalent in society when, for one reason or another, one of the parts of the whole system is eliminated. For instance, when a king obstructs the privileges of one class without making sure of the support of another class or when he diminishes the rigor of centralization, as in the case of Louis XVI in 1787 who caused a most severe kind of upset, that is, the French Revolution.

We might set up analogous ecological tables for other countries or for other periods, such as for Prussia under Frederick II or for France at the time of Napoleon. We might then see how, for example, the institution of the Legion of Honor and the reconstruction of the nobility—both being in reality very important endowments—would fit into the logic of the system. The same might be said for the July Monarchy as regards, to cite one example, the prime role played by the *Garde Nationale*.

Nonetheless, these tables of interrelations, or interdependencies, have a static character. They do not correspond exactly to our subject: the discovery of those conditions in which a structure—that of the state or nation, to be precise—is formed.

We can try to discover this by dedicating ourselves to the task of stressing those changes in economic structure resulting from technical advances, such as the long economic swings, the activities pertinent to the rulers and to the technostructure, as well as demographic phenomena, etc.

We also have to try to find elements of the solution by means of comparing a given kind of state, such as that formed in Western Europe, with other political entities: those of Eastern Europe and the

Orient, as well as those of new nations resulting from decolonization. By asking ourselves why certain empires have not survived, or, at least, did not open up in the nineteenth century to new avenues of action as did the states of Western Europe, we can hope to understand why the latter states have evolved in the way we know. And it is by comparing the structures and the infrastructures of Western Europe with those of Eastern Europe that we can try to separate from each other the sectors of economic conditions and political conditions found in the overall character of these different entities.

Is it necessary to believe that this bond is such that it leaves no freedom of action to the government, to the administration, or to the citizens?

Such a conclusion would be erroneous because it would not take into account the action of the states which, during the times when the resistance of the milieu of the existing social framework was the greatest, endeavored to modify these forces and to introduce industry and trade, particularly foreign trade, and all that could make the economy better qualified to furnish kings and their ministers with the basic ingredients of power. Mercantile policies presupposed, however, at least a minimum economic development: the rulers of Eastern Europe were led to another type of action; that is, demanding more of the state than of individual initiative, which was still largely lacking. Is it really necessary to state that considerations of this kind have not lost all real meaning?

In an analogous sense, even if financial techniques are dominated by the economic context, it would, however, be an exaggeration to say that technicians and politicians have no options. In the same era and in the same type of society, we might find more or less sensible techniques: certain taxes which were particularly unwieldy had particularly devastating consequences.

These remarks are applicable to an even greater extent to the most important and most delicate of all techniques, namely, money. In this area, reactions are so rapid that they are or, at least, should be immediately visible; for example, the German reaction following the decisions of Chancellor Brüning. It is not certain at the present time that the various financial techniques (the tax system, money, or the budget) correspond either to the potential offered by industrialized society or to the more or less conscious aspirations of individuals.

We have often noticed that political institutions do not change as rapidly as the circumstances from which they arise. This is perhaps

even more valid in the case of financial techniques. According to the extent that history points out the origin of all these factors, we are naturally led to ask if they correspond to the needs of our times. We might be tempted to say that a knowledge of history interests us most because it allows us to free ourselves from its legacy, or heritage, or from what is out of date in this heritage.

In this work I have endeavored in particular to stress one of the approaches to the problem by bringing into focus those financial structures which have served as a link between the economic infrastructure and the formation of the state or nation.

All these comments are enough to establish why the history of the state seems to me to be inseparable from the history of taxation. For this reason, I have taken in substance and sometimes in form ideas which already appear in *Histoire de l'impôt* (1971-1972). And, for the same reason, one will also come across certain developments found in *Théorie sociologique de l'impôt* (1965).

*The Building of States from the Late Middle Ages
to the Eighteenth Century*

INTRODUCTION

Everyone knows the seriousness of the financial difficulties against which the builders of modern states had to struggle continuously. They adjusted their foreign policy, and were actually induced in some circumstances to forego wars, or end a war prematurely. We can also recognize the financial causes in the establishment of some representative regimes, as well as the triggering of the American and French Revolutions.

However, it seems that we have not always given proper weight to the exact nature, and one might say, to the implacable character of such financial exigencies.

Judging from our experience, we are inclined to condemn ignorance, awkwardness, and corruption in the men who, in Western Europe from the fourteenth to the nineteenth centuries had a most thankless task: that of finances. Actually their contemporaries have given us the model for condemnation. It would be easy to draw up a long martyrology from the list of ministers of finance, *surintendants* or *contrôleurs généraux* of France. Some died on the scaffold, like Enguerrand de Marigny and Semblançay, not to mention the Knights Templar who were horribly tortured for their cleverness in the management of private and public funds. Jacques Coeur and

later John Law were luckier, being able to go into exile. Fouquet escaped capital punishment only at the price of life imprisonment. Those financiers and ministers who evaded prosecution were the butt of pamphleteers. The *mazarinades* would cause a library to overflow, and there are many other works which could join them from Turcaret to the polemical books of the eighteenth century.

But this should not surprise us, when we consider the monstrousness of the old regime of taxation, the salt tax collectors bursting into homes to seize salt which did not come from the official monopoly, smugglers condemned to death or to the galleys, systems as archaic as the ancient levy on harvests which continued until the eighteenth or even the nineteenth century, men taxed only because they lived, without taking account of their revenues, toll merchants, etc. . . .

However, the men responsible for public finances should not all be condemned. To appreciate objectively the quality of their financial administration, we must examine the situation more closely.

Although it is true that the distinction between public funds and the private fortunes of those who handled state monies was a long time coming, at least we should recognize that the financial administrators were not all ignorant and incapable. Jacques Coeur, Nicolas Fouquet, and later John Law understood the economic foundation of the wealth of the state. Next to a Chamillart we should note the competence and energy of a Desmaretz, who bolstered French finances during the darkest hours of the reign of Louis XIV. In the seventeenth century a Machault d'Arnouville had the merit to try to establish a system of direct taxes which were both relatively productive and relatively equitable. Turgot has always been counted an exception, but more careful historians have recently begun to rehabilitate Terray, not to mention Calonne.

The history of other countries would doubtless give rise to similar observations. Truthfully, we cannot make impartial judgments on these men, which is a secondary point, but above all we cannot measure the obstacles which faced the modern state-builders unless we recognize the necessity for and the difficulty of taxation in the economic milieu before the nineteenth century.

For several centuries European kings tried to avoid these difficulties by systematic payments in kind or in services. In the empire of Charlemagne and his successors, in the France of the first Capetians, in the empire of Otto the Great and of Frederick Barbarossa, an enormous effort was brought to support the state in a setting that

was close to a subsistence economy. History shows the weakness of these systems. From the twelfth to the nineteenth century, European sovereigns tried to eliminate the feudal system and replace payments in kind by payments in money. Taxation meant the possibility of eliminating first the tumultuous and anarchic feudal levies, which were also ineffectual, as the French defeats at Crécy, Agincourt and Poitiers show so clearly, and later the *arrière-ban*, which had little military value, and was called up for the last time under Louis XIV. Without taxation it would have been impossible to replace the network of manorial administrations with an administration in the proper sense of the word, recruited by virtue of its competence, in which the king could put his faith. There were some backward steps, such as the creation of a new nobility and the venality of offices; Maupeou tried to free the French monarchy of these policies, which can be explained to a large degree by inadequate fiscal resources.

Each increase in the power of states was linked to an increased possibility of levying taxes.

An examination of the technical problems shows clearly the strict limits of the fiscal possibilities of states from the thirteenth to the seventeenth, and even in the eighteenth century. These limits were such important constraints that they actually shaped in some ways the administrative, juridical, and political structures which we have inherited.

LIMITS TO THE FISCAL POSSIBILITIES OF STATES BEFORE THE NINETEENTH CENTURY

Until we approach the nineteenth century, a little earlier or later depending upon the country or region, fiscal possibilities were strictly limited by the structure and trend of the economy.

There were three kinds of obstacles which monarchs faced.

First Obstacle: Insufficient Production. When we are surprised at the financial troubles of sovereigns of the fifteenth, sixteenth, or seventeenth centuries, or even of the eighteenth, we forget that they were taxing societies, the major economic activity of which was agriculture, an agriculture giving low returns.

Estimates naturally differ, and we do not have many precise details. All signs point, nevertheless, to the weak productivity of land and labor. In most of Western Europe and the Mediterranean region, yield was only a small multiple of the seeds planted. Production per

hectare was ridiculously low, compared to present-day figures, and these results were obtained after long hours of work. Not unreasonably, the Physiocrats stressed that taxation, along with the various rents and dues owed to the property owner, lord, and church, could bear only on the *net product*, on that part of the return left to the farmer after he had put aside what was needed for continued production, that is, seed for the next harvest, food for those who plowed and worked the land, a little manure, a small herd of animals, and maintenance of buildings. The remainder (the net product) was relatively small. One can well understand why important state-building efforts succeeded in relatively wealthy zones, the Parisian basin, the London basin, Flanders, the plain of the Po, and, generally speaking, in the large affluvial plains. We must wait for the agricultural revolution of the eighteenth century for the economic base, or as I am tempted to say, the "nutritional" base, for states to be able at last to expand.

The limit imposed by low productivity was combined with a *demographic* phenomenon of which historians are becoming more and more conscious. When the population increased proportionately, reaching a relatively high density for a basic agricultural economy, the product of the land had to be divided among a growing number of claimants, less fertile lands had to be brought under cultivation in the absence of technological progress, which would have made it possible to overcome temporarily the law of diminishing returns. The result was the phenomenon which Malthus later formulated as an economic law: pauperization of the masses, famines or epidemics which struck down underfed bodies.

The growth of the population beyond certain limits not only increased the possibility of death and sickness, it also made the payment of taxes more difficult. It contributed to the unleashing of revolts, which can be considered partly as the result of an unfavorable ratio of production and population. In some cases, it is difficult to say whether a given uprising was provoked by famine or taxes.⁶ The direct cause was sometimes hardship, but behind the outbreak of these rebellions were the reactions of taxpayers physically incapable of paying what was demanded of them.

⁶ It seems possible to make a relatively clear distinction between the food riots studied by Charles and Louise Tilly and tax riots: beyond certain limits famine directly determined rebellion. But I must admit that within those limits the weakness of production could make payment of taxes more difficult and give impetus to a strong movement against the fisc.

Productivity, especially agricultural productivity, and demography were together the first obstacle, a really physical barrier to the power of the state.

Second Obstacle: Insufficient Markets and Difficulties of Collection. The physical limitation was not the only one. Taxes, because they were levied in monetary terms, faced a second limitation. The net product in itself was not adequate to pay the tax; it had to be transformed, by being sold, into money. For the worker, with only his labor to offer, the problem was the same: wherever he was he had to find a buyer for his labor. For the taxpayer the problem of taxation was the problem of markets.

From this came all the difficulties faced by the many regions in which the subsistence economy dominated, all the provinces removed from the important network of exchanges, those far from navigable rivers.

This difficulty was often disguised, and made people almost forget the problems already discussed. Toward the end of the seventeenth century, when the *intendants* drew up, for the instruction of the Duke of Burgundy, memoirs on the situation in their generalities, what these men, primarily responsible for tax collection, emphasized, was not the small return to agricultural or industrial production, but inadequate commercial outlets, trouble finding markets through which to keep wheat flowing, fairs at which to sell animals. When tax collection was difficult in the Limousin, this was not only due to the poor stony soil, but also because the province had no market for their oxen since the Paris market was not only distant, but also more easily supplied from Normandy.

On the other hand, tax collection was relatively easy in the provinces of the Paris basin, the North and the East, not only because the soil was fertile (not all the prosperous areas were especially fertile), but also because they were able to sell their grains and animals at Versailles and Paris, and to the forts and military storehouses along the frontier.⁷ One begins to understand why there was a movement

⁷ The memoirs of the *intendants* were published by Boulainvilliers in the eighteenth century (Boulainvilliers 1752). More accurate versions of some of those memoirs have been published in the nineteenth and twentieth centuries (for instance, the memoir on the generality of Ile-de-France edited by Boislisle 1881). In the letters of the *intendants*, notably in Boislisle (1874-1897), a lot of concrete notices show how much the problem of outlets was important for the sake of taxation. The correspondence of Colbert and later of Turgot or other men in charge of finances give the same impression. It is possible to find the same kind of observations in other European countries.

to return to taxation in kind in England, France and elsewhere at the end of the seventeenth century.⁸

The inadequate markets were caused by human as well as by physical geography. The regions most distant from the capital carried a larger burden of taxation than did other regions: money sent to the centralized governments did not return to the outlying provinces, or at best only partially and slowly. One can understand why these regions, apart from other reasons, were the forerunners of the resistance to the centralizing tendencies of the modern states—in Spain, France, and Great Britain.⁹ The difficulties were even more noticeable insofar as the payment of taxes emphasized the need of money because the movement of funds was relatively slow up to the eighteenth century, as well as in the nineteenth and twentieth; the incomplete banking network and inadequate financial techniques played an important part in making tax collection more difficult.¹⁰ One of the goals of Law's Bank was to improve the movement of specie from the provinces to the capital and vice versa.

As long as bank paper was unknown, or at best only functioned as a very imperfect substitute for specie, tax collection and consequently the life of governments were strictly dependent on the volume of

⁸ In France the best known scheme was that of Vauban (*La dime royale*) (Vauban 1888), but there were in France, in England and in other countries a lot of propositions that took the same direction. They are recalled in Vignes 1961. In that book you can see that one of the first supporters of that idea was Paul Hay du Chastellet, and in England Petty was one of its proponents. The movement continued during the eighteenth century. Some experiments were made in France, notably the *cinquantième* in 1725. Truly speaking, the object was not chiefly the solution of the problem of collection but that the assessment. *Contrôleurs généraux* (Calonne in the late years of the *Ancien Régime*) thought that the sharing of crops could eliminate more easily the inequality of taxes, *de jure* or *de facto*. For that reason their experiments or propositions were so strongly rejected by the privileged classes.

⁹ Since the times of Wycliff or Jan Hus the burden of pontifical fiscality was more noticeable because the money was sent to Rome and did not return, to the countries where taxes had been levied. It was one of the causes of the Reformation. If the kings of France or Spain did not take the same direction, it was because they obtained concessions from the Pope: Ferdinand as Grand Master of the great Orders of chivalry, and Francis I because of the Concordat of 1515, which gave him the same advantages that Henry VIII, Gustave Vasa or others obtained by the way of secularization.

¹⁰ At the beginning of the eighteenth century intendants of some generalities (notably that of Bordeaux) made reports in which they said that movements of money from the province to Paris caused great economic disturbances. They asked for a change in the methods of transferring funds; i.e., by buying letters of exchange to businessmen. At the beginning of the nineteenth century, during the first Empire, Mollien, minister of the treasury put into force a system that could make easier the movements of funds, private and public, between Paris and the provinces (cf. Mollien 1898). For the Spanish Empire, cf. the remarks of Braudel (Braudel 1949).

precious metals, the discovery of mines, the output of a given vein, and the importation of metals.

More generally, the imposition of taxes was shaped by economic cycles. Great waves of economic expansion made the government's job easy, while periods of recession threw up unpleasant barriers to their centralizing policies.¹¹ There is a striking contrast between the seventeenth and eighteenth centuries because of this single fact.

Third Obstacle: The Problem of the Distribution of the Tax Burden and the Assessment of Taxes in Preindustrial Societies. The structure of production and of trade erected another barrier to the possibilities of taxation: limited trade forced states to use imperfect methods of assessment seizing only a fraction of available revenues, only a fraction of Quesnay's net product. Some historians have argued as if it would have been possible to have a fiscal system like that of today—income tax, sales tax or value-added tax—in the economic setting of the seventeenth and eighteenth centuries, or even at the beginning of the nineteenth. This is a profound error, a complete misunderstanding of the technical problems involved in the distribution of the tax burden and the verification of taxes.

What was the nature of the economy at the end of the seventeenth century? *It was chiefly an agricultural economy, often a subsistence economy, and almost always an economy of small farms.* Financial technicians, assuming that they could forget political considerations, saw their possibilities of choice as strictly limited by these characteristics.

The problems of taxing agriculture in our own time are known. They are not only the effect of weak governments. The consumption of his products by the peasant, which still exists in relatively developed economies, goes far to explain why taxation of the agricultural sector is so difficult. This phenomenon was much more important in the primitive economies of the European old regime, in which each farmer tried to produce all his needs, where he baked his bread, ate the meat, spun the wool from his herd, wove his clothes, pressed his grapes, built his furniture, and made his tools. Where could taxation intervene in this tight economic circle, the shortest of all economic cycles? To make matters worse, they were dealing with small farms. To establish the net earnings of this kind of farm, they would have

¹¹ F. Simand was one of the first to draw attention to this effect of economic cycles.

had to face peasants who had not even the basic idea of keeping accounts.

To estimate the volume of the harvest was not enough. How, given the lack of any sale or exchange, could they establish the value? How could they determine the expenses of family farms where no fixed salaries were paid, and where fertilizers were in the form of animal manure? Industry did exist, but it was also dominated by a large number of small enterprises, even in the most active regions.

In the contemporary world, states do not tax the real profit of the artisan or even of small industries; they are satisfied by an approximate estimate (*forfait*). The administration of old regime France faced the same kind of difficulties, but with the difference that the basis for payment was less certain, and large establishments practically did not exist. One approach could have been to establish an identical tax for all artisanal enterprises of a given type, leaving the occupational group itself to assess and collect it.

Storekeepers, with their small stores spread out here and there, were no easier to tax. A tax on sales was theoretically possible, and was tried in various countries and at various periods. The financial administration understood, in advance, the problems of a turnover tax applied to small business; these problems were impossible to overcome except by another system of conventional estimates.

It would seem better to tax the consumption of storekeepers, small businessmen, artisans, their workers, and also the liberal professions. City life assumed the circulation of foodstuffs and (in the simplest sense) manufactured objects, even in a period when many city-dwellers had their own gardens or country homes. Products could be taxed in transit, preferably at the point through which they had to pass to enter the cities, especially when towns were still surrounded by walls.

One can understand the preference of finance ministers for indirect taxes, but even these taxes faced the same obstacle, a backward economic infrastructure. When the manufacture of a whole series of products is concentrated in one setting, as it is today, it is possible to arrange verification of production: breweries, sugar refineries, distilleries, oil refineries can be almost permanently observed as to their machines, production lines, entries of materials and exits of products, accounts, etc. When there are small scattered enterprises, this solution is impossible: even today there are fiscal problems aris-

ing in the cases of small distilleries. The fiscal administration in the sixteenth, seventeenth and eighteenth centuries faced problems of this type. But they were not the exception, as they are today. They were the rule. Scattered production meant that taxable wealth could not be taxed at this stage.¹²

All that remained was to control circulation. In France the *Contrôleur général des finances* and the *ferme générale* built an ingenious mechanism based on systematic use of permissions to move products. From the moment at which a taxable item, a barrel of wine, for example, left the place where it was produced, it had to be accompanied by an official document which listed its destination, the length of the journey, and all relevant facts of the trip, in a way that a check of these documents anywhere along the way could reveal an evasion. Furthermore, inventories kept by wholesale and retail merchants made it possible to know constantly what was in stock and what was actually on hand. This "classical" mechanism was so wisely set up that it has continued to exist, in essence, up to now.¹³ It made it possible to make cities pay taxes. It was so effective that at various periods and in various countries direct taxation of city dwellers has been replaced by entry duties. It was not effective, however, for taxing the countryside, where consumption on the farm of the product of the farm was too prevalent.¹⁴ In the countryside there was the taxation of salt, which, being physiologically necessary for all men, was the weak link in peasant autarchy. From this came the monstrous duty known as the *gabelle*, which was so exaggerated that

¹² There were several exceptions, such as beer production, which could be measured by the amount of malt used or the number of steamers in operation. This explains why taxes on beer were an early and important part of the fiscal system of German states.

Certain other products could also be taxed at the production stage. Early countries to be industrialized like Great Britain could establish their indirect taxes at the point of production (or more often at the stage of the importing of raw materials).

¹³ That mechanism was codified in the ordonnance of Colbert "sur le fait des aides." One can find good analyses in books of the eighteenth century, like that of Lefebvre de la Bellande (Lefebvre de la Bellande 1760). The comparison between the ordonnance of Colbert and the present French fiscal code is very striking.

The French system seemed so good that Frederick II, when he wanted bigger revenues from excise, gave the charge of Prussian excise to a group of French technicians. A critique was made by Mirabeau (Mirabeau 1788).

¹⁴ Notably in Prussia since the time of the Great Elector. This distinction between the fiscal system of the country—direct taxation—and that of towns—excise—can be explained by political reasons, that is to say the opposition by the nobility to indirect taxation. The main explanation can be found in the structure of the economy. Long before, in France, Louis XI had the same idea. He did not put it in action, but later a great number of towns were authorized to replace direct taxation by taxes upon entries.

general evasion was practiced, only to be combatted by an army of enforcement agents and a whole series of checks on fraud. The system just described, which depended to a large degree on the taxation of certain products of mass consumption, is a direct expression of a certain type of society. It assumes at the same time some development of cities and markets. It was more suitable in this sense to the Western European countries than to those of Eastern Europe.¹⁵

In England, as in France, the state set up about the middle of the seventeenth century a widespread system of indirect taxes, or excise taxes, as the basis of the public budget. The English excise tax of 1643, which Holland imitated, taxed drinks (ale, beer, cider, liquor), meat, salt, alum, ammonia, hats, silk, and woolen textiles, etc. The verification of the taxes was set up at the stage of production or at the first sale of the product: the more advanced economy of Great Britain made it possible to eliminate controls during shipment from this period on.

The emperors of Germany were not able to set up a fiscal system in the true sense of the word. They lived on contributions offered by the various orders and geographical divisions of that large, chaotically organized empire. The separate states and the cities of the empire had real tax systems, which were more advanced and precocious in the urban centers.

Indirect taxes, especially on beverages (beer in particular), but also on meat and grains, were important, to the extent that economic conditions made them possible, and in proportion to those economic conditions. There was a tendency from the second half of the seventeenth century on in some of the states, Prussia and Saxony for example, to concentrate taxation in the cities.

However, despite all the advantages that the ruling classes could find in this kind of tax system, it was not sufficient. Today when the agricultural population is only 30 or 40 percent, or even less, of the active population it is possible to accept a very imperfect system of direct taxation on agriculture. When breeding animals and working land were the principal economic activities, this was impossible. States could not bypass direct taxation of the largest part of the taxable population, the peasants themselves.

¹⁵ More details of those countries and notices of other European countries can be found in a book edited during the eighteenth century by a French civil servant (Moreau de Beaumont 1787-1789). It was the result of a general inquiry made probably with the idea of helping the French government to reform its own taxation system.

EFFORTS TO ESTABLISH TAXES INDEPENDENT OF THE MARKET SYSTEM

By the simple logic of fact, monarchs were obliged to ask themselves the following question: could taxation operate without markets? Various solutions—I am tempted to say every kind of solution—were tried.

The Tithe. The first and most simple solution was the payment in kind of percentage of the harvest, *la dîme* (the tithe). Apparently there was no need for elaborate evaluations, since the tax collector had only to collect his share of the fields or of the granary or store-rooms of the peasant.

It is surprising that this ancient tax, present in the earliest civilizations, held an important place for so long in history. Political reasons, and the importance of the clergy, go far to explain why France did away with the ecclesiastical tithe only at the time of the Revolution, and Great Britain, in 1836.

But how can we explain that even the most daring proposals of tax reform involved a return to this kind of tax? Vauban's schemes proposed at the end of the reign of Louis XIV were built around a tithe paid in kind. During the eighteenth century, the French monarchy experimented with the ideas of Vauban, and one of the last *contrôleurs généraux*, Calonne, proposed making this kind of tax the base of a reformed system.

This is one of the most characteristic pieces of evidence of the obstacles which the economic structure offered to the fiscal possibilities and life of states; i.e., the stubbornness with which this archaic tax kept being reconsidered. But the collection of tithes was simple only in appearance. The possibility of cheating was great because of scattered holdings. The holders of benefices complained constantly during the entire sixteenth century: at the Estates-General of 1576 and 1588 in France the First Estate devoted entire books of grievances to the evasion of the tithe.

How could collectors assure a minimum of control? There were evident difficulties in any attempt to inventory the wine cellars, granaries, farm buildings, and houses. Forbidding the farmer to complete his harvest until the tithe collector had collected his share, a second solution tried in France and other countries tended to expose the farmer to the risk of bad weather which would ruin his harvest. A third possibility; i.e., the setting up of a fixed payment agreed upon by taxpayer and tax collector alike was frequently used: but

like all systems of this type it meant giving up any claim on a large part of the taxable product. Besides these obstacles, we should add that if payments in kind were not needed for immediate consumption, the products would have to be moved, sold, or transformed into money.¹⁶

There were serious inconveniences for the economy in proportion to the attempts to collect this kind of tax. The "economists" in the broadest sense of the term, from Boisguillebert to the liberal economists, including the Physiocrats, were all critical of the tithe. Their criticisms link up with those of contemporary experts estimating the obstacles to agricultural progress in developing countries. The disadvantages which these latter describe in the share-cropping systems are the same that the men of the Enlightenment saw in the tithe.

Their analysis is extremely simple. As is the case of all levies on gross product, the tithe encourages economies in methods of cultivation rather than increased production. Suppose that with an outlay of 91 units, the farmer can produce a harvest of 100 units. The profit would be lost if there were a levy of 10 percent on the gross product although there is a readily taxable net profit. All other things being equal, the tithe tends to bring about the abandonment of types of farming which require large expenditures of capital or other factors. This effect could be reduced by setting different levels for different types of agriculture, higher for those which require little labor, lower for those, such as vineyards, which require large inputs of labor. The tithe nevertheless would have the effect of discouraging intensive cultivation and hindering economic progress.

Capital Taxation and the Cadastre Solution. A secondary category of solutions would also permit—at least in appearance—the freeing of the state and its power from the limitations imposed by the eco-

¹⁶ We can understand all the difficulties of the tithe if we look at the fiscal history of Moslem states. The place given to that kind of tax is well known. But, in fact, oriental kings were obliged to seek a lot of methods that could afford practical solutions to the problems of the tithe. Instances can be found in the Mughal Empire of India. Emperors or ministers adopted, successively or simultaneously: the solution of measurement, that is to say an evaluation of the crop before the harvest; a fixed charge on each unit of area sown; a contract between the assessor and the peasant, the latter giving a certain sum independent of the area he might sow; the use of standard yields, each unit being classed good, medium or bad, a tax on each plough, etc. . . . In some regions and in certain times, to avoid the incidence of too heavy taxes upon poor units, the tariff was different with the nature of the crops.

The system was much more complicated because the difficulties of assessment and of collection induced the kings to use intermediaries, headmen or farmers for revenue. The system called the "repartition system" was often used as a facility. (Cf. Moreland 1957.) In other Islamic countries difficulties of this kind might also be found.

conomic infrastructure. Although income was fluctuating and difficult to measure, capital was simpler to observe and levy against. From this follows the prominence of taxes of this kind in the fiscal systems of the past.

One must recognize, however, that the content of a fortune is not easy to estimate except insofar as it consists of real property, land, houses, and shops. That is the explanation, already remarked on by Seligman (1914), why the capital taxes of the past always tended, as by a natural law, to be limited to taxation of real estate.

Again there is the problem of determining value. Since this derives from the income of the property, are we led back to the previous problems? Possibly not. In each village, one could choose several pieces of property, or several parcels and concentrate all means of evaluation on them, searching out the usual level of the harvest, the average price of its sale, the expense of cultivation, etc. Then one could group the properties of the commune in several categories according to the types established by the evaluation, such as the most fertile plowlands, the medium, and the least fertile. This process would avoid endless repetitions of evaluations. Naturally, the area of each parcel of land must be known. This is the *cadastre* solution.

The mere summary of its principles shows how complex this solution was. Measuring acreage is a big job, especially in hilly countries or in regions of irregular, cut-up fields. The evaluation is no less delicate, limited as it is to several parcels. How do the evaluators proceed when there is so little commerce that there are no price lists? How can farm consumption be measured, or the expense of cultivation?

There is a way to deflect some of the difficulty: base the distribution of the tax, or at least the cross-checking of it, on the level of rents. The farmer would not agree to a rent more than the net product of the land, nor would the owner rent his property for a smaller income than the land could produce. This case requires that rental of farm land be the ordinary case. Thus this method was not used except in regions where commerce was adequately developed, in France in the zones of large scale farming such as the Parisian basin, the north, and the east; elsewhere, where sharecropping was more important, this system of dividing the crop between owner and renter offered no help to the tax collectors' attempt to evaluate the value of land.

The *cadastres* were researched and established in various regions, with unequal results due to uneven economic structure. The difficulties involved in drawing up *cadastres* meant that they were often allowed to continue in effect for long years, while the value of lands and even their ownership changed. One finally came to the case (as in the southern provinces of France where the "real" *taille* was imposed) where taxes no longer corresponded to the true income from lands, being too low in some cases, too high in others. When the tax was actually larger than the income from land one saw the phenomenon of abandoned farms, as reported by the *intendants* of the generalities in the south of France during the reign of Louis XIV.¹⁷

Approximate Estimates. Approximate estimates of wealth were accepted in the rest of France, and in other countries, until the end of the old regime. This was known as the *taille personnelle*: each community was assigned a collective sum due in taxes and then elected men who would work out the assessment of the tax based on their own knowledge of the resources of their neighbors. It was a typical arbitrary tax with all the disadvantages of such taxes: the wealthier potential taxpayers could be undertaxed, the distribution being falsified by the interest, favor, or hostility of the assessors; taxpayers were encouraged to hide their wealth, or to forego investments or technological improvements because of fear of giving too favorable an impression of their capacity to pay. Boisguillebert and Vauban, the Physiocrats and later economists continuously criticized this unfavorable distribution of the tax burden.

The Poll Tax. In the seventeenth century the need to find a satisfactory fiscal system was so strong that various European countries resorted to another tax which had nothing to do with the ability to pay—the *poll tax (capitation)*. Gone were the delicate problems of evaluating wealth, one merely had to count the human beings in a nation and place the same tax on each head or on each group of men in large, ranked categories according to their titles, their status, or their occupations if there was a graduated head tax. The French *capitation* of 1695 included twenty-two classes, from the heir-apparent to the throne down to the simple laborer. To the extent that the system remained simple, it required men of quite different incomes

¹⁷ Examples can be found in letters sent by *intendants* to the *contrôleur général des finances* (cf. Boislisle 1874-1897: *passim*).

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to pay the same tax. It was inconceivable except at very moderate levels, or there would have been an exodus of the potential taxpayers.

All this comes back to the fact that it is impossible to lay hands on taxable wealth, to recognize, or to estimate it without a minimum of economic exchange. The present-day income tax is relatively easy to operate in a country in which most men live on salaries paid by enterprises and through that link are easy to keep track of. Other taxes are levied against the interest or dividends paid by corporations; interest and dividends are both easy to find out and levy excise duties against, the payment of which could be guaranteed by the corporation itself, as in the above case. Taxes against various kinds of rents are also simple to carry out. Production is sufficiently concentrated so that taxes can be levied at that stage which will eventually be passed on to the consumer. Indeed, there are still difficulties. They are due to the burden of the taxes, which lead businesses or individuals to try to protect profits by fraud, but the larger the corporations, the more sophisticated their organization, and the more difficult it is for them to indulge in systematic tax evasion; the complexity of these corporate bodies assumes many links and involvements and consequent risks in cheating.

In agriculture, governments do not try to tax true profits except when the farms are important or adequately involved in commerce so that the possibilities of taxation are broader. There are still technical problems regarding the taxation of industry or commerce, quite acute in some countries, but these are due to the mediocre size of firms, artisanal businesses, and small stores.

Finally, the tax authorities come closest to full exploitation of taxable wealth in industrial societies. The more industrial the society, the more this is true. Up until the time of such societies, finance ministers had to be satisfied with approximations far removed from reality.

ATTEMPTS TO USE MONETARY AND FINANCIAL EXPEDIENTS AND THEIR WEAKNESS

States were unable to do without taxes except in relatively limited ways; this fact, like the difficulties of taxation, grew out of the structure and the trend of the economy. Kings did hope to avoid the difficulties involved in creating new taxes;¹⁸ they attempted various ex-

¹⁸ They often tried to avoid taxes for political motives, in England during the period of the Stuarts for instance. But the main reason was the difficulty of taxation in

pedients and also more serious solutions. But these soon found limits stricter than those of today. It was impossible to go beyond these limits, and this was in turn one of the explanations of the tyrannical effect of fiscal problems on political management in this period. The monarchs tried both "archaic" methods, a return to past methods, as well as modern ones, analogous to some which are used today.

Archaic Solutions. The first reaction of financially pressed governments was always to confiscate the property of certain social groups, or institutions, especially the Church. The "secularizations" of the Reformation encouraged the "take-off" of the Protestant states. Catholic monarchies had their equivalent confiscations: in Spain the king became grand master of the orders of chivalry and seized control of their assets; in France, the Concordat of 1516 gave the king the authority to dispense benefices and prebends with consequent financial return and influence. Even poorly exploited, the sale of the church properties helped Revolutionary France over its first financial difficulties. This kind of resource, nonrenewable and to a large degree frittered away, would be totally unable to support modern states, even temporarily.

Among the rulers of Western Europe at least, there was no serious thought to go back to feudal mechanisms; that would have been a renunciation of their central goal. Under a different form, however, there was a kind of fractionation of the state. De Tocqueville wrote:

When we come across any ancient medieval custom which was maintained, with its worst elements willfully exploited in defiance of the spirit of the age, or any new and equally pernicious measure, we always find, if we go to the root of the matter, some financial expedient that has crystallized into an institution. Thus, to meet emergencies of a temporary order, new powers were frequently erected which were to last for centuries (de Tocqueville 1856 in Gilbert 1955: 102).

As examples, he cites the right of *franc-fief* which emphasized the gap between the classes, the guilds, the overturning of municipal institutions, and the venality of offices. He concludes, "For the sake of raising some paltry sums of money the central power deprived itself

countries where the economic structure did not offer the easy fiscal method of assessment.

of the right to supervise efficiently the work of its own agents and to keep them under control" (de Tocqueville 1955: 105).

Venality of offices is a typical example of a constraint on the powers of the state arising from measures taken by the king to evade the difficulties which insufficient fiscal resources had imposed on his needs or ambitions. Venality was the resource of countries whose political ambitions went beyond the limits which their own inadequate administration, the power of privileged groups and insufficient trade imposed on resources of the state.

Some historians have emphasized that the venality of offices was not established merely to fill the treasury. They've shown that it was a means also for co-opting the bourgeoisie, buying its support for the monarchy, using it as a backstop at the time of popular uprisings, and strengthening the social system.¹⁹ I would be tempted to limit myself to explanations of this sort if I were not forced to emphasize the importance of all financial prospects, even minimal, for governments, the tax systems of which were more tightly limited than we can even imagine. It is significant that all European states, from the Papacy to the Ottoman Empire, resorted at times to the venality of offices. France simply offers the most striking example of the consequences of such a policy.

The history of the sale of offices began with Louis XII; venality was extended under Francis I, continued under his successors, and greatly developed and systematized in the reign of Henry IV. At that time, the institution was in a sense completed by the creation of the "Paulette," an annual payment by the holders of offices which assured them of the right to pass on the offices to their heirs.

The important place of the venality of offices was particularly characteristic at the end of the reign of Louis XIV, a period in which insufficient commerce, due to war and a lingering economic crisis, offered great handicaps to the needs of a policy of grandeur. Unless he could collect more taxes, the French monarch of the eighteenth century could not do away with venality. It would be superfluous to recite all the limitations which, as a result, weighed on the power of the monarchy.²⁰

¹⁹ Although the points they make are not identical, arguments of this sort are found in the article of Pagès (Pagès 1932), in the work of Roland Mousnier, and in that of the Russian historian Porshnev (Porshnev 1963).

²⁰ In his various works, Marcel Marion (Marion 1910; 1914-1928; 1926) showed that in the fiscal field especially, the opposition of the Parlements was one of the causes making it impossible to carry out necessary reforms.

Borrowing. Governments have found financiers useful since the Middle Ages to ease the movements of funds, anticipate the payment of tax receipts, and even to take charge of running taxation. These bankers helped states profit by banking techniques which transferred payments from one end of Europe to the other. The Empire of Charles V or of Philip II would have been impossible to run without the assistance given by the bankers of Genoa and of southern Germany.²¹ Businessmen advanced their own capital to their sovereigns, the capital of their associates, and even the capital that they could borrow due to their credit rating, generally better than that of the most powerful kings. Some statesmen got the idea of borrowing from a broader group. Many formulas were dreamed up, from the *Grand parti* of the Cardinal de Tournon to the *tontines* of the eighteenth century. These resources were limited not only by their disregard of the conditions for public credit but also by the structure of society.

Extensive use of government borrowing assumes a money economy developed to the extent that the holders of money are accustomed to lending it, and intermediate financiers are able to guide large amounts of money toward the state treasury. Just as taxation assumes a market for production, borrowing assumes a market for capital. These conditions were present in some states—the Low Countries and England. Elsewhere, at least until the eighteenth century, they were missing.

Recognizing this gap, the French finance ministers tried to create an artificial financial market by making those who handled public funds at the same time lenders to the state. This policy weighed heavily on both the structure and functioning of the state. It led to assigning both the assessment and collection of taxes to private corporations. It led the *contrôleurs généraux* not to press for rigorous accounting and this resulted in considerable private profits, to the detriment of the state treasury. It was reasoned that these profits increased the private credit of the men who had dealings with the minister of finances. And this in turn made it possible for them to borrow more easily the sums that they would in turn lend to the state.

²¹ Fernand Braudel (1949) has emphasized the importance, and the difficulty, of the movement of funds between Spain, where ships unloaded gold and silver from the New World, and Flanders, and banking center, to which, if the actual *pistoles* and *écus* were not shipped, at least some means of assuring payment had to be sent.

The courts would periodically try to recover a part of the exaggerated profits of these *traitants*. But in many cases the solemn machinery of repression was stopped by compromises or promoted by interested powerful persons. One of the risks of this trade was the possibility of being convicted, but this only increased the interest or commissions collected from the treasury. Necker believed the state could free itself from the stranglehold of the *financiers*, which then meant those persons responsible for the collection of public revenues, by borrowing from banks and from the private capital market. He was only able to borrow, however, under very onerous conditions, because of his eagerness to place the loans under conditions which were too favorable to the subscribers, and also because the French financial market was insufficiently organized. Mollien, who built up the treasury of the empire, realized for the same reasons that he needed agents who were half bureaucrats, half bankers, and who would put their personal credit at the service of the state; these were the *receveurs généraux*. There is still a trace of the age when the state felt it necessary to provide a sort of supplementary system for an inadequate banking network in the present setup of the *comptables du Trésor* in France.

Quite the opposite, Holland, at the time of the wars against Louis XIV, and Great Britain in the same period (during the eighteenth century and during the Napoleonic wars), both borrowed a part of the resources which helped them hold off France and beat her to a more developed money economy and capital market. This same reason (that is, the economic structure of the country) allowed England to establish an income tax, float long-term loans, and to find complementary resources for the emission of currency.

Inflation. Past governments, right back to the ancient world, also tried to make use of their coinage. But as long as metallic money was the unique system, inflationary attempts, such as the monetary changes which were so frequent in France from the Middle Ages on, could tap only relatively limited resources, came up against numerous evasions and caused serious disadvantages.

What exactly were the techniques of "metallic" inflation? One could issue coins of the same nominal value as pieces already in circulation but of less weight or of a lower standard of precious metal. This tended to encourage persons to export their higher valued coins or to restrike them themselves in order to get the benefit

of the debased coinage. One could issue a *monnaie de billion* (copper coin or other coin not specie), a procedure often used, especially by Spain at various periods, which soon reaches its limits.

One could also avoid making the monetary stock diverse by using a money of account different from the money used for payments, and this was the most common technique used since the Middle Ages. The king decided that the *livre* or the *denier*, which were the money of account in which debts and assets were calculated and prices fixed, were worth so many *louis* or *écus*. He could later change the number of *livres* or *deniers* which equaled them without changing the weight or the standard of specie. Variations of this type could be profitable. By increasing the number of *livres* equal to a *louis* or an *écu* the minister of finances could pay his debts with a smaller amount of money or buy a larger amount of goods, so long as prices had not gone up. He could do the opposite, also, forcing his debtors to pay him with a larger proportion of gold or silver.

These alternating mechanisms of *augmentations* or *diminutions*, or as we would say, devaluations or revaluations, would bring in relatively limited receipts. The state could turn monetary policy to its account by increasing the number of coinages because of the fee, the *seigneurage*, which was the difference between the weight of metal brought by individuals to be coined and the weight of the coins returned to them. The various monetary manipulations had for their object an increase in the amount of *seigneurage* collected.²² By increasing the number of account money units equal to a given coin, the holders of specie were encouraged to bring their coin to be re-minted: the state kept part of the profit of this "augmentation" and granted the remainder to the clients of the mints.

This relative profit was not enough. To force individuals to turn in their precious coins, the state sometimes demonetized them: they were "discredited."²³ Individuals still resisted this levy, they waited for a new depreciation, sent their coin out of the country or re-minted them themselves. In short, this technique also had the disadvantage of encouraging hoarding and flight of specie with a consequent reduction of the quantity of money in circulation and all the problems that that caused for the economy.

²² This is the thesis proposed by Adolphe Landry (Landry 1910).

²³ Not always. Here I am schematizing a group of methods which were very varied, very complex and which furthermore made it possible for the *officiers de monnaie* to make more or less regular personal profits.

Since the invention of paper, monarchs have been able to resort to another type of money, another type of inflation. But again a developed economy was the prerequisite. It was necessary that bank bills be common in all circles and that the state could pay its soldiers, its functionaries, even its peasants in paper money. The suppliers of the state, in turn, had to pay their vendors and their workers with money that was not hard cash (*n'était ni sonnante, ni trébuchante*). All this assumes not only usages coming from an already advanced commercial and monetary economy, but also a financial market with skilled technicians. Certain states—England most notably—were able to use bank money early on. The France of Louis XIV resorted to *billets de monnaie* in a very clumsy way. Law's system, although originally well thought out, ended by throwing bank money into disrepute by the excessive use of it. France in the seventeenth century did not have the conditions for a successful state manipulation of the money supply.

In short, the nonfiscal methods of financing were either a partial abdication of the state, or required an advanced economic infrastructure, an infrastructure which was missing in most of the European states until at least the eighteenth, if not the nineteenth century. In all cases these methods could only be used without major disadvantages if they were accompanied by a fiscal system which was substantially productive. The structure of production and of commerce limited the power of states in every way.

EFFECTS OF THE TECHNICAL CONDITIONS OF TAXATION ON THE BUILDING OF THE MODERN STATE

This part of the analysis explains why and how the structure of the economy had many and varied influences on the life, the possibility of life, and on the building of states, all by way of taxes. The building of modern states, in our sense of the term, with a judicial system and an administration paid for by the state and not by those administered, with an army paid, lodged, and maintained by the state, with storehouses filled with purchases made on the open market and not by requisitions, with public works built by specialized corps and not by forced labor—all this was accomplished only gradually, so far and only so far as the exchange economy became rooted, affected more activities, and extended itself over a larger area, spreading out from ports or trade centers.

This evolution occurred in Western Europe over centuries, with interspersed periods of stagnation or regression, and periods of accelerated growth, all due to variations in the economic conjuncture. All the European countries took part in this evolution, but in unequal ways. Sometimes we are surprised by the political importance of certain cities, merchant cities like Venice or the Hanseatic cities; of certain republics, the United Provinces; of certain monarchies, Great Britain—importance out of proportion with the size of their populations or their level of production. One should look for an explanation in the ability of these political units to levy taxes, thanks to the high level of their commercial activity, to the place of tariffs in their fiscal systems, and to the direct taxes on internal commerce which were based on an agricultural system farther removed from a subsistence economy.

But the states—and by this I mean the ruling class, that is the kings, their chief collaborators, and the entire clientele of these collaborators, in other words all those interested in the strength and wealth of public power, or, what we would call today the “techno-structure” of the state—did not always have, in fact usually did not have, the patience to wait for the level of economic evolution which would give them the means to govern, to make war, or to turn the state as they pleased. The ambitions of kings for several centuries ran ahead of the economic structure of their states and of the evolution of the economic conjuncture. This being-out-of-phase, this distorted relationship, caused the states to resort to overly burdensome taxes and simplistic kinds of assessment which made the tax system very difficult to endure. *This poor adaptation of the fiscal system to economic realities had many consequences.*

The first series of consequences was that economy was crushed by the inevitable blunders of awkward tax policies. The multiplication of tolls and duties paralyzed commerce, actually reducing the resources which it could take advantage of. The tithe hindered technological advances in agriculture. The cadastral type of property tax, poorly assessed, based on an almost nonexistent estimate of values, seldom revised, led to the abandonment of farms. The official papers of the fiscal administrations of the period illustrate that they were aware of all these effects; from the papers of Colbert, those of Turgot and the first economists came vehement denunciations of these distasteful effects of taxation. But such effects were difficult to avoid

as long as the economy was underdeveloped and strictly limited the possibilities of taxation. On close examination, proposals of the reformers of these periods appear to be a mixture of a few accurate observations and a large number of illusions.

A second series of consequences of the poor fit between the tax system and economic reality are the violent reactions of taxpayers, reactions which range from verbal complaints to riots, to rebellions. If one leaves aside religious movements, it is striking that most of the rebellions in European states from the fourteenth to the seventeenth, or even the eighteenth century, were tax revolts. This fact has been recognized, but for years the importance of fiscal rebellion has not been understood, and this despite the impressive number of tax revolts, several hundred in France alone under the single ministry of Richelieu. Their violence was spectacular: tax collectors were killed, sometimes with exquisite cruelty, and there were actual fixed battles between rebellious taxpayers and regular troops. Such uprisings were among the causes of the paralysis and decline of the Spanish empire. For an entire decade, the decade of the English Revolution and the Fronde, revolts (of which taxes were the pretext or the cause) checked the process of the construction of the administrative monarchies in Europe.

These reactions against taxation, or the constant possibility of such reactions were so important that the problem of how to handle them was one of the permanent preoccupations of the kings and their ministers. The solutions they adopted affected the constitutions of their states, their systems of administration, their juridical philosophy, and their political economy.

The retort by the taxpayers to taxation, which precipitated rebellion, provoked in turn the so-called reply on the part of the state (or rather, replies, since there were several and of different kinds): (1) they sought to improve fiscal techniques: there were advances, the limits of which we have already seen; (2) they sought to dodge taxation by means of expedients: here again they encountered limitations; (3) they tried economic solutions; and (4) they sought political solutions. There were two kinds of political solution: emphasis on constraint and attempts to obtain assent.

The Emphasis on Constraint. This was the typical political solution of the French monarchy, but we find the same kind of solution in other states, especially Spain. The preoccupation with the collec-

tion of taxes and with the putting down of taxpayers' rebellions is expressed by means of a whole group of institutions. In the first place, there is the administrative framework. The mainspring of French administration under the *Ancien Régime*, the *intendant*, owes its creation to fiscal preoccupations. The *intendant* was responsible for the collection of taxes; to do this effectively he had to improve the means of assessment and give all the necessary help to the tax collectors in their activity against the taxpayers. From this derives his role as chief of police. He had to worry about the economic development of his generality, a development upon which depended its tax potential. He had to keep an eye on the finances of municipalities in order that the excesses in spending did not prejudice the collection of royal taxes.

The *intendant* also had a judiciary role. The *contrôleur général des finances* had no confidence in the ordinary courts when clashes broke out between taxpayers and the administration. By means of a whole series of operations, the final word in such conflicts was entrusted to either the *intendant* or to the *Conseil d'Etat*. Thus, two institutions of modern-day France—the prefectoral system and administrative justice—are the result of the tax revolts in the times of Richelieu, Mazarin, and Louis XIV. The preoccupation with avoiding unfavorable reactions among the taxpayers likewise led to restrictions of individual liberties, notably the right of assembly and local freedom—in other words, all that might have provided the taxpayers with the opportunity of banding together to resist the state. The professional army, composed largely of foreign mercenaries, backed up any administrative or judiciary action. Finally, the state had at its disposal a reserve force in the form of the privileged classes. The king and his ministers knew very well that in case revolts took place they had to be able to count on the support of the nobility and, although to a lesser degree, on the urban bourgeoisie.

We find much evidence in the correspondence of statesmen (Richelieu, Mazarin, Colbert) and of the *intendants* of their fears which resulted from any coalition whatsoever of the different social classes of the country directed against the king and the tax system. Whence derived the maintenance of tax privileges, which were, though deliberately, graduated. There was relative coherence in this aggregate of institutions, and when, toward the end of the eighteenth century, the monarchy tried to remove one of the units, the whole structure collapsed.

The System of Consent. What we might call the system of consent, or appeal for the adhesion of the taxpayers, was likewise coherent. The machinery for this operation first appeared in the various European states in the thirteenth or fourteenth centuries, and the Parliaments, the Estates-General, and the Cortes all helped the sovereigns to effect the acceptance of the earliest forms of taxation. But beginning in the sixteenth or seventeenth century, the sovereigns of the major countries turned toward the form of government known as the absolute monarchy, of which we get a rather accurate picture of the state under Philip II and Louis XIV.

In Great Britain, on the contrary, through several serious clashes the parliamentary institution persisted, and as time went on revealed all its distinctive features. We might attribute its relative permanence (there were long eclipses) to the fact that taxes were often less heavy in England than on the Continent and to the fact that its trade-based economy made tax collection easier, at the same time providing a greater incentive for participating in the life of the state. Even though the advancement of the parliamentary institution might have been due, from a given stage onward, to preoccupations that were no longer exclusively fiscal, this institution nonetheless still manifests the stamp of its origin through many traits. In this lies one of the explanations of its imperfections and weaknesses.

Economic Solutions. The governing classes surely realized the inadequacy of political solutions, such as repression or seeking the consent of the governed, and therefore sought economic solutions. We have much evidence that they reasoned quite simply as follows: seeing that taxation requires a certain economic structure, developed economic exchange, active commerce, and the division of labor, it behooves the state, and is in fact vital to its existence as a state, to bring its powers to bear upon that structure and to shape it into a structure better able to support taxation.

Fiscal concerns were at the root of mercantilist policy. They explain the importance assigned to the accumulation of a growing stock of money, to an active system of exchange; they explain the opposition to the family-based economy, grinding grain on the farm, for example, before selling it to mills; they explain the establishment of markets and fairs, places at which seignorial taxation had formerly been and where now royal taxes could be collected; they explain the efforts at urbanization and the policy of industrialization which

often tended to sacrifice the agricultural sector. This is not conjecture; the French, English, and statesmen of other countries explained their policies and their goals clearly.

If we admit that mercantilist policy was important in the building of a modern economy, we are forced to recognize that by way of this new direction fiscal concerns shaped our societies. But it was necessary that the structure of the society contribute to the evolution of the economy. The countries of Eastern Europe, especially Russia, realized that they lacked an economy of exchange strong enough on which to base a policy of modern state-building. Cities were too rare, merchants too few, and the subsistence economy too widespread; they could not imitate the fiscal policies of the western monarchies and impose indirect taxes. As to direct taxes, the burden and the inevitably simplistic character of assessment led to a flight of taxpayers. In order to build the infrastructure for both taxation and the state, they had to freeze potential taxpayers in the places of production and reduce the mobility of the peasantry. In order to insure the inflow of taxes the czars reimposed serfdom starting in the fifteenth century and continuing to the nineteenth; this was the same process that had occurred, and for similar reasons, in the Late Roman Empire. All of Eastern Europe and a part of Central Europe underwent this kind of political and social change.²⁴

*The Building of the State and the Problem of the
Nation in the Eighteenth Century*

INTRODUCTION

From the point of view of the history of taxation, just as in the case of economic history or general history, the eighteenth century is rather ambiguous²⁵ since, in one sense, it did nothing more than prolong the preceding period. In France, as in Central Europe and the Iberian Peninsula, the machinery of power continued to exist with all its external manifestations. Moreover, it gathered strength in certain countries as a result of imitating French institutions. The representative assemblies which had disappeared or been obliterated in the seventeenth century did not reappear, and those that survived

²⁴ I give the broad lines of what has been explained elsewhere with more detail and with evidence (Ardant 1971: vol. I, part II, titre III).

²⁵ By the eighteenth century I mean the period which extends from the Treaties of Utrecht (or in France, from the death of Louis XIV) up to the French Revolution; in other words, from 1713 or 1715 to 1789, not without calling to mind the period of the wars of the Revolution and of the Empire.

played a role of ever-diminishing importance. There were still some conspiracies in evidence, but in Western Europe revolts became less frequent up to the end of the century at least. What were the reasons for such an increase of power? This is the first question for which we shall try to find an answer.

Inversely, the very machinery of power and society itself were challenged in a greater degree, or at least, in a more open way than previously. Even the rulers themselves were aware of the flaws in their institutions and hoped to reform them. Their attempts, however, came up against some imposing obstacles, and, if some progress was effected, many setbacks could also be listed. The most striking attempts at reform were those of the French monarchy, but they were not the only ones to make such attempts. If this was so, why did all these efforts fail?

Explanations based on an analysis of the character of the rulers would not be sufficient; though they are valid for some rulers, Louis XVI for example, they are not for others, such as Joseph II who lacked neither the willpower nor the stubbornness. Even in this case, are we to accuse an economic structure which, although certainly more developed than in the seventeenth century, was not perfect even taking into account the ambitions of the governments? Must we not take into account the according of privileges, which constituted an undeniable obstacle for reform-minded kings and ministers? Why were not these monarchs more strongly determined to overcome the difficulties, or was it, rather, that they were unable to do so? Was it perhaps that the sovereigns did not understand that their efforts had to be backed by the consent of the bulk of the inhabitants? Or was it that they were unable to see that the building of the state had to be accompanied by the building of the nation? How should we weigh the different explanations which we are taking into consideration? Even the slightest investigation of enlightened despotism and of its most important avenues of action will allow us to answer, or rather, to draw up the outline of an answer.

THE POWER OF STATES IN THE EIGHTEENTH CENTURY
AND THEIR INFRASTRUCTURE

In the eighteenth century, we witness in the European countries taken as a whole (except for those that ceased to exist, such as Poland) a resurgence of the power of states. Armies increased in size,²⁶

²⁶ This increase of the effective forces, which had begun in the second half of

and larger battle-fleets were constructed. Throughout Europe (except for England)—in Russia, Spain, Austria, Naples, Portugal, etc.—there was a tendency to establish a bureaucratic monarchy having a hierarchical nature and patterned on the French model, which thus consisted of both a central government and local governments run by delegates appointed directly by the ruler, who were equivalent to the *intendants* sent by Versailles to each generality.

This development was based on the increase of the government's financial resources due to the progress made as regards public finance and, even more so, to the growth of the states' fiscal capacity. *This greater facility in collecting taxes was linked not only to advances in the areas of agricultural and industrial production, but also to the decidedly important increase of trade.* All this resulted from a group of phenomena: from more intensive trade with the countries of Asia and America to the introduction into Europe of a wider scale of products like tea, coffee, cacao, sugar, and cotton. Improvements in techniques of maritime and overland transport, the creation of navigable waterways, improvements in the network of roads, and somewhat faster service as regards communications had for effect the penetration of an exchange economy even in those regions which were not directly in touch with the maritime trade.

This was all made easier by the return to the worldwide production of gold and silver which evolved according to the pattern in Table 3-1.

TABLE 3-1. WORLDWIDE PRODUCTION OF GOLD AND SILVER, 1701-1800 (in kilograms)

<i>Twenty-year Period</i>	<i>Silver</i>	<i>Gold</i>	<i>Coefficient of Growth</i>
1701-1720	335,000	12,820	1.08%
1721-1740	431,200	10,080	21.26%
1741-1760	533,145		23.64%
1761-1780	652,740		22.34%
1781-1800	879,060		34.67%

Source: Soetbeer 1879.

Technical progress made in capital flows and banking operations contributed its results, so that some of the most important operational measures were put at the disposal of the more active commerce.²⁷

the reign of Louis XIV, worried the military experts (of theory and practice) who, like Guibert (Guibert 1773), did their best to point out that, as a result, the character of military operations was too unwieldy and, therefore, was far from efficacious.

²⁷ Obviously we do not have statistics which permit us to measure the development

To the advances in trade we owe one of the features of the eighteenth-century fiscal system: the tendency to rely more on indirect taxes, or more specifically, on the possibility to levy indirect taxes, since governments had always sought to use this type of taxation. Likewise, these advancements made direct taxation easier, because the development of the market economy allowed the peasants greater ease in paying the taxes whose assessment became less burdensome.

Another distinctive feature of the times lay in the fact that, although the trend was toward the creation of more centralized and more costly forms of government, if there was opposition, it did not on the whole result in tax revolts of the proportions of those which the French and Spanish monarchies had had to face in the seventeenth century.²⁸ It can be seen therefore that political development no longer held the lead over the economy in the way that it had in the seventeenth century. If we made a detailed study, analyzing the causes of the strength of states as are presented to us through wars, the importance of the financial, and more precisely, the fiscal basis of power would stand out even more clearly; however, I will limit myself to a few very simple ideas.

On the whole we can say that France was more powerful than Austria. At the beginning of the eighteenth century, although the Austrian monarchy had territories as extensive and almost as heavily populated as those of the French king, his revenue from taxes was five times less. Spain in the second half of the eighteenth century was two and one-half times less populated than France, but she still possessed her colonial empire: all of Latin America with the exception of Brazil, and the Philippines. The general revenue of the state came to 440 million *reals*, or 110 million pounds *tournois*, while in France the revenue in the treasury totaled 500 million pounds.²⁹

We can also compare two other states: in spite of the proportion

of the exchange economy in the principal European countries. This development can be assumed on the basis of a series of partial data. It should be noted that historians emphasize a development of exchange operations which was more significant than the development of industry. "In the eighteenth century even more than in the seventeenth, commercial progress outstripped industrial progress," writes Henri Sée (1948-1951: vol. 1, 293), and he adds that this is a European—moreover, a worldwide—phenomenon.

²⁸ Of course there are exceptions such as the opposition of the Estates of Styria, Carniola, and Hungary to the financial reforms of Joseph II. As for the French Revolution, its characteristics make it a tax revolt of a special kind.

²⁹ Of this 100 million *reals* came from America.

of two to one in population (six million as opposed to three million), the kingdom of the Two Sicilies had an army of the same total strength (30,000 men) as the kingdom of Sardinia. The revenue of both states was about the same: 30 million pounds *tournois* at Naples and 25 million at Turin, capital of a state, the foundation of which was laid on the active economic life of Savoy and the Piedmont with all the advantages that trade could bring to the "gateway to the Alps."

What caused these incongruities? We can answer this question only by investigating the economic foundation of taxation and power. In this regard, Austria provides us with a typical example: advisers to the Emperor proposed setting up his finances on an economic base by exploiting the commercial potential provided his states by the treaties of Utrecht—whence the creation of the Ostend Company whose charter was approved in 1722 (cf. Pirenne 1902: vol. 5, and especially Huisman 1902). We know how much this desire for commercial development worried Great Britain, ever-ready throughout the century to restrain any other country's trade. After a series of diplomatic ups and downs, Charles VI abandoned the Ostend Company in exchange for the recognition of the Pragmatic Sanction, thus hoping to keep his states intact in the interest of his daughter.³⁰ The result of this policy was a state without money and, consequently, without an army and, historians tell us, it was the great joke among other rulers. The sergent-king openly made fun of the emperor saying, "The Emperor has no land—he is as poor as a painter."

The English envoy predicted the imminent ruin of the Empire, and the French foreign minister shared his views. From instructions given the duke de Richelieu, French ambassador to Vienna, in 1725 we have extracted the following:

Whatever may be the extent of power that the Emperor has attained because of the important acquisitions he had made, we are not unaware that, in spite of the help he has had from several princes from outside of and within the Empire, the great expenditures for wars have terribly upset his finances. Moreover, the help that he draws from the Low Countries, Hungary,

³⁰ This attitude can also be explained by the threat of war. As a matter of fact, in 1724, the English government demanded the suspension of the Ostend Company for seven years, the renunciation of the Austro-Spanish Commercial Treaty and the Austrian consent to the reestablishing of English monopolies in Spain and India—this constituted the Emperor's abandoning of his economic plan.

the Kingdom of Naples, Sicily, and from Milan, is hardly sufficient to maintain his position, so that, independently of the fact that every part of his new acquisitions is a burden on him in peace-time, he would not be able to sustain war-time expenditures, especially since he would not have the same resources that England, Holland, and several princes from within the Empire offered him in the course of the last war (Commission des Archives 1884: vol. 1, 208).

The victory of Prussia under Frederick II over the much more extensive and more densely populated Austria was the result of this situation. It seems unnecessary to emphasize what historians have so often done; that is, the contrast offered by Prussian power which was based on the parallel development of the economy, finances, and the army. The lesson did not go unheeded; thus, Maria Theresa did her best to form (or reform) simultaneously an administration, a tax system, and an army, and Joseph II sought to augment the work she had begun.³¹ The inadequacy of the economic infrastructure limited the results of these efforts.

In spite of having much less territory and a much smaller population than the Austrian and French monarchies,³² England was undeniably the dominant power, to the extent that one historian dealing with the eighteenth century, or more precisely with the period from 1715 to 1763, entitled his work, *La prépondérance anglaise* (Muret 1949). It hardly seems questionable that England derived her power in a great degree from her financial resources. Great Britain's economic structure provided the foundation for her fiscal capacity by allowing her to give the most important role to the taxation of commercial activities. Thus, from 1736 to 1738 we have on an average:

<u>Tax</u>	<u>Revenue in Pounds</u>
Land	1,000,000
Windows, Annuities, and Functions	135,000

In contrast to this, we have the much higher totals which were collected much more easily from taxation on trading operations.

³¹ The revenue of the state which hardly reached 30 million florins under Charles VI, rose to 56 million in 1773, and was over 80 million at the death of Maria Theresa.

³² In 1789 the population of England did not exceed 9 million while France had 26 million inhabitants.

<u>Tax</u>	<u>Revenue in Pounds</u>
Customs	1,400,000
Excise	3,000,000
Stamp	150,000

To be sure, wartime made it necessary to impose direct taxes: in 1739 the land tax rate was doubled, in 1747 the tax on windows was raised, and in 1756 the land tax, which had been reduced in the meantime, was again doubled. But a large part of fiscal endeavors had to be aimed at indirect taxes: for instance, during the War of the Austrian Succession attention was focused on the taxing of salt, wine, vinegar, and imported textiles, and on the raising of duties, while during the Seven Years War, it was focused on the creating of a general customs duty on a range of merchandise from the colonies and on the raising of the tax on beer.

The other European states did not have this possibility to the same extent. Several factors made it inevitable that England have trade, the channels of which were rather easy to keep an eye on, in spite of smuggling: England was an island, her climate practically precluded the production of wine, and her commercial activity brought about the use of other items which she did not produce either, such as tea and tobacco. Even the difficulties Walpole came up against are very instructive. One part of his financial policy was aimed at replacing import duties by domestic taxes in hopes of reducing the losses incurred by extremely active smuggling operations. Popular reaction to "this monster excise tax" was such that he was forced to abandon his scheme.³³ It was Pitt who discovered the right solution: customs duties could yield more if they were lowered. Thus it was that in 1748 Henry Fox pointed out before the House of Commons the type of tax which was easiest to impose and to collect. It was not always possible to stick to this formula. In fact, in 1763 the government was obliged to recommend the taxing of cider and perry (i.e., a fermented pear drink). Since these were common household beverages produced, notably in the "Cider land," by the peasants for home consumption, the Cider bill provoked such opposition that Bute was forced to resign.

These different reactions are significant, because they show that

³³ Cf. Cobbett 1811: vols. VIII, IX; the letters edited in Coxe 1798, Hervey 1848; and the books devoted to the life of Robert Walpole by Brisco (1907), Morley (1919), Plumb (1956), etc. Cf. also Paul Vaucher (Vaucher 1924).

the awareness of the English regarding taxation was perhaps no keener at this period than that of the French, since when put in identical tax situations, they both reacted in the same way. Once again it was the economic structure that facilitated the assessment, supervision, and collection of taxes. Finally, the victory of Pitt's England over the France of Louis XV was, just as in the case of the victory of the Plantagenets and later that of William of Orange a victory for the more mercantile nation.

Because her trade (especially foreign trade) made considerable advances after the Seven Years War, we can understand how France was able to get even with England in the form of the American Revolution, which was touched off by the lack of fiscal daring on the part of the English who had thought it possible to lighten their financial burden at the expense of men who had not consented to taxation. France was victorious, but the fiscal strain on her was such that her financial problems became insoluble for lack of a radical reform, which meant, given the blindness of the privileged classes, revolution. The various European states were not entirely unaware that their power was built on an economic and fiscal base, and this awareness perhaps formed the bedrock of enlightened despotism.

THE INFRASTRUCTURE OF ENLIGHTENED DESPOTISM

The conditions in which modern states were formed cannot be understood if we leave out the ideas and activities which constitute the movement generally known as enlightened despotism. The sovereigns to whom we attribute this double epithet—Maria Theresa and Joseph II, Frederick II, Charles, King of the Two Sicilies and later of Spain, Grand Duke Leopold of Tuscany, and a certain number of German princes⁸⁴—had in common the will to create an absolute, centralized, administrative form of government. The powers of the representative assemblies, notably the right of consent to taxation, were reduced more and more, and increasingly more affluent administrations made ever greater inroads. What is more, these authoritarian regimes had the support of writers, philosophers, and

⁸⁴ I have not mentioned Catherine II on purpose because she cannot qualify as a reformer. She duped a certain number of great European writers, who were really willing to let themselves be duped, but she cannot fool history. As far as France was concerned Louis XV and Louis XVI did not display, strictly speaking, the features of enlightened despots, although they did carry out, and above all wanted to carry out, a number of reforms. It will be better to come back to them and treat their cases in greater detail.

economists. Even those who had advocated that citizens take part in the administration of public affairs, resigned themselves to postponing the establishment of the constitutional form of government to the distant future, to that time when, as a result of educational progress, the citizens themselves would be enlightened.

In the meantime, they placed their trust in those rulers whose absolutism seemed the only means of overcoming all the obstacles which privilege and ignorance had placed in the way of administrative, social, and tax reform. It became more and more apparent that the main preoccupation consisted of rationalizing (to use a modern term) man's life, his behavior, his institutions, and his government. Public opinion became more and more aware of the absurdity of rules which were devoid of all save tradition, and tolerated with increasing impatience groundless discriminations, legal atrocities, ineffectual regulations, and repressive measures opposed to the putting into operation of new techniques the effects of which, it was felt, would have great significance in everyone's life.

Tradition no longer sufficed. Institutions were summoned before the tribunal of reason to justify their existence in terms of their usefulness. Although rulers held more absolute power than their predecessors, this power was no longer held to be sacred. Philosophers, economists, and public opinion which observed them closely, based the authority of heads of government on their capacity to carry out at least some reforms. In this respect, Frederick II, Charles III, and Joseph II were certainly men of their time, since they had the determination, if not the passion, to remodel society and to make it conform more exactly to what they considered to be demands of the mind.

What constituted the background of the desire for reform? First of all, there were government and especially military expenditures. The eighteenth century was no less harsh toward the weak than were the preceding centuries. The country without a relatively strong army and navy was threatened as regards its freedom of action, its territorial integrity, and even its very independence. Those states having the best troops (Prussia under Frederick II) or the best ships (England) imposed on others national defense measures which were comparable, if not equal to their own. The keenly felt military requirements needed for the preparation and carrying out of wars constituted perhaps the main stimulus of reforms—above all, of tax reforms.

The states of the eighteenth century had more fiscal devices at their disposal than their predecessors, but they did not suffice; professional soldiers equipped with modern artillery were costly, and even technical progress had not reduced the price of warships outfitted with increasingly numerous pieces of artillery. Investments were necessary so that industry could stock the arsenals and armories and so that an increased production could feel the flow of trade so necessary to the life of the state.

Rulers had been aware of these problems for centuries, and in order to solve such problems, they had worked out a mercantile policy, all the while struggling with faulty structures and catastrophic economic trends. Structures had improved, economic trends had become more advantageous, and men tended more spontaneously to produce and invest. We understand how rulers and administrators might have been more willing to listen to men like Quesnay, Gournay, Adam Smith, and Lemer cier de la Rivière, who showed them all the benefits the nations' wealth could derive from a more liberal economy, a less strictly regulated market, and from less heavily subjugated initiatives of reform.

The agricultural revolution of the eighteenth century came up against not only superannuated community laws but also against the fiscal system which too frequently penalized their efforts to invest and to produce. The birth of mechanization presupposed the freedom to innovate and to apply the results of innovation in spite of their incompatibility with standing corporate or administrative statutes, and it also presupposed a moderate tax on profits.

Among the conditions for economic progress, one stood out as being more urgently required than ever, precisely because of the prospects offered to investment; this condition was the reduction of arbitrary, illegal despotism. According to the views even of those who favored it, despotism had to be legal; in other words, general rules had to be determined for the framework within which individuals could act freely without fear of any capricious repercussions on the part of the lord or functionary. For this reason, the setting-up of guide lines in the fields of civil law and penal law and for the tax system was seen as one of the features of the reform necessary for both society and the state.

These aspirations were especially characteristic of the bourgeoisie which intended to take over new markets and to turn the capital amassed through trade into productive industries. Needless to say,

this class was most intolerant of the legal and fiscal favoritism found within the governmental structure. Although they were limited, improvements in transport operations—the opening of more canals, the bettering of roads and means of conveyance—as well as increases in production made people more keenly aware of the many obstacles in such form as tolls and domestic tariffs that stood in the way of the flow of goods.

This very sketchy presentation is not equally valid for all countries—for Great Britain, for instance, where trade brought in enough so that governmental leaders did not have the same preoccupation with reforms; as a matter of fact, they were of the opinion that there were no further reforms to be carried out. Such a presentation is not true either in the case of the Eastern European countries, at least not for Russia, which did experience developments in commerce and growth in industry, but not in any measure to warrant imperialist expansion. The reasons still remained which had led the czar to introduce serfdom in the first place, in the hope of easing the collection of direct taxes rudimentary as they were. To this let us add the role played by the furnishing of services, including military service, in an economy of insufficient monetary development. The aristocracy constituted at one and the same time the bulwark of the state, the foundation of which was laid on coercion more than anything else, and on its master. Catherine II could not forget that she owed her power of the regiments of the imperial guard and to a handful of officers from the nobility, and that she could not oppose the basic interests of this class. For this reason, she took but little from the ideas of enlightened despotism.

Similar was the case of Frederick II, who also discovered such a disparity between his country's needs and its resources that he could not afford to run counter to the interests of the aristocracy. Moreover, he saw that he would have to play a relatively big part in the state's economic intervention. However, since there was adequate industrial progress in Prussia, he could afford to rely rather heavily on indirect taxation. Lastly, even though he honored the interests of the large landowners, he tried to encourage their adopting more modern methods of production.

RESULTS OF ENLIGHTENED DESPOTISM

What were the results of the activity of the enlightened despots? They were by no means negative, since we cannot deny the progress

made on the level of tolerance. In that sense the countries were heading toward the modern idea of the secular state. Some very important penal reforms were initiated, in some countries serfdom was reduced or suppressed, and order was introduced into fiscal administration.

However, the reforms did not reach the heights of the ambitions of the kings and their advisers; in fact, in some countries—the case of the Austrian monarchy is the most striking—there was marked evidence of reversion to former conditions. In France it was more a question of blocking those measures proposed by reform-minded ministers. Some progress was made, but when administrators endeavored to have their plans put into effect, they encountered insurmountable resistance. The reasons for the relative failures of both enlightened despots and ministers are of two kinds: the reformers ran up against the social structure and the power of the privileged classes. They had not always correctly judged the force of the former, and they did not want to undertake the necessary measures to overcome the latter. In other words, these reformers of the state retreated in the face of the building of the nation.

Economic Obstacles. At least some of the reforms of enlightened despotism were to be carried out in an economic situation which indeed had evolved, but not sufficiently. In this respect the attempts of the Hapsburgs are particularly significant. In this country, as elsewhere, one of the sovereigns' major preoccupations centered on agricultural policy. Thus it was that they set high hopes on newly developed techniques: the use of fodder plants, the discontinuation of fallow, and the more extensive use of fertilizer.

All attempts to put these into practice still needed to be sustained by investments and productivity, but such attempts met instead with opposition in the form of existing institutions, vestiges of the manorial system and the fiscal administration. Economists had denounced for a long time the levying of taxes on raw materials and arbitrary taxation of all kinds; these, however, could be replaced by the *cadastre*. Based on the net gain (thus avoiding arbitrary measures) the *cadastre* might, by virtue of this, prompt farmers to increase their investments; the extent of the effects of this might be stressed by refraining from revising all evaluations over a period of many years, say, twenty years, for example.

Considerations taken as a whole suffice to make it clear that enlightened despots warmly welcomed the *cadaastre* solution, that some of them put it into practice, and that others attempted to put it into practice or, at least had some inclination to do so. Thus it was that a *cadaastre* was established from the very beginning of the eighteenth century in one of the richest provinces of the Austrian monarchy. Introduced in 1719, the Milanese *cadaastre* was terminated in 1760. According to one historian of finance, it served as the model for the *cadaastre* operations later carried out in France and in other states.³⁵ As a matter of fact, when we examine the methods used by Austria, we became aware of the place held (just as later on in the case of the French *cadaastre*) by the markets, verifications taken from indications found in leases, etc.

It must be said that because of its geographical features (a plain checkered with canals), its development, and by the trade activated in its main city and secondary towns, the duchy of Milan was the ideal place in which to establish a *cadaastre*. Such was not the case in other Hapsburg dominions where the reform of the property tax, although inspired by the same principles, did not have the same success. When she initiated the "rectification of taxes" (1748-1756), Maria Theresa faced the opposition not only of the lords with their privileges, but also that of the economic infrastructure. It was probably for these reasons that she had to be satisfied with incomplete declarations in some provinces and with superficial evaluations in others.

We might take another example: France. When we investigate the reasons for the failure of every minister who stubbornly strove to tax the net income from lands, we can and must (we shall come back to this) blame the opposition raised by the privileged classes. In consideration of this, we must not underestimate the resistance of the milieu.

Reformers like Abbé de Saint-Pierre and others were right in advocating a better accounting of everyone's resources and an evaluation of agricultural produce, in other words, everything that constituted the proportional *taille*, or *taille tarifée*; moreover, they were right in assigning the carrying out of this work to the administration

³⁵ This opinion was expressed by Wagner (Wagner 1909: Vol. IV, 142). In fact, these were the methods that the French tried to put into practice by fixing the *taille tarifée* and by attempting to improve the assessment of the *vingtième*.

(the *intendants* in charge of the *taille* or the inspector of the *vingtième*). But, apart from the opposition of the privileged classes, it was not easy to initiate these estimates.

It is a fact that the *taille tarifée* had success only in large agricultural areas where tenant farming was widespread, such as in the generality of Paris and Champagne. In the Limousin the difficulties were greater—Turgot was not wrong, and in *Un mémoire au Conseil sur la surcharge des impositions*, this *intendant* of Limoges wrote:

In the rich provinces such as Normandy, Picardy, Flanders, Orleans, and the outskirts of Paris, nothing is more simple than finding out the real value of capital assets and their correlation with the tax schedule. All land is farmed out, and their rental value is common knowledge; they even know the value of those estates that the owners develop and that have practically all been leased, all the farmers of the canton know how much they would pay to lease it. The proportion between the *taille* and the rental value is also widely known and about which there can be no mistake. It can also be said that in these sections the cadaster is, so to speak, tailor-made as regards the evaluation of capital. The situation is very different in the poor provinces in the interior of the realm, such as the Bourbonnais, the Limousin, and all those provinces turned over to small farmers and *métayers* (Turgot 1914: 446-447).

The Physiocrats were not unaware of these difficulties. They tended though to rid themselves of the problem by saying that taxes would be imposed on the net product when all of France would be dedicated to big farming and tenant farming.⁸⁶

The difficulties were such that many capable minds, like Terray, Turgot, and Necker, although they agreed on this point, thought it only possible to get around them by means of assessment (*répartition*). They calculated that, if they left it up to a given community to apportion a fixed amount among its members, they would be able to manage the effective application of the tax because of the clash between conflicting interests.

When the tax rate is established on a region as a whole (a tax sys-

⁸⁶ Cf. the statements in these terms of Quesnay, of the Marquis de Mirabeau (V. Mirabeau 1760), and others.

tem known as the quota [*quotité*]), it is not in the interests of a taxpayer to have a hand in taxing his neighbor. Things are different when the tax burden of a given community is established beforehand and when the members or representatives of the group are responsible for effecting the apportionment. When one person is required to pay less, more has to be required of someone else. Thus, the clash of conflicting interests automatically leads the community to establish a tax in proportion to each member's possibilities.

Such was Turgot's idea, and in his "Plan d'un mémoire sur les impositions," he studied the different procedures for determining the assessment as regards territorial taxation. After having indicated his preference on the theoretical level for a proportional tax on revenue (the quota, or *quotité*), he added: "I have to admit that the whole thing seems impossible to me: in the present system the king or the government is one against everyone else, who is interested only in concealing the value of his assets" (Turgot 1914: 307). Necker also believed in the advantages of assessment (*répartition*). In keeping with these views, provincial assemblies were tried out in 1778 and 1779, and became widespread in 1787. These assemblies added some limited but judicious reform measures to tax assessment. The blow dealt to the power of the *intendants*, in other words, to the French administrative system as a whole, was, according to de Tocqueville,³⁷ not the least of the causes for the state's weakness in the face of the first rumblings of revolution.

In any case, the creation of the provincial assemblies prefigured the local administrative system of the Constituent Assembly which handed over to the departments, districts, and communes the responsibility of establishing and levying taxes. The results were most disappointing and we can understand how this was one of the basic reasons for the breakdown of taxation and of the state, a breakdown which was, due to the opposition it stirred up, one of the causes for the dictatorship of the Convention and of the Napoleonic government. Of these events let us remember only that the stubbornness with which they clung to the myth of the *répartition* remains more-over a proof of the obstacles resulting from tax assessment in a country that had an economic and social structure like France of that time.

³⁷ Cf. in de Tocqueville in chapter 7, Book III entitled "How revolutionary changes in the administrative system preceded the political revolution and their consequences" (Gilbert 1955).

Resistance of the Privileged Classes. Preoccupation with correcting certain analyses must not make us overlook that other previously mentioned obstacle which caused so many reforms to fail: the resistance of the privileged classes. Because he was one of the most systematically minded of despots, Joseph II was especially sensitive to this. Agricultural progress in his country implied not only fiscal reform, but also a genuine freeing of the peasants who were, at the beginning of the eighteenth century, still under the yoke of serfdom. Maria Theresa had granted them certain rights: the right to marry, to acquire certain plots of land, and the right of due process before the state. The delays in effecting policies of reform brought about uprising which Joseph II, associated with the empire since 1760, was forced to quell by means of the army.

It was very evident that he had to make strides: when he became sole sovereign in 1780 he carried out a series of legal, economic, and fiscal reforms. After bringing the *cadastre* to completion, he decided that the payments made by the peasants to their lords had to be restricted in order that the total amount of these payments plus taxes did not exceed 30 percent of the net income. The nobility put up such opposition that Joseph had to suspend application of the reform. His successor rescinded it and then reestablished serfdom, which was not definitively abolished until 1848.

The overall outlines of the evolution in France during the eighteenth century are no less instructive, since at that time this country had a particularly brilliant corps of administrators. Because of the extent of their learning, the breadth of the prerogatives, the experience they acquired daily, and because of their participation in intellectual movements, the best of the *intendants*, at least, could not avoid feeling the overwhelming need to change social conditions starting with that aspect which had the greatest developmental potential—the fiscal system. Men from this category were brought to power time and again because of the more or less justified but never totally unwarranted reputation they had made according to the enlightened public opinion of the era. Now, these talented and right-intentioned men never stopped running into obstacles whose reliability never ceases to amaze us.

We can summarize the history of the last *contrôleurs généraux* by saying that they lasted only as long as they accepted the system in effect and that they had to resign when they decided to reform it. Such was the fate of Calonne, who after having exhausted the re-

sources of a policy of convenience, ended up by proposing as a guideline for financial recovery the suppression of abuses, which were none other than privileges! His successor could do nothing else but carry on Calonne's projects; after various ups and downs he too was dismissed. The monarchy finally resigned itself to convoking the Estates-General. One can imagine that the contrast between, on the one hand, a rather widespread critical spirit and the desire for reform that had asserted itself on several occasions, and, on the other, the perpetual obstruction of reforms, created an explosive situation that was more dangerous than the situation in other European countries, where the notions held by the rulers were often more advanced than those of the great majority of the population.

We could take other examples, but those of the Austrian and French monarchies seem sufficient. All that is left is to ask ourselves *why rulers gave up trying to overcome the resistance they encountered*. We might be tempted to say that such difficulties caused them to become aware of the basis of their power. They came to understand that the strength of monarchies was not to be found in the Empyrean, and that the purity of their intentions and the quality of their administration were not sufficient guarantees of their authority. Kings could not do without the support of the privileged classes, or at least, the support of one of these classes. They could, if really necessary, dispense with the church, but certain kings or their heirs realized that they had gone too far in this direction. In all cases, it was difficult to do without the backing of the nobility which provided part of the administration and the greatest part of the military cadres, and which strung throughout every region a network of landlords, all interested in maintaining order.

If the generation of enlightened despots was followed by a generation of reactionary rulers, such as those Goya painted, it was not due only to genetic caprices and to the effects of intermarriage, but also because the successors of the reform-minded kings understood into what difficulties a too rational policy could lead them. The monarchs either did not dare or were not daring enough to rely on other classes (the bourgeoisie, the peasants, and the emerging class of industrial workers). By resurrecting ancient traditions they could have established a constitutional government which would have led the representatives of these classes to create a balance with the privileged classes. Besides, they could have had their support, notably in fiscal matters. But they did not want to take this course of action.

Would they have succeeded? We cannot conceal the fact that reforms still run into many obstacles inherent in the economic structure.

“THE STATE NEEDS THE NATION” LOUIS XVI, SEPT. 1789

The Nation Helps the State. From our point of view, which is that of the building of the state and the nation, one could summarize the events that took place in Europe during the eighteenth century in the following way: Improvements in production, and even more in trade, provided sovereigns with taxable material that was more valuable and more easily seized. Such an evolution in the economic structure permitted them to increase their power considerably without provoking the same reactions as in the preceding century. With continually growing needs (essentially, military requirements) kings thought that the means of procuring supplementary resources lay in the rationalization of the administration, institutions, and society. From such an overall reform they expected a more active economy because it would be rid of the many impediments which checked its growth, a more efficient administration because it would be simplified, and finally, more extensive resources. This constituted the basis of enlightened despotism.

However, rulers found many obstacles in their way: an economic structure still insufficiently developed (as much as they would have wished otherwise) to meet the needs of their attempts at fiscal reform, and to an even greater degree, the opposition of the privileged classes, the clergy, and the nobility.

To overcome these obstacles they would have been forced to turn to the masses not having privileges. This would have indeed transformed the basis of monarchical power such as it existed in Continental Europe, and it would have meant giving up the supplementary means of law enforcement furnished by the church and more especially by the aristocracy. On the whole, kings backed down. Apart from a few lukewarm attempts,³⁸ they gave up reforms. They did not dare appeal to the nation.

France was an exception. *In one sense we could define the French Revolution*, according to the phrase of Louis XVI, *as an appeal of the state to the nation*, then as an irruption of the nation in the state, or as an endeavor aimed at building in a parallel direction, with one

³⁸ It would be interesting to study these attempts: those of the King of Spain and of his ministers with recourse to the societies for progress, and those attempts of Joseph II, etc.

leaning on the other, both the nation and the state. Because of the repercussions of this event throughout all of Europe, it is worthwhile to stress its importance. What made this action take place in this country and at this time? In reality there are two questions to be answered: (1) Why the appeal to the Estates-General? (2) Why was the convocation of May 1789 followed by a revolution?

Why the Appeal to the Estates-General? In the fifteenth and sixteenth centuries the convocation of the Estates-General was an important but relatively ordinary undertaking. After an interruption of two centuries, from 1614 to 1789, one could not mistake the gravity of a solemn meeting of the elected delegates from the whole country. Why did the king bring himself to do it? The answer is quite simple: Louis XVI saw no other means of restoring life, or resourcefulness, to the state. The French monarchy had probably benefited more than others from the development of commerce, which had provided supplementary income from its very appreciable returns. The monarchy had widely adopted indirect taxation. Some might wonder if they had reached or even exceeded, the limits of this type of levy.

In the economic context of the era, it was not possible, rather they did not think it possible, to levy taxes on products by merely inspecting and seizing goods of trade as was done later on. The tax inspector entered the producer's or consumer's shop, his cellar, and even his private dwelling. The inspection of the wine producer's harvest and the inventory which allowed the determining of the ("too much drunk") or ("a great deal lacking") were very keenly resented, as those who drew up the lists of complaints declared openly. Insofar as the inspections by agents of the salt-tax were concerned, no one dared defend them any longer.

Technical progress was conceivable: theoretically they could have imposed a tax on beverages similar to the one worked out at the time of the Empire, and they could have replaced the *gabelle* by a tax collected at the exit of the salt beds or other production sites, with a relatively light tax on economic transactions. Two conditions were necessary: the undermining of the privileges in given provinces and the reducing of the burden of the indirect tax, which meant increasing the direct tax.

The first condition presupposed a more positively asserted consciousness of national unity, just as did the second condition. Men of

the times had not realized fully the limited but real possibilities of taxing trades and dwellings, which developed later on in the forms of the licenses to exercise trades (*patentes*) and of the personal property tax (*contribution mobilière*). In effect, the initiating of a direct, productive tax, which was basically a land tax, presupposed the abolition of privileges from a plain technical point of view. To improve assessment it was necessary to tax each piece of property where it actually was located and not where the landlord lived; in other words, they had to give up this "personalization" of taxation to which the privileged classes and their promoters, the *parlements*, were so fiercely attached. Besides, no one could ask the taxpayers to make more of an effort without giving them the feeling of at least a bit of equality and without, in some way, seeking their voluntary participation. Direct taxes, because they are more apparent, have always constituted a more vital stimulus of political awareness than taxes on commerce which go unseen by many people who have to pay them.

This necessary recourse to direct taxation could be presented differently by following the reasoning of Labrousse: price increases had exceeded increases in salaries so that taxation of consumer goods, which made the cost of living go even higher, was resented more and more. Independently of public opinion, which regarded indirect taxes with a jaundiced eye, the *contrôleur general* could not do anything other than look for taxable material, especially the rich material in the form of the income of property owners.

Now, these supplementary sources of revenue appeared indispensable, since the abuse of loans had exhausted this source, the Abbé Terray's bankruptcy was still too fresh to be repeated, the monarchy either did not know how, or did not dare, to make extensive use of inflation, and since the war in America had made practically impossible the solution of an already thorny problem. The *contrôleurs généraux* had never given up attempting fiscal reforms throughout the course of the seventeenth century (except during Fleury's long ministry), but they had always run up against the privileges, and royal authority had proved inadequate. If we admit that revolution is possible in the case where enduring efforts to think out and even to attempt reform have revealed the possibility of and the necessity for radical change, then such was the case in France, more than anywhere else at the end of the eighteenth century, where all these conditions were present.

Why Was the Convocation of May 1789 followed by a Revolution?
 The state's cry for help to the nation was the result of financial necessity as well as the consequence of an economic evolution that had given more room to the bourgeoisie, a bourgeoisie that insisted on the abolition of the privileges of the other classes. As important as it might have been, this was not the only reason for their wanting to take part in governing the state; besides, this desire was felt not only by the bourgeoisie, but by the aristocracy and clergy as well.

To understand the situation, we must once more go back over the evolution of the economic structure. The increased flow of trade brought about greater interest in political decisions among a certain number of people—landowners, industrialists, and merchants. When the state revealed that it was incapable of maintaining its colonial territory (markets in Asia and America), it seriously jeopardized merchant interests. When the state was menaced by bankruptcy, the stockholders were beset by worries. And, when the state concluded a poorly drawn-up commercial treaty with England, a treaty which resulted in fierce competition with British goods, the industrialists were unhappy as were those workers out of work. To the extent that the French economy was one of the better developed among the continental economies, *it made the desire for a share in the power more keenly felt by a given segment of the population.*

For a whole variety of reasons, the convocation of the Estates-General caused great reverberations throughout the country—the gravity with which the lists of abuses (*Cahiers de doléances*) were drawn up is one proof of this. Thus, the state needed the nation, and at least one part of the nation felt dependent upon the state.

It seems of little use to dwell at greater length on what happened afterward. We could summarize the whole thing by saying that the king may have suddenly realized, later than the enlightened despots and too late to do any good, that he had without knowing it upset the very foundation of his state—whence the hesitation, the setbacks, and the fraud that ruined his popularity.

It might be wise to stress one point in particular. In its earliest period, the French Revolution manifested itself by *the disintegration of the state due in large part to the illusions of the reformers of the eighteenth century.* These men had thought that taxes could be levied in a painless way by means of the technique (perhaps a gimmick) of assessment. This attempt at solving the problem of the distribution of the tax burden had led the king to give up one part of

the armor of his state, since before the Revolution the monarchy had succeeded in disarming itself. Dupe of the same pipe dreams, the National Assembly built up an administrative system in which taxes and the state would have been separated had the Committee of Public Safety (*Comité de Salut Publique*) and the people's Commissioners on detached service (*en mission*) not seen to their reorganization as a single unit.

All that there might have been in the way of anarchy and confusion during the French Revolution could not help but induce European rulers to preserve the machinery of power. It was this too that allowed Napoleon to re-establish a state which preserved certain reforms resulting from the national uprising, such as the suppression of provincial and class privileges, and at the same time rejected the basic demand that citizens have a hand in running the government.

We have noticed that the rulers at war with France often were beaten because they were unable to appeal to popular sentiment to fight the new vitality that this very sentiment gave to France. In the last years of the Empire, the French occupation of various European countries was no less responsible for stirring up the spirit of nationalism. This spirit, although checked temporarily by the Holy Alliance, ended up by erupting in the mid-nineteenth century.

For this reason this century witnessed simultaneously the continuing buildup of the state and the beginning of the construction of the nation.

*The Industrial Revolution, the Power of States,
and the Building of Nations*

INTRODUCTION

The Industrial Revolution gave to states a material power much greater than had existed in the past. That economic mutation made easier or, at least, oriented the building of nations. More precisely, industrial societies are the basis of financial techniques, taxation, and money that can give to individuals a part of what they expect from community life. In the past, economic infrastructure was too backward to be the foundation of very ambitious financial techniques: a lot of strikes were the consequence of that distortion. Nowadays it might be the reverse. Financial techniques are not perfectly in accord with the physical potentialities of the world. In that sense our analysis can lead to a more accomplished building of nations.

THE INDUSTRIAL REVOLUTION AND THE POWER OF STATES

After having summarized how much the Industrial Revolution has modified the power of states, it will not be inappropriate to make some distinctions between political entities that did not participate, to the same extent, in that transformation. When considering some facts, the war economy particularly, one could think that fiscal factors have not the same impact as in the past. But when peace has limited the possibility of compulsory methods, we can see how much fiscal abilities can interfere with the stability of states.

The Evolution of the Economy and the Growth of State Power since the Nineteenth Century. During the nineteenth century, accelerating economic change and increased state power went hand in hand. Expenditures in the public sector increased by a large proportion. The gradual spread of compulsory military service throughout Europe (England excepted) meant that some saving could be made over the cost of mercenaries. It was still necessary, however, to feed, lodge, and equip armies which were larger than ever. It was also necessary to buy more technically perfect arms at more and more burdensome costs. Governments built the large, stratified administrations which their predecessors had dreamed of.³⁹

New infrastructure expenses—roads, ports, canals, railroads—and new social expenditures, starting with schools, were added to the military and administrative outlay. As an illustration of one field, the budget for public education in France increased one hundred times between 1830 and 1905.

How could those expenditures be financed? The evolution of the banking structure and the development of a money economy were important. The credit of the state was used to a greater extent, while the issuing of nonmetallic money, i.e., paper money and bank money, allowed governments to indulge in much more effective types of inflation than had been possible in preceding centuries. Governments gained flexibility in their activity through the development of public credit and the perfection of inflationary techniques, both tied to the

³⁹ The failure of certain Mediterranean and Near Eastern countries, the Ottoman Empire, Tunisia, and Egypt to solve their financial difficulties sometimes encouraged the establishment of protectorates or intervention by the industrial nations: those backward states were in a situation not unlike that of the western states one or two centuries before. The desire to imitate the technological progress of Western Europe led to expenditures out of proportion to their economic structure.

progress of the monetary economy. This flexibility had not been possible in earlier times except in Great Britain and other commercial states. In this period, just as in the past, the capability to borrow and the capability to promote inflation were based on a considerably increased fiscal capability. From the middle, if not the beginning, of the nineteenth century, taxation no longer raised insoluble problems for the states of Western Europe and North America.

Political changes, both the doing away with legal privilege at the beginning or during the nineteenth century and also the use of parliamentary mechanisms, that is, participation of citizens in the process of taxation, were closely connected to this transformation of the conditions for financial power. Yet it was primarily because of structural economic change that states could assess and collect taxes more easily, that the tax revolts disappeared, except for a few recent skirmishes, and that states found the opportunity to increase their military strength, their administrative activity and even their social intervention. It goes without saying that this economic change had a direct effect: one cannot imagine the armies of the American Civil War, of the Franco-Prussian War, and *a fortiori*, of 1914 in the agrarian societies of the seventeenth century. There is no need to call to mind that industrial potential, particularly steelmaking, then chemicals, forms the basis for armament manufacture, while railroads, in the days before trucks, were necessary for a rapid military mobilization and effective provisioning of armies in the field. The Crimean War is an example of the defeat of a great state because of the lack of an industrial infrastructure and modern means of communication.

The strength of nations was a function (we repeat this often stated fact) of the level of their energy resources. Industrial power also influenced the power of states by way of its incidence on their finances, or more exactly, on their fiscal capability. *The fiscal system was the "transformer" of the economic infrastructure into political structure.*

First we must consider the *increase of production*. All European countries could give us good examples. I will take France, using the figures of scholars who have tried to provide the basis of a quantitative history, from the beginning to the end of the nineteenth century, or more precisely from 1815–1824 to 1905–1913.⁴⁰ Table 3–2 gives

⁴⁰ The exact figures are in the study of M. Marczewski (Marczewski 1965), figures that take into account the works of MM. Toutain (1961) (agriculture) and Markovitch (1965) (industry).

TABLE 3-2. GROSS AGRICULTURAL AND INDUSTRIAL PRODUCT AND STATE EXPENDITURES

<i>Ten-year Period</i>	<i>Gross Physical Product (millions of francs)</i>	<i>State Expenditures (millions of francs)</i>	<i>State Expenditures as a Percent of Gross Product</i>
1803-1812	7.012	960	13.6
1825-1834	9.301	1067	11.5
1845-1854	12.586	1609	12.8
1865-1874	18.446	2493	13.5
1885-1894	17.767	3335	18.8
1905-1913	25.814	3832	14.7

the gross product of agriculture and industry in current francs, state expenditures, and their percentage of that product. Although very great, production increased a little less than state expenditures: from the beginning of the nineteenth century to the beginning of the twentieth century what was taken in by state from the gross production of the country rose from 12.6 percent to 14.7 percent. But, and this is essential, production per man had much increased:

252 ^F	1815-1824
651 ^F	1905-1913

The difference between the national product and the minimum needed to sustain population was distinctly larger than during previous centuries. This margin, the net product in physiocratic terms, allowed the state to set aside more for taxation as well as more for investment.

That was not all. The job of fiscal administrations became simpler—we could say it was transformed—by the change in the economic structure. The peasant class, always difficult to tax, diminished compared to the working class. Increased numbers of wage-earners and city dwellers meant more trade in food, drink, and manufactured products between city and country. Various kinds of entry taxes, duties on internal trade, and tariffs were important in the fiscal systems of the nineteenth century: *the ease in levying this kind of relatively painless tax was one of the bases for the growing power of states.*

One should particularly emphasize the debilitating effect vis-à-vis family autarchy of increased consumption of the “colonial products,” tea, coffee, cocoa, tobacco—all products which Europe did not pro-

duce, or produced only in limited amounts, and which became more and more commonly used by peasants as well as workers.⁴¹ For these products, tariffs at the point of import were relatively simple to collect. Other products of mass consumption, such as sugar and beer, could be produced in Europe or North America. But the manufacturing process was concentrated enough to allow relatively easy supervision. To find the chink in peasant autarchy it was no longer necessary to push the salt tax to its extreme limit. It became less important, or even disappeared. It was highly advantageous to be able to tax what were considered, for the time, semiluxury products such as tea, coffee, tobacco, or even sugar.

The growth of customs income had a particularly striking effect on the financial strength of federalist nations which tended to reserve indirect taxes and tariffs for the national level. Thus the fiscal receipts of the German Empire went from 263 million marks in 1873 to 1,203 million in 1909; 122 million marks in 1873 and 629 million in 1909 came from customs. In the United States, at the beginning of the twentieth century, the returns from tariffs covered a large part of ordinary expenses of the federal government, at least in peacetime. The conveniences of these indirect taxes meant that governments could be satisfied as far as direct taxes went with external evidence, often quite approximate, of people's real wealth. These taxes were paid without major difficulties, from the mid-nineteenth century anyway, because of this reduced impact and also because of the development of the economy of exchanges.

Differences in the Economic, Fiscal, and Political Development of Various States. The overall impact of this evolution was unequal in the various countries. Great Britain was still in a better position, given equal production, than other states. She preserved, during the nineteenth century, the long-term advantages of an economy of exchanges which was already more developed. France, on the other hand, was less strong and only slightly favored considering her population and wealth. The weakness of Austria-Hungary was not only the result of the ethnic and national heterogeneity of the country and the resulting centrifugal effects. It was also the result of her weak finances. Between 1830 and 1848 the economic backwardness of Austria could be seen in the financial sector, as evidenced by her

⁴¹ From 1831 to 1900, consumption of tea per capita in France increased from 0.3 kg. to 2.8 kg.; that of coffee from 25.3 kg. to 211.8 kg.; that of cocoa from 2 kg. to 45 kg.

endemic deficit combatted by loans, as well as in the political field. The projects of Baron de Kubeck, president of the Aulic Council, were designed to face these problems: he promoted the introduction of railroads and reorganized an industrial commission. He failed, however. The Hapsburgs' centralization policy was too heavy for the resources of the country. Russia also was weakened not only because of her social condition, but also because of a backward economy which made her financial situation precarious.

As to the Mediterranean countries, they tried to mitigate their low level of economic evolution by maintaining excise taxes on primary consumption products—Italy thus taxed, at the end of the nineteenth and in the early twentieth century, milk, cheese, eggs, fruits, and vegetables. They also reserved an important place in their budgets for direct taxes. This was the reason why the income tax appeared relatively early in Italy, but the economic infrastructure took its revenge: the return was very low while the whole system was so heavily invested by fraud that Italy was the textbook case, at the beginning of the twentieth century, of the example not to follow. In Spain and Portugal likewise, direct taxes were relatively heavy.

With time, changes occurred. During the nineteenth century, the nations of Western Europe and elsewhere felt the impact of their economic infrastructures on their political power; but they did not always recognize its significance, and some of them believed themselves more powerful than they were in reality. The result was some disconcerting shocks for nations who treasured memories of past power and apparent military strength when they were defeated by nations more advanced economically: the victory of France and England, far from their military bases, over Russia in the Crimean War; the victories of France and Savoy, and then Prussia, over Austria-Hungary; the victory of Germany over France in 1870; the victory of the United States over Spain in 1898; and the victory of Japan over Russia in 1905. The two World Wars were no exceptions, with the early defeats for France and England, then the final victory of these nations most linked to exchanges with their empires, and the victory of North America and USSR over the Central Powers.

But from the nineteenth century onward we can see that states no longer passively accepted the repercussions of their economies on their political and military strength. The phenomenon of government intervention appeared in countries where private initiative was less marked, where there was no strong bourgeois class having the

spirit of thrift and enterprise, and ready to industrialize the country and establish conditions for a better financial situation and a stronger military position. These governments themselves tried to create the economic infrastructure which did not emerge spontaneously, or at least not without state intervention. This was the policy of Japan in the Meiji Restoration, and to some extent, that of Austria-Hungary and czarist Russia. This latter-day interventionism was a kind of mercantilism. We should note, however, that the objective of the intervening states of the nineteenth century was less directly fiscal than that of the seventeenth-century mercantilist states. The governments aimed above all at establishing an armament industry and communications networks which their defeats had shown to be necessary.

The War Economy of the Twentieth Century. There has also been in the twentieth century a tendency towards reduction of the role of taxation as a "fiscal intermediary" for power. Certain governments have asked individuals and enterprises to supply the state directly with the crucial resources needed for war preparations and conduct, not by way of taxes, but by requisitions or by means of economic controls on industry.⁴² The First World War saw the establishment of so-called war economies by the belligerents. Nazi Germany hoped to dominate Europe by mobilizing its resources more thoroughly and more quickly than countries which were financially superior to it. Germany's enemies were forced to use the same methods of directing the economy: rationing, mobilizing the entire active population, including women, etc. These were the same methods which the French Revolution had used to face the rest of Europe allied against it.

Just as in that period, inflation furnished resources, and had to be contained by a double effort of controls—controls over production and distribution, on the one hand, reduced purchasing power obtained by taxation, on the other. Those countries which had a better-developed system of exchanges found it easier to organize rationing. The English succeeded to a larger degree than the French, among other reasons, because much of their food supply was imported, and thus had to pass easily administered checkpoints. Furthermore, the old closed economy had disappeared so long before in England that

⁴² The war economies made it possible for the war to last longer than economists, thinking in terms of "classical" financing of its operations, had predicted.

there were not the resources for secret operations and a black market which were found in a country like France. *Under a new form, no longer fiscal, the exchange economy brought some states supplementary strength.* Despite its rigorous war economy, Germany was defeated by the western powers and by a state which had, to an even greater degree, created a strong infrastructure, building by force the equivalent of the exchange economy which had not come to it spontaneously: the USSR.

The Economic Infrastructure, Fiscal Capacity, and Political Disorders in the Twentieth Century. In wartime, draconian regulations of the economy are possible but the end of hostilities makes them more difficult to continue. After the Second World War as after the First, it was hard to maintain various prohibitions, restrictions, and rationing. To avoid the effects of scarcity it was necessary to reduce the purchasing power of individuals and consumer demand by taxation. Those countries which could not or would not pursue this fiscal policy strictly enough suffered political repercussions which tended to weaken them. After the First World War, some of the states of Central Europe were paralyzed by their inability to overcome inflation. We might count, among the effects of financial disorder of this sort, an instability of political regimes, a discrediting of parliamentary approaches, and an open field for *coups d'état*.

This is clearly seen in the interwar period. Czechoslovakia, which was the only Central European state to preserve minimum stability in its monetary system, was completely free of fascist tendencies. It was just the reverse for Poland, in which Marshal Pilsudski's march on Warsaw was aided by monetary difficulties. The coming of Italian Fascism and of Hitlerism show similar facts. In Italy, the popular unrest which preceded Mussolini's taking of power was partly caused by inflation: the price increases had triggered incessant strikes, and workers raided shops in their protests against the high cost of living, etc. In Germany, it was the middle class whose confidence in the state was shaken because of speculation, continual reduction of the purchasing power of wage-earners, and the ruin of those who had savings. All these factors contributed to the hostile environment in which the regime found itself, while the depression, which stirred up an even larger group of discontented persons, struck the final *coup de grâce*. Analogous examples could be drawn from the other central European countries.

Now at the root of these sharp devaluations of money we find the weak fiscal efforts of these states, an inadequacy that we cannot blame on the failure of men and political parties alone. These countries which were unable to use taxation as a tool against inflation were in general the principal agricultural countries of Central Europe. It was not only because of the energetic statesman Rasin that Czechoslovakian financial policy contrasted so strongly with that of the other successor states after 1918; moreover, we should not forget that Bohemia was more industrialized than the other countries.

Germany, with its very advanced industrial structure, was the exception, but this is easily explained. The collapse of German currency after the First World War was, at least in part, deliberately willed, as a sort of exhibition of the heavy financial burden that the Treaty of Versailles had imposed on the defeated country. From the moment that there was a commitment to reestablish the strength of the money, it was done with a rapidity that astonished the experts. After the last war the speed of German monetary recovery was equally sensational. West Germany had all the possibilities for economic equilibrium because of its economic infrastructure, intact despite much destruction, on which its fiscal capacity was based.

One can criticize the financial policies of France and Italy after the two World Wars as less energetic than those of the Anglo-Saxon nations, but one must recognize the handicap of these countries where the exchange economy was less developed. In France in 1945 the most vigorous mechanism for exchanging money, which would have involved a blocking of accounts and allowed serious fiscal action, was rejected for many reasons. Among them was the fear, right or wrong, that the peasantry would not have understood and supported measures of that kind. The financial policy of France would have been different with another economic structure.

Not only agricultural structure has to be considered. A more energetic fiscal policy would have been more difficult in France than in Great Britain because of the importance of small business; the reactions to the controls reestablished in 1953 offer a negative proof.

The Strength of Contemporary States. Since the Second World War the function of taxation and the role and conception of the state proceeding from this have undergone such a change that one ought to speak of a true mutation. Industrial society is a society with high returns, which quickly transforms scientific discoveries into new and

large-scale manufactured products; it is also a society in which the individual is more and more tied into the economy of exchanges, where the peasantry grows smaller every year, where business executives are the salaried cadres, of not the stockholders, of more numerous and powerful businesses. The state and its tax system can find ever greater opportunities in this situation. It is due to the extent that outmoded economic structures continue to exist that some countries—France for example—continue to have fiscal problems whose nature and location sometimes are singularly evocative of past centuries.

And that is not all. The role and the importance of taxation has been transformed by the growth of monetary analysis and techniques. In this area lies *the most profound change which has affected the possibilities for action and the perspectives of the industrial societies of Western Europe and North America*. This is not to say that the use of money as a source of public revenue is not today such as it was in the past: the use of inflation came rather quickly in the wake of the creation of money. We have shown that hard currency was not well adapted for that kind of financial manipulation, and it was not even sufficient to invent paper money, because the use of inflation required a certain level of economic structure. These conditions were fulfilled in the course of the eighteenth century in some countries, and during the nineteenth, in many more. As far as the twentieth century goes, it has meant not only more abuse of inflation but also a better understanding of the role of money.

Keynesian analysis has shown how the richest and most evolved industrial societies somehow hide the underemployment of an important section of their labor force and their productive capacity, and also how the increased demand rising from action of the state through its power to issue money can promote the mobilization of these latent resources.

These phenomena existed before they were analyzed. It is precisely because the industrial economies had reserves of unexploited production that the belligerents, in the course of the two world wars, could mobilize not only more resources than economists had imagined, but also for a longer period.⁴³ What is new is the understanding which has been arrived at in the last thirty years of the possibility of using the same methods in peacetime.

⁴³ These same phenomena had played a part, but to a lesser degree, in some wars before the twentieth century.

From this has come a profound change in the very conception of taxation and of its function. It no longer aims at providing money for the state which the state could get by other means. Taxation now plays a part among the tools which the state can use to influence global demand. To slow down too vigorous a demand the state can employ not only taxation but also economic regulation, such as increasing the interest rate, forced savings, intermediate forms between taxes and loans, etc. This kind of state intervention in the business cycle is one of the essential causes of both stronger and more regular economic growth since the last war—stronger because more regular—than was the case at the end of the last century and the beginning of this. The power of the state has been profoundly transformed by this. The state has the possibility of maintaining a relatively high rate of growth. This has been a political factor of great importance in the post war world.

To summarize, one could say that the state, thanks to its economic progress, has the financial means—taxation, credit, money—much superior to those which were available to it in the past, but *these means themselves have increased the state's responsibility*. It would be an error not to try to perfect these financial tools, which will appear peculiarly archaic and singularly inadequate sooner than we think. The continuance of a certain kind of a state is linked to the conditions in which this transformation will be assured. We must now try to see if the study of the economic infrastructure of modern nations will lead us to the same conclusions.

THE INDUSTRIAL REVOLUTION AND THE BUILDING OF NATIONS

Until now we have spoken mainly about the creation of the state in the limited sense of that word, the sense given it by the men of the *Ancien Régime* when a Richelieu could talk of peasants as "Beasts of Burden" who must provide the means of grandeur for political institutions, when a Louis XIV could say, without a general claim, "L'Etat c'est moi." This minister, this king, and others were aware of their task and of their duty vis-à-vis the majority of their subjects. They considered themselves personifications of the state, and some of them declared themselves to be the first servants of that state. Their rule was accepted; they had some support of their people when civil or foreign wars occurred because they tried to maintain order, to administer justice (a justice more impartial than feudal justice) and even, in a very imperfect way, to limit arbitrary actions.

Speaking in these terms is an oversimplification. National feeling was born and grew in great crises; such was the case of the wars at the end of the reign of Louis XIV. Notwithstanding, the building of states appeared, in the European continental countries, at least, as relatively foreign to the life of the individual. The end of the eighteenth century, the nineteenth and the twentieth give another impression.

During the French Revolution the provinces accepted, not without reticence, their being united into one nation. The wars and conquests of the armies of the Convention as of the Empire made manifest in occupied countries their common origin, fate and interest. The nineteenth century was the century of the "Rise of Nationalism," to take the words of historians. During that century men of Western Europe were more and more closely associated—at least formally—with the management of the state. During the twentieth century that evolution continued, and decolonization was, in the last decades, its most obvious effect. One of the tests of the building of nations is the fact that members of a state accept to pay for the support of other provinces or other members of the same state.

How can we explain so significant an evolution as that of the nineteenth and twentieth centuries? Intellectual, juridical, or political explanations naturally come to our mind. Since the theory of social contract and its application, or what has been considered as its application in the form of the representative system, the broadening of the right of suffrage, as well as local self-government to a certain extent, subjects have become citizens. Is it more than an appearance? For critics of contemporary society, constitutions of the Western type are mere lies. They point out insufficient equality and the fact that citizens are not real participants in the running of the state. Moreover, in some countries the constitutional system of Great Britain or of the United States has been transferred but not actually applied: the number of *coups d'état* is a test, since it means the lack of a national community with a real, even imperfect and limited, meaning.

Following Marxist analysis, political scientists have come to understand the necessity of research which would look, beyond political superstructures, to the infrastructure of national feeling. Obviously, community consciousness is bound to a lot of conditions, such as language, way of life, historical traditions; but none of those elements is sufficient to build a nation; the converging of some of them,

however, gives some support to that feeling. Nonetheless, since the nineteenth century, it has been observed that *nation* meant another thing: it was a choice, the desire for a common life, for a common destiny, and that desire must be explained.

Without an excessive research into the economic basis of human behavior and of social institutions it is almost necessary to look at that aspect of the problem. A correlation has been noticed between the standard of living of different countries and the stability of their political superstructure. Such an approach is not sufficient. It is really impossible to conceal the strength of national feeling in relatively poor communities. But it seems possible to perceive *a relation between the sense of nation and the minimum effort toward the abolition of excessive inequalities*. In fact, during the nineteenth century something had begun in that direction. Egalitarian taxation appeared and was considered by some politicians as a great tool for building that society where solidarity should be more than a mere word: the nation. It will be necessary to discover the technical means and the economic infrastructures of that policy.

Nowadays the political impact of fiscal problems seems, right or wrong, less important. Workers are much more interested in progressive augmentation (by the continual increasing of wages, of real wages) that relies upon the growth of national product. Figures of the last decades have been very much influenced by the progress of economic policy; the use of Keynesian analysis has given to industrial societies the possibility of avoiding the great crises that interrupted progress for years and were responsible for catastrophies. But what we call Keynesian techniques, budgetary, fiscal, or monetary are only possible in certain kinds of societies—in industrial societies. Thus, we find *again in a new form the economic infrastructure of financial techniques and of building nations*. We must go further. Full employment is not only the condition of real, wide, and continuous progress in production, it is also necessary for giving to all citizens the feeling that they are in a society that can offer to them the possibility of living not like beggars but like responsible men and women.

If we look at the situation of developing countries or if we look at the history of the nineteenth and twentieth centuries, we very strongly feel the importance of the problem of unemployment, one of the main problems of nation-building. Workers did not fail to under-

stand it. At the beginning of the Industrial Revolution, the right to work was one of their first claims. They stirred up riots, they caused revolutions, and they died for it. Some critics of democracy forget that if nations in the formal sense were built, with more and more numerous assemblies elected by citizens, it was because the Industrial Revolution, with all its problems, gave to industrial workers—as to burgers themselves, the feeling that participation in the state—that is to say the building of a nation—was almost necessary for the betterment of their daily life. So must we begin with this point.

The Industrial Revolution and Political Revolutions of the Nineteenth Century. The fiscal origin of representation is obvious. Taxation, a very sensitive question in past centuries, has awakened political consciousness, led to wars of independence, created Estates-General, Cortes, and other assemblies of that kind. In that sense taxes were not only at the origin of states but also of nations. But taxation was not sufficient to sustain the representative system with a real continuity. Parliament or other Estates had a quasi-permanent life only in Great Britain, or in some commercial republics, where some men strongly advocated participation in the management of public affairs: on that island, linked to the world, some men understood that their daily life depended upon the decisions of kings, upon the foreign policy of the Tudors or of the Stuarts. When the kings were in opposition with the general sentiments of the most active part of the population, the claim for the extension of a representative system was all the more strong.

On the contrary, on the Continent the main preoccupation of members of Continental Estates was the limitation of what they paid for public affairs. They did not really try (that observation has been made by historians of the French Estates-General) to buy the permanence of the representative institution by means of a greater benevolence in the discussion of the amount of taxes.

In the nineteenth century, in France as in other countries, *the bourgeoisie knew how much its profits were dependent on the management of the state.* They wanted their share in investments, canals, railways, and mines. They wanted to be heard when tariffs were to be fixed or treaties of commerce, negotiated. The extension of trade had raised the value of representation and participation. For not having understood that evolution, Louis-Philippe was obliged to ab-

dicate. The policy of the liberal bourgeoisie was supported by industrial workers. Taxation was not so heavy as a century before, or at least it was not so apparent, and we have seen why. But the industrial working class had the burden of a "liberal" economy which left men without any protection against the abuses of managers, without the simple right of association as prohibited by law. *For the protection of their interests they had to participate in the assemblies where laws were made*—hence, the revolutions of the nineteenth century for the extension of suffrage. By the will of the workers during the nineteenth century and at the beginning of the twentieth, universal male suffrage was put in force; taxation had little to do in that transformation. Poverty and unemployment were the strongest incentives. But fiscal policy had a new aim after the middle of the nineteenth century, when taxes appeared as a means to bring about greater equality, or, let us say less inequality.

Egalitarian Taxation and National Consciousness. Because of its dependence by and large on consumption taxes, the fiscal system of the nineteenth century weighed most heavily on the popular classes. It was surely one of the most striking manifestations of the triumphant bourgeoisie. One can understand why it was so highly favored by Thiers, and that Bismarck envied his chance to use it.

The very changes in society made it difficult to retain a fiscal mechanism which gave no importance to equitable distribution. Because of this shift the financial system could afford violent political upsets. But new prospects appeared for politicians with the progress of industrial society, the increased numbers of wage-earners, the concentration of enterprises, the relative weakening of agriculture, and the diminution of a subsistence economy. The flow of income and expenditures could be taxed directly, sometimes even at their source. Progressive tariffs and personal deductions could be devised. Great Britain, more advanced economically as usual, offered its example, and tax formulas of the German type were tried here and there in the nineteenth and early twentieth centuries.

Governments had at their disposal a means of income redistribution via inheritance taxes with progressive rates and income taxes. *They could maintain the structure of the liberal economy while at the same time modifying some of its effects by the redistribution of wealth.* This characteristic aspect of financial policy in Western Eu-

rope and North America at the turn of the nineteenth and twentieth centuries was also a result of a new fiscal tool, or rather of an infrastructure without which such a technique would have been impossible.

In the first analysis, one is tempted to derive from the political evolution the introduction of this new kind of tax. There were attempts to levy egalitarian taxes during the French Revolution. Awkwardly administered, they contributed to the coming to power of Bonaparte. In Austria and various German states income taxes and other progressive taxes had been tried during the revolutions of 1848. On the whole, they disappeared with the restoration of traditional powers. After 1870 and with the increasingly powerful tendency toward universal suffrage, there was a reduction of the strength of the conservative parties in favor of more liberal ones.

Income taxes began to be adopted, governments tried to tax "unearned" income, that is the profit of capital, and progressive rates were first used for inheritance taxes, then for income taxes. The principle of progressive taxation was first accepted in the group of countries which were considered most democratic before 1914: Switzerland, Australia, and New Zealand. The Liberal victory of Great Britain in 1891 led to the introduction of the progressive principle on the inheritance tax and the emphasis on exemptions from the income tax. When the Liberals came to power again in 1906, they came to blows with the House of Lords over a series of projects, especially those of Lloyd George in 1906, inspired by the same preoccupations with, in the end, limitations of the powers of the Lords. In France each victory of the "Left" raised the question of the income tax. One can thus link the history of this tax to political change and to social movement.

But there are other no less significant correlations. With a little exaggeration one can observe that *the income tax was permanently established in a country at about the period when the development of trade made it possible*. England, home of the Industrial Revolution, established the first income tax worthy of the name, if not in 1793, the tax of that year being still quite imperfect, at least in 1803. After an interruption from 1816 to 1841, it was reimposed in 1842. In Germany the income tax first was used in the more commercial and industrial states. Of the four states which had adopted income taxes before 1870, two, Hamburg and Lübeck, were essentially commercial cities. This kind of tax, or a similar one, then appeared in

Prussia in 1871, in Saxony in 1874, in Baden in 1884, in Württemberg and Bavaria only in 1910. The two Mecklenburgs did not have income taxes until 1913. In 1892 and 1893 the Low Countries established a wealth tax and an income tax with progressive rates.

There are apparent exceptions. The United States established a federal income tax only in 1913, but besides the period from 1862 to 1872, when there was a wartime income tax, another income tax law was passed in 1894 which was never put into force because it was declared unconstitutional. Inversely, Italy had a tax on the income from mobile wealth, combined with a real estate tax from 1864, thus, a fiscal system inspired by the income tax concept. But the application of these taxes was very defective; fraud was extremely common, so common that a book was written on that subject alone. Austria had an income tax in 1896, but it was only of secondary importance, and its application depended on external signs of wealth.⁴⁴ Indeed one can argue that the economic evolution determined the creation of taxes on income by triggering the social movement and the consequent coming to power of reformist political parties. It is nonetheless true that it was the increased economy of exchanges that allowed the *application* of taxation of this sort.

The social evolution of industrial countries had taken other forms; the progressive improvement in the conditions of work and of pay had been obtained as much through the intervention of the state as through workers' pressure. One should not underestimate the importance of measures which, at the end of the nineteenth century and after, accepted as social charges to the state a series of expenditures for education, medical insurance, retirement insurance, and housing with all these outlays covered by a fiscal regime with egalitarian tendencies.

I would emphasize the influence of that evolution on the very conception of the state and of the nation. *In those countries in which this broader view of taxation had been most widely accepted, it contributed to the relative stability of the political regime*; this was the case of the countries in northwestern Europe, especially Great Britain, and even more so Scandinavia. In these various nations, the governments had used taxation as an essential instrument of social progress. The more agitated political life of nations like France and Italy, in contrast, could be attributed to a series of phenomena among

⁴⁴ In certain of the Scandinavian countries it appears that the creation of the income tax did anticipate industrialization.

which was the insufficient strength of tax power.⁴⁵ The imperfect tax system meant that the income tax could not be used as an efficient instrument for equality. Raising rates above a certain limit always carried the risk of increasing fraud and causing discontent in large sections of the population. It is significant that, between the two World Wars a simple means of tax verification, the *carnet* or *bordereau de coupons* played a very appreciable political role in France. The imperfection of the fiscal system hindered an increasing egalitarian tendency.

What were the causes of this situation: a relatively effective fiscal mechanism in the northwest of Europe, but a less satisfactory operation of the same mechanism in the countries to the south? To a large degree, this was the result of insufficient commitment on the part of the governments and a certain indifference to public opinion. It was also the effect of an economic structure which still was heavily involved with small peasant holdings and small industrial and commercial firms, all of which were difficult to tax. Whenever the parties of the left tried to remedy this situation, they had to introduce control measures which were particularly opposed by these groups of people. In countries such as England, on the contrary, the dominant place of wage earners, and in rural areas, tenant farmers, made it easier to tax.

Egalitarian fiscal policy has not disappeared since the Second World War. Moreover progressive taxation has been reinforced in certain countries. But those of us who could be the most interested by that policy seem the least concerned. Some reasons can be given for that behavior. People are perhaps more conscious of fiscal evasion. By the incentive of progressive taxation, fraud becomes very important. By a kind of paradox, salaried workers do not pay very great attention to a fact which has a very strong impact upon their daily life.

That is not all. Egalitarian fiscal systems of industrial societies have effects not so different from the past, upon production, productivity, saving, and investment. Some reforms have been effected to correct most obvious distortions and to maintain "fiscal neutrality." For the sake of productivity a new kind of tax has been established: the tax on value added which no longer gives favor to certain forms of activity that are perhaps not the most economically suitable.

⁴⁵ France established its first income tax in the war of 1914-1918.

Other reforms could be quoted, the aim of which was to give more incentives to scientific and technical research.

It is not sufficient to correct the incidence of present systems. As did the first economists, we must analyze the economic incidence of taxation more carefully and search for new solutions. We must try to discover if indirect taxes could be more egalitarian. If it is possible we must seek to levy taxes on those activities most important for economic progress and to surtax benefits that come from monopoly situations, and, moreover, from all that jeopardizes the welfare of the community. It must be possible to use more and more fiscal systems for greater equality, for greater economic progress, and for better environment. In that sense the economic infrastructure of nations could be better used by states. If we do not underestimate the importance of taxation—of taxation in the past, of taxation in the present, of taxation in the future—we must also ask, as do some politicians, if the building of nations can rely mainly upon that kind of redistribution of wealth. More or less consciously citizens of industrial societies feel that their way of life depends also upon the functioning of the economy, particularly upon the rate of growth of production and productivity.

Economic Growth and National Consciousness. If the political impact of taxation seems lessened since the Second World War, it is perhaps because the greatest attention has been paid by industrial workers, during the last decades, to the evolution of prices, to the re-adaptation of nominal wages to the cost of living, and also to the feeling that a continual progression of real wages could be obtained.

Such behavior is a kind of incidence of economic infrastructure upon the national consciousness of workers of industrial societies. Living in a highly technical world, among more and more sophisticated machinery, they cannot understand why they are unable themselves to afford the products of this mechanical monster, this modern Leviathan—cars, freezers, air conditioning, etc. They do not understand how with all this power some daily problems could not have been really solved—housing for instance. Their claim to a rapid increase in wages and in their standard of living is the direct consequence of their environment. If they do not obtain what they think possible, they think themselves to be foreigners in their own country. In fact, real progress has taken place by comparison with what happened between the two World Wars. Studies of the European Organ-

ization for Cooperation and Development (OCDE) and others have showed that the rate of growth had been higher since 1945 than between 1920 and 1939.

Hence two questions: What is the reason for this evolution? Is it sufficient? At the origin of this deep modification we find the development of economic analysis. The work of Keynes and other studies of this kind were the intellectual foundations of a lot of techniques—budgetary, fiscal, and monetary—that are commonly used in western industrial countries. By means of such tools, governments can more or less stop recessions before they attain a certain level, and they can, much more easily than in the past, determine new advances in production. We must insist upon these possibilities that have been given to modern states, because they are essential for the building of nations.

Full Employment and National Consciousness. It is really not possible to speak of the building of nations without a glance at the full employment policy even if its achievements are yet far from our hopes. Elimination of violent crises and of huge unemployment is not only the means of a relatively high rate of growth, it is also an aim. When we go to the roots of inequality and of the privation of freedoms (elements that are opposed to national consciousness), when we try to understand why so many people do not feel themselves to be participants in a real community where men are really brothers, we are obliged to point out something that is curiously underestimated by political scientists: *the political incidence of economic instability, or more precisely, of unemployment and underemployment.*

When Marx spoke of the “industrial reserve army,” that reserve of workers which weighed so heavily upon the level of wages, he put his finger upon an essential characteristic of the proletariat: the instability of his condition, unemployment, or, the permanent possibility of being unemployed. The equivalent for peasantry is *mévente*, or slump. The man who cannot always win money for his life and for the life of his family cannot feel himself really free. When he seeks a job, he does not have a normal bargaining position. He cannot be conscious of national solidarity. It seems to him that the state does not fulfill its essential function.

Since fiscality is no more the great instigator of insurrections, since economy of exchange has deprived men from the weak but effective potentialities of the economy of subsistence, unemployment is one of

the greatest motives for rebellion. *Days of economic crisis are days of riots*. So it was during the nineteenth century. At the roots of the revolution—or better of the revolutions—of 1848 we find lack of subsistence and, even more, unemployment. The June Days took the same path.

Without stressing the movements at the end of the century in the urban and rural areas of North America and Western Europe, it is sufficient to look at the period between the two World Wars. Unemployment was the cause of great disorders in all industrial countries. In Germany the crisis was most acute. The number of unemployed already large in 1928 rapidly rose to 1,892,000 in 1929, to 3,041,000 in March 1930, when Chancellor Brüning took office. On the basis of 100 percent in 1929, industrial production had fallen to 67.6 percent in 1931. To meet the situation the chancellor used deflationary measures; the result was 6,034,000 unemployed in March 1932. These six million men plus the fear of those who were still at work were among the important causes of Hitler's rise to power.⁴⁶ So a policy of unemployment is at the origin of the Second World War. Curiously, scientific and practical conclusions have not been really drawn from such a fact which nobody can seriously contest.

Other examples can be found in the area of developing countries. More than poverty, unemployment is one of the causes of political movements. It was not the cause of decolonization claims or of decolonization wars, but the incidence of unemployment reinforced these movements. Multiple examples could be shown. In Algeria, a country where, according to official figures, nearly 1,000,000 people were unemployed or underemployed, the rebellion of 1954 began in the *département* where the percentage of unemployment was highest, i.e., the *département* of Constantine. In Latin America great zones of unemployment include the Caribbean Islands, North-East Brazil, Andean regions, etc. In all there have been riots or revolutions. Some of them have succeeded, as the one in Cuba where the percentage of unemployment was peculiarly high, others have not. If political scientists looked at this aspect of developing countries they would find the explanation for the political instability of numerous countries of Asia, Africa or Latin America.⁴⁷

⁴⁶ For some more details and for other examples of the effects of politics of this kind, cf. the book I have written with Pierre Mendes-France (Ardant and Mendes-France 1955).

⁴⁷ I apologize for referring to my book *Le Monde en friche* (Ardant 1959) where I tried to give a summary of the geography of unemployment that is the same as the geography of revolts.

These facts, and many others that could be cited, very clearly show the infrastructure of what we can call Keynesian techniques. We must never forget that Keynes observed industrial societies. He noticed that, because of their wealth, in these countries the desire to put money into savings could be stronger than the desire to invest it. The behavior of individual savers reduced the global demand to a level inferior to the possibilities of production. Hence a part of the means of production were unemployed, but those means, plants, machinery, wagons or trucks, and also industrial workers remained ready to be used, ready to work as soon as an augmentation of demand occurred, whatever the cause of that augmentation might be. In the beginning at least, production was ready to follow an increasing demand without any bottlenecks.

So industrial structure is the infrastructure of Keynesian techniques. The example of developing countries is very illustrative. They cannot use Keynesian techniques without a strong augmentation of prices, because the production apparatus is not ready to respond. In those countries the industrial worker is not unemployed because his plant is closed; he is unemployed because plants do not exist. We will see conclusions to draw from that simple analysis. For the time being let us observe how much Keynesian techniques are bound to the infrastructure of industrial societies.

Keynesian techniques, although they can fend off depressions like that of 1929, are not effective enough to assure full use of all available capacity. Before that point is reached, inflation sets in and the government slows down expansion. Such periodical blockages are one of the main characteristics of a postwar economy. The volume of unemployment that remains is contrary to the national community spirit.

Is it possible to avoid such a situation? It is impossible to examine here in detail the different kinds of solutions. Better analyses of business cycles, quick use of budgetary means (modification of taxation, public works) and of monetary tools, better training of young people and of adult workers, and perhaps what is called a *policy of revenues* must be carefully considered. Some economists think that measures of that kind would not be sufficient and that a complete transformation of monetary structures would be necessary. Others consider that economic structures themselves must be completely transformed. It is a scientific, technical, and naturally, also a political problem, a problem of major importance for the building of nations.

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To summarize I could say first that progress of industrial societies has made citizens more anxious to obtain more and more, and better and better results. In the seventeenth century technicians of finance and economy were obliged to follow the ambitions of princes; technicians of the present must follow the ambitions of the people. They cannot assess without a sound revision of their techniques, of their fiscal, monetary, budgetary, and of their economic techniques. They can provide not only to the majority of people, but to those who live marginally, and also to those who even contest the whole of society, reasons for being more and more integrated into the life of the nation.

WESTERN EUROPEAN STATES AND OTHER KINDS OF POLITICAL ENTITIES

It is difficult to speak of state- and nation-building in Western Europe as if it were alone in the world.

Collectivist States. The comparison with *collectivist states* is outside the limits of our subject. Let us observe only that, by their structure, countries of this kind can more easily solve the problem of employment. This is obviously a factor of social and political stability that must not be underestimated. This does not mean that these states have no economic problems. Their leaders themselves say how much progress must be made in the field of productivity. Without trying to stay in that field, it seems possible to make some observations about one particular aspect of what could be called the economic recovery of nations of that kind. A careful study perhaps might show us that their problems of state and nation are, in some respect, of the same kind as those in industrialized countries.

I must emphasize that *the hope to develop productivity leads to giving an important place to fiscal mechanisms*. How, in effect, can the communist state give to its production managers greater initiative and greater responsibility, without assigning costs to the individual firms, or without charging them a part of what the means of production at their disposal would produce if assigned to others? The state cannot give to the individual enterprise, its cadres, and its personnel an important fraction of its profits unless the state makes it its business to keep that part of the profit which does not arise from the actual running of the business by its managers and workers but from its monopoly situation, or from rent or chance profits. One

of the key problems of all fiscal policies is to differentiate between earned and unearned profit. The success of economic reforms in Eastern Europe depends on the ways in which these problems can be solved. In this sense, the function and reform of taxation are not so different in Western and in Eastern countries as one might think. All this brings us back to the point that, no matter what the regime, industrial states are at the same time freer to plan their methods of financing and more responsible for their choices.

Developing Countries. The above analysis applies to industrial societies. The young developing countries are in a situation like that of the European nations before their economic transformation. Their infrastructures limit their fiscal capacity in ways analogous to those we have shown in France, Italy, or Germany before the nineteenth century. The same inadequacy of their economic base prevents them from using Keynesian techniques, which were conceived for industrial economies where production is at least able to respond to increased demand. These techniques do not fill the needs of countries where numerous bottlenecks intervene between demand and any response of agriculture or industry. This is not to say that there is no solution; however, *solutions must be sought in different forms*. These countries should not therefore adopt the fiscal systems or financing methods of industrial nations: they should find solutions adapted to the structure of their own economies. Their leaders are in the shoes of a Burleigh, a Laffemas, a Colbert, a Patino. Like the men of mercantile states, they should act directly on the structure of their economy.

Their fiscal systems could well take inspiration from the methods that have been tested. A tax of the cadastral type, although rather delicate to impose, ought to encourage agricultural production, just as the Physiocratic analysis expected of real estate tax, and just as the French First Empire reported with its *Recueil méthodique* which clearly emphasized the economic effect of a tax on the potential value of land. This is just one example of what a judicious fiscal reform could do for the countries of Asia, Africa or Latin America. In a neighboring field, full employment, they could use some simple techniques, such as limiting money payments which cause an overly rapid growth of purchasing power, and instead, they could encourage the peasants to invest, especially in the improvement of their lands (cf. Ardant 1964).

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This is not to say that the aid of the industrialized states is of no use. I propose not only economic cooperation, which could expand into a sort of international taxation, but also the organization of markets and monetary reform. It is to the extent that the industrial nations remove monetary obstacles to economic development, that they establish a regulatory system for the prices of raw materials and basic products of the developing countries, that they assure financing of stabilization mechanisms and link them to monetary reform, and to the extent that they encourage throughout the entire world the possibility of expansion which will not be weakened by the instrument of exchanges, that they will give each country, to each man of each country, the chance to change and improve his future by using his capabilities. In this sense, I would state again, the greater possibilities of financing today also mean a more burdensome responsibility for the industrial states.