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1 The Rise of the Modern State

From Street Gangs to Mafias

> At present we [Europeans] ceaselessly imitate ourselves. … Have some made use of new kinds of weapons? Everyone else soon will try them. Does one state increase its troops? Or levy a new tax? It is an advertisement for the others to do the same.
>
> *Montesquieu*

STATES AND MARKETS IN THE 1500s

Where and why did the modern state and market emerge? To what extent do they represent a break from or continuity with the past? Why did the modern state emerge in Europe, which was considerably backward economically, administratively, and technologically compared to contemporaneous empires in China or India? These impossibly broad questions have been debated since the nineteenth century and cannot be answered in one book let alone in a few chapters here. But we can narrow down the issues so you can understand why the modern globalized political economy emerged from the European state and state system and its related global markets around the fifteenth century, and then accelerated in the nineteenth. In particular we can focus on three major issues. First, the limits that agricultural economies, miserable transportation systems, and a limited division of labour placed on state power. Second, how ancient empire differed from modern states and empires, and related to that, why European efforts to create something like the various Chinese empires inadvertently led to the modern, territorial, national state. Third, the relative recentness of the modern state; historically speaking, ‘modernity’ is a very recent phenomenon in a human history marked largely by various forms of empire and high degrees of despotic rule. Moreover, while we know where we ended up – mostly compact, territorially defined, nation-states based on infrastructural power rather than despotic power and paired with capitalist economies – few saw this as their primary goal until recently. For much of history, and for most of the first half of this book, the typical state actor aimed to create an empire modelled more or less on the ancient agrarian empires.

This chapter thus looks at how efforts by emerging absolutist states in Europe to create a typical empire unintentionally created modernity. In one of the great peculiarities of history, an economically marginal, technologically backward set of religiously fractionalized and fanatic peoples ‘governed’ by elites with virtually no administrative apparatus managed to conquer most of the world in about 300 years. European states achieved this because they combined lawyers, guns, money, and god – routinized dispute resolution, organized violence, revenue extraction, and legitimation – in a particularly potent and violent way that enabled them to subordinate much larger economies and empires (Mann, 1986). Circa 1500, the total population of Europe, let alone its individual states, was barely two-thirds of China's; per capita GDP was at best the same comparing advanced Chinese regions to advanced European states (von Glahn, 2016; for a dissenting view, see Broadberry and Gupta, 2006). Indeed, the most durable Chinese dynasties and, to a lesser extent, the rather frightening Ottoman empire next door set the model for what most European monarchs hoped to achieve: a centralized state that directly ruled individual villages using paid military and civilian bureaucrats, that controlled most long distance trade, and that had subjugated or disposed of a potentially insubordinate landed aristocracy.

The modern national state is a well-defined organization with a legitimate and continuous monopoly of violence and of public symbolic value over a defined territory. This monopoly of violence gives the state its ability to subordinate other organizations and groups within that territory to its rules, its laws. Creating and maintaining a monopoly of violence requires resources. The spectacles and rituals that assert a monopoly over symbolic representations and that establish legitimacy also require resources. A legal bureaucracy requires resources. Thus, Gabriel Ardant (1975: 164) tells us to follow the money: 'The history of the state seems … to be inseparable from the history of taxation'.

In the short run, states can steal from outside their territory or violently extract resources from their own population. In the long run, perpetuating monopolies over violence, symbols, and law requires a stable, efficiently acquired internal supply of resources. Stability can come from time and tolerance, as Frederic Lane describes: 'A plunderer could become in effect the chief of police as soon as he regularized his "take," adapted it to the capacity to pay, defended his preserve against other plunderers, and maintained his territorial monopoly long enough for custom to make it legitimate' (Lane, 1958: 403; Levi, 1988). But the active support created by compelling national or religious identities is even stronger, which is where law and symbols come into play. As Bourdieu (2012: 128–35; 166–68) correctly notes, making this taxation 'legitimate', that is, distinct from theft, requires considerable socialization and education in 'national values'.

European states' initial 'comparative advantage' versus older, better organized, and mostly more powerful empires lay only in the use of organized violence. Indeed, Victor Lieberman (2009) has characterized western European states' entry into the Indian Ocean and East Asia as a kind of sea-going barbarian horde that paralleled incursions by the land-based Mongol horde. Yet this advantage arose from backwardness. Europe's peculiar states emerged from an unresolved three-sided conflict among kings, nobles, and merchants for control of the resources that could be extracted from the peasant-based, agricultural economy of fifteenth-century Europe. Unlike in China, where constant conflict among competing aristocratic clans weakened them to the point where monarchs could directly mobilize the resources in peasant villages, in most of Europe aristocratic clans persisted. Monarchs rarely were strong enough to tax villages directly, and thus to transform a state based on personal ties to the nobility into one based on a paid, loyal bureaucracy. This shifted their search for resources to the outside world, which also strengthened the hands of long-distance merchants. The global economy provided much more cash than largely subsistence-oriented local economies.

Why? Because agriculture constituted about 80 per cent of economic activity, it ultimately provided the resources supporting all states at that time. However, the backwardness of premodern European agriculture limited the amount of surplus available for extraction, as one unit of seed typically yielded only four units of harvested grain (Abel, 1980). Poor transport systems meant that even if this agricultural surplus could be extracted, it was hard to concentrate in the hands of the state. Agriculture and transport thus limited potential state organization everywhere in the fifteenth century. The most successful and durable ancient empires succeeded precisely because they found ways to overcome these limits by increasing grain output, monetizing the economy, and building roads and canals. China's emperors brought grain yields up to 10:1 by systemically spreading technical knowledge to the peasantry, and then concentrated those larger harvests into a system of regional granaries or moved it on the Grand Canal to the capital (von Glahn, 2016).

Because of the difficulties involved in extracting resources from agriculture, most aspiring empires pursued a policy known as mercantilism. Economists usually describe mercantilism as a misguided trade policy that seeks to create trade surpluses. But mercantilism is a state-building policy that seeks inflows of bullion (specie or metallic money) in order to create a homogeneous, monetized internal economy that the state can tax. This homogeneous and monetized economy provided the stable internal resources states needed to create a more stable and homogeneous internal administration and law. All empires sought these external resources, but internal weakness forced European states to rely even more so on external resources. Yet at the same time, European geography and geopolitics made it difficult for any given state to control their external trade. Europe's many navigable rivers and high coastline to interior ratio enabled widespread smuggling; Europe's many contending states encouraged smuggling.

This chapter first examines the limits that fifteenth-century agriculture imposed on European state-building, and the ways agriculture shaped the social groups contending for power in Europe. Then it discusses the trajectory of state-building in three European states to show how conflicts within and among those states forced them to develop novel and powerful combinations of lawyers, guns, money, and god. Mercantilism, with its sometimes complementary and sometimes conflicting goals, is a key part of that story. Chapter 2 continues the story, surveying the early period of European expansion to show how a handful of primitive and puny European states began to dominate the entire world, reshaping ecologies and economies as they went.

The patterns and problems established in this early period persist today. States' relative power continues to rest on their ability to extract resources from society without damaging long-term growth in the economy, to transform those resources into organized violence, and to manage the interface between their internal economy and the world economy. Meanwhile the diffusion of the institutional outcomes of the European compromise – professional militaries, extensive bureaucratic systems for domestic taxation, regularized justice, and unifying national myths – to the rest of the world has steadily eroded European dominance of the world economy, as the re-emergence of Japan, India, and especially China demonstrates.

AGRICULTURAL LIMITS ON STATE FORMATION

From the fifteenth to the end of the nineteenth century, agriculture lay at the heart of both the global and the local economies. As late as 1929, primary products, mostly agricultural goods, made up three-fifths of internationally traded goods. Would-be state builders thus faced the common challenge of extracting enough resources from agriculture to fund armies and administration. And all those efforts ran into one overwhelming difficulty: before mechanically powered transport, hardly anyone ever transported grain overland for more than 20 miles.

All economies rest on transformation of energy into life and goods. In pre-railroad agricultural economies, virtually all energy came from grain, and was processed through human and animal muscle power into goods. Using grain as the primary source of energy set the outer limits of exchange through both barter and, to a certain extent, even monetized markets. For humans – particularly the peasants who constituted 80 to 90 per cent of the world's population in the fifteenth century – 20 miles represented about the longest possible one-day walk to a market, with 10 miles a more practical limit (Skinner, 1964; Abel, 1980: 7). But what if our peasant had some horses and a wagon?

A nineteenth-century German economist, Johann von Thünen, determined that theoretically a standard wagonload of grain, drawn by two horses and driven by two farm workers, could go about 230 miles on a flat road before the humans and animals consumed all the grain providing their only source of energy (Thünen, 1966). Practically, however, the real limit to *profitable* overland wagon transport approximated transport on someone's back: 20 miles. First, a shipper would want his wagon, horses, and farmhands back, so some grain had to be reserved as 'fuel' for the trip back. Second, Europe's scarce roads and hilly terrain increased grain consumption en route to market. Finally, once the wagon reached its destination, it had to have enough grain left to sell to make it economically worthwhile to produce and ship grain in the first place.

Consequently, virtually all economic, social, and political life took place in *microeconomies* centred on market towns surrounded by an agricultural hinterland of about 20 miles. Adam Smith argued that the greater the division of labour, the greater would be productivity and thus incomes. The relatively small area and population of the microeconomy set a profound limit on the Smithian division of labour, because few people could afford to specialize even if they had the capital to do so. In microeconomies a vicious cycle thus limited economic growth and income: a small division of labour limited productivity; low productivity limited economic growth; and low economic growth kept the division of labour low. The outer limit of what is possible can be seen in China, which attained two historically large, once-only productivity jumps under the Song and Qing dynasties, and which built an extensive transport network. A highly commercialized economy emerged there, but it was not technologically dynamic (Arrighi et al., 2003; Bin Wong, 1998; von Glahn, 2016).

This 20-mile limit persisted well into the modern period. As late as 1835 the French population consumed about 173 million tonnes of goods annually, of which only 15 million moved via water transport. About 127 million tonnes, or 73 per cent, were consumed at the place of production. The remaining 46 million tonnes were consumed an average of 37 miles away, indicating that only about 13 per cent of production was consumed more than 20 miles from its production site. The 15 million tonnes moved by water transport probably constituted the bulk of long-distance consumption. Transport barriers led to huge regional variation in prices. In 1800 wheat prices varied by as much as 400 per cent across France; in 1817 by 200 percent; and as late as 1847 by 70 percent (Price, 1981: 19–20, 72–73).

Although microeconomies all lay nestled together, they traded only a little with their neighbouring microeconomies and virtually nothing with more distant ones unless they had access to water transport. Microeconomies that were on coasts or rivers often were more closely connected to other similar microeconomies far away than they were with inland villages 40 miles away. *Until the era of canals and railroads, and indeed well into that era, no such thing as a 'national economy' existed.* The global economy – that is, a complex division of labour linking economic areas located in different political units – thus existed long before transportation improvements brought all microeconomies inside most political units into close economic contact.

Since virtually all forms of pre-industrial social organization larger than a village needed to extract surplus energy (ultimately meaning food) from the agricultural economy, the 20-mile limit hindered the construction of geographically or administratively large states. Peasant economies usually do produce a surplus well above their subsistence needs, allowing a state to pay and feed armies and bureaucrats, and aristocratic landlords to live off other people's work. However, even if would-be state builders could extract that surplus from those peasants, they could not move it very far in the form of physical grain. The difficulty in moving bulk goods overland obstructed any attempt to extract and move more than a minimal amount of revenue from those microeconomies. Michael Mann notes that it was extremely difficult to consistently project military power more than 55 miles before the railroad (Mann, 1986: 136). Charles Tilly (1990: 5, 45) concurs, noting that in 1490 the average radius of most European political units was about 50 miles, meaning about two microeconomies in any given direction, or the distance a band of men on horse could travel in one day in order to supervise a noble's peasants or to patrol 'borders'.

How did these limits manifest themselves? Tilly's average European state occupied about 9500 square miles (24,600 sq. km), roughly the size of Slovenia or Israel, and contained about 300,000 people, roughly the size of Iceland or half of Luxembourg. Given typical European agricultural yields in 1500, Tilly's

300,000 people needed 3300 square miles (8500 sq. km) to feed themselves, but of course few regions were composed solely of arable land (Abel, 1980: 5). The typical Chinese administrative county approximated these population and areal limits, suggesting that the practical limits to local control were the same everywhere, given that seven microeconomies – a central one plus its six contiguous microeconomies – amount to roughly 8800 square miles (22,800 sq. km).

Nevertheless, large social organizations and states spanning multiple microeconomies could emerge, building on three exceptions to the 20-mile limit: people and information could move to the surplus; money could mobilize both the surplus and the available peasant labour inside any given group of seven microeconomies; the surplus and high-value, low-weight commodities could be moved cheaply by water transport rather than overland. Thus all ancient societies generated the same kind of political conflicts over the peasant surplus. Peasants fought against everyone to preserve as much of what they produced as possible. But peasants had no state-building ambitions. Would-be or actual aristocrats sought a decentralized state, based on a network of elites, that would confirm their landownership and thus power to capture the local surplus. Would-be emperors sought a state, based on a centralized network of money, information, and bureaucrats, that could tame or eliminate a landed aristocracy and thus mobilize peasant labour and grain in service of that central state. Long-distance merchants sought to build networks of city-states independent of the territorially based states of the other two groups, and thus capture peasant grain and labour mediated through aristocratic purchases of luxuries. All three sometimes took on religious garb to legitimate their power and resource extraction.

All of them sought to be at the top of whatever hierarchy emerged, magnifying these underlying conflicts. Variation in these conflicts created variation among ancient empires in terms of size and durability. In Europe, these conflicts produced the modern state because successful state builders developed organizations fusing public violence with private trade that captured and expanded the flow of money and goods from the global economy. This revenue in turn allowed states to pay bureaucracies and mobilize manpower for war without exhausting internal revenue sources.

THE NOBILITY AND THE LOCAL ECONOMY

Nobles solved the problem of surplus extraction by moving themselves to where the grain was, and using direct coercion to extract surplus grain. In most of premodern Europe, as in non-dynastic China, a collection of self-styled nobles controlled the local economy. These nobles were a kind of dispersed biker gang: armour, horses, and their propensity to resort to violence elevated them above the rest of the population in the same way that leather and Harleys elevate movie bikers in situations where state authority is absent (vide the various *Mad Max* movies). Nobles had made themselves into the state when the Roman empire collapsed, just as Chinese aristocratic lineages created local states after the Zhou dynasty collapsed in the seventh century BCE, removing most legal constraints on the behaviour of people who happened to have weapons. But these aristocratic landlords could also emerge from the typical dispersal of nomadic conquerors in premodern economies, or when a new ruler deliberately dispersed his soldiers across the countryside so they could find grain to feed their horses. Two features define this group: direct control over surplus extraction, law, and violence in a defined but small territory; and, in varying degrees, legitimation of that control from some central ruler or religious authority.

Nobles extracted a surplus from peasants through a mixture of custom and coercion. They directly appropriated grain and other products as rents and payments for the use of mills where peasants ground grain for bread. They also forced peasants to work on noble-owned land. Nobles had little need directly to monetize their local economy, that is, to shift from a barter economy with the direct exchange of goods to a commercial economy in which money served as a universal medium of exchange and prices reflected the cost of production. Virtually everything they needed, with the exception of the luxury goods that defined their status, was at hand through direct exchange or as rents in kind.

The nobility constructed a society based on mobile people controlling an immobile surplus. Nobles linked themselves together through a network of hospitality that allowed nobles to travel without carrying grain, since invariably another manor was located one or two days' horse ride away. Once they arrived they could 'refuel' their horses and themselves, gossip, annoy each other, and then move on to the next manor. Nobles moved themselves, and through marriage their children, rather than the economic surplus. Though Chinese aristocratic lineages were more settled, the same dynamics occurred where emperors failed to extinguish the aristocracy. By contrast, with the exception of some very old *Ghazi* lineages dating back to the original Turkish clans, the Ottoman empire successfully limited the emergence of a landed aristocracy based on inherited land.

Nobles faced three problems. First, they couldn't entirely trust their own peasants. Nobles and peasants lived in a delicate balance of terror, with the peasantry's propensity and ability to revolt limiting how much nobles could extract. But while any given noble might correctly assess the maximum rate of extraction, other nobles' inability to correctly judge how much could be extracted might spark a revolt that spread to their own territory. Yet status competition among nobles drove each to take more and more from any given group of peasants. Nobles thus faced a collective action problem of (self-) restraint around luxury consumption.

Second, this problem also brought nobles into conflict with merchants. While nobles resisted monetizing their economies, they obviously lacked anything that could not be locally produced. So, by definition, they lacked luxuries. Nobles could buy these luxuries from merchants if they had either money or commodities that the merchants wanted. Inland nobles usually had to exchange money, while nobles on coasts or navigable rivers often could exchange bulk commodities directly for luxury goods. Nobles resisted the monetization of their local economies above and beyond this minimum amount of money. Although monetization might help them attack and conquer their neighbours, it exposed them to the possibility that the rents they charged peasants could be fixed in money terms. Then inflation might erode the real value of those rents.

Inflation was a real problem for the European nobility after 1500, as the great inflow of silver and gold from the newly conquered Americas increased the money supply (Vilar, 1976; Kriedte, 1983). In this respect, the nobility struggled with a contradiction between their desire to control the peasantry and the purposes of that control. The nobility needed inflows of American silver and gold to finance their purchases of Baltic and Asian luxuries, but these inflows threatened to undermine their control over peasants.

Third, nobles couldn't entirely trust each other. Differences among nobles went beyond mere status competition. An overly acquisitive neighbouring noble, or one with a richer resource base, might attempt to subordinate the others and reduce their status. Nobles needed a collective solution to this problem as well. While theoretically they could all rally to one another's defence, shirking was an individually superior strategy; let someone else die and then pick up the pieces. Submitting to a higher authority – a king or emperor or pope – might guarantee that everyone did their fair share of fighting. But submitting meant sharing part of the surplus with that higher authority, and risked the loss of control over the local economy. So while nobles and monarchs had a common interest in keeping the peasantry under control and fending off other predatory states, they had a conflict of interest over how much revenue and authority to give to the king. What did those kings want?

ABSOLUTIST MONARCHS, INTERNAL MARKETS, AND EXTERNAL ENEMIES

Nobles moved to the grain; kings could theoretically move grain to their capital. At its peak, the Qing empire was moving 3 million tons of rice annually over the Grand and other canals (von Glahn, 2016: 330). Yet this was difficult. The Qing benefited from prior dynasties' exploitation of peasant labour to build those canals. European kings did not have this luxury. Those kings faced considerable internal and external obstacles to their desires to centralize power over lawyers, guns, money, and god. Kings' authority was weakened by the nobility's ever expanding legal claims to land, by the nobility's autonomous military power, by the nobility's control over the local administration of justice, and by the web of mutual obligations linking king to vassal. Because nobles controlled considerable military force, they could actively resist royal authority with violence. Sovereignty – legal authority – was dispersed in most ancient societies and even more so in Europe, where most kings were really just wannabe monarchs. Worse, in Europe, monarchial authority varied from one locality to the next, depending on the specific relationship between the king and that noble family. And the web of obligations binding kings and nobles legitimated the nobility's independent existence even as it validated the king's authority.

Europe's would-be kings, like emperors in the Ottoman lands, India, and China, sought to subordinate the nobility by connecting all their microeconomies under a single administrative hierarchy. Nobles linked discrete microeconomies through horizontal social networks. Kings wanted to link them with a vertical bureaucracy, using easily transported flows of information (orders down to bureaucrats and reports back up to the king's cabinet) and money (salaries down to bureaucrats and taxes up to the king). Europe's kings differed in their relative lack of success. From the Qin dynasty (221–206 BCE) forward, Chinese emperors were relatively more successful in converting local nobilities into paid servants of the imperial state, preventing those servants from acquiring ownership of local land and transferring it to their children, and maintaining control over armies deployed on distant borders. Equally so the Ottomans, from Mehmet II (1451–1481) and Süleyman the Magnificent (1520–1566) forward, converted vassals into something closer to paid officials of the state, and successfully rotated control of *timar* land revenues to prevent the emergence of unified regional opposition.

European kings' weakness reflected Europe's considerable administrative backwardness relative to empires elsewhere. Kings were originally simply leaders of the armed bands from which the nobility emerged, merely princes (*principes*), or first among the equal society of nobles. Having conquered some region, these princes dispersed their gangs into the countryside, because these bands were too large to be fed off any single microeconomy, and because, as Genghis Khan reputedly said, 'An empire cannot be ruled on horseback' (Mann, 1986: 142). Instead, kings dispersed their brigands into fiefs where they could find enough peasants whose rents (grain) could support those brigands, their horses, and their ancillary thugs.

Kings tried to retain control over this potential nobility by retaining the right to confirm the inheritance of the land granted to those nobles. Technically, kings retained landownership but exchanged use of the land for the nobility's loyal military service, just as with the Ottoman *timar*, which gave rights only to revenue and not land. But once kings dispersed their armies, they both lost their ability to subdue rivals and created a host of new rivals with a strong interest in asserting ownership over land. Nobles' own interest in extracting rent from their serfs and passing land on to their children overrode their residual loyalties to the king, and unlike the king the nobility had a real military and legal presence in that locality. Unlike China, where emperors successfully split control of civil administration and the military over two people, and were able to rotate those officials from one province to another, European kings confronted nobles who combined taxation, military force, and the administration of justice in one family. China's emperors also tended to confirm peasants' rights to use or own land, which weakened any potential nobility.

Kings could increase their internal authority only to the extent that they could, first, replace nobles' local monopoly of violence with police forces controlled from the centre; second, shift control over law and taxation from the nobility to their own hired hands, that is, bureaucrats with no independent source of power; and third, assert absolute sovereignty. But how to pay for these bureaucracies? Kings could extract grain and labour as taxes, displacing nobles' access to those resources. But moving money to buy grain was much more efficient than moving grain to the capital. Officials with no local ties, who were rotated across regions, would be loyal to whomever paid them; officials who were paid in kind from local sources would always try to take over that local source for themselves through direct landownership, and, worse, from the point of view of would-be kings and emperors, try to pass ownership on to their children.

Thus kings needed to monetize microeconomies. Monetization gave kings access to a greater volume of resources in any given area, it allowed kings to extract resources without having to go through the nobility, and it allowed them to pay bureaucrats. Money disconnected bureaucrats from the land. Kings could use the tolls charged for access to local market towns, or sales from state monopolies over necessities like salt, to pay their agents' salaries. By purchasing microeconomy-produced goods to sustain themselves, those royal agents then put money back into the local economy, closing the local financial loop. But kings had to find some source of real money – gold, silver, or copper – to put into circulation to monetize their microeconomies. This led them to look to long-distance merchants for support against nobles, for merchants, naturally, had money.

The kings' external problem likewise forced them to look to merchants, but, paradoxically, it also forced them to look back to nobles for support. Externally, kings faced a second threat to their authority: other would-be kings. Kings could only increase their wealth (the minimal flow of monetized resources flowing out of the microeconomies and into their hands) by taking away land from other kings and nobles. Therefore, would-be kings were in constant conflict with other would-be kings over turf. Wars with other kings forced kings to deploy increasingly larger and better organized armies, raising the amount of cash needed for success (Howard, 1976: 35–48). Most medieval armies started as a reaggregation of the brigand gangs and their ancillary thugs. Their disloyalty, insubordination, and erratic individualism all undermined a king's ability to fight other kings. In response, kings tried to professionalize their armies, replacing undisciplined gang members with hired mercenaries. But mercenary and later professional armies had to be paid. And war became increasingly expensive from the fifteenth century forward, with the Nine Years War costing Britain £5.5 million per year, and the American Revolutionary War costing £20.3 million per year one century later (Brewer, 1988: 30; £2 would buy a year's supply of grain for one person back then).

Conflict with other kings also limited kings' efforts to subordinate nobles. No king could risk fighting both internally and externally. Therefore, where kings could not subdue local nobles or the reverse, both often entered into pacts in which nobles permitted kings enough revenue to defend everyone against external threats and restive peasants. But nobles were often cheap about funding a king's ability to project power outward, because they feared centrally controlled armies. Therefore, kings' need to pay for war also forced them to borrow from merchants. This was a second best solution to direct control over long-distance trade, which was the major source of revenue for more successful ancient empires, including various Chinese dynasties (Dunstan, 2006; Mann, 1986). But when European powers expanded into the Indian Ocean and the Americas, state-sponsored firms proved to be massive revenue generators.

MERCHANTS AND THE WIDER MARITIME WORLD

Merchants constituted a third network, based not on social obligation or sovereign authority backed by violence, but on contractual, ethnic, or religious solidarity. Merchants fall into two categories depending on whether they were oriented more towards long-distance trade, usually waterborne, or local, usually overland trade. The distinction here is not precisely between trade in luxuries and trade in daily necessities. Trade in luxuries inevitably occurred alongside trade in much more mundane commodities like grains, wool, timber, and pitch. Merchants often needed these commodities simply to build and to ballast their ships. Trade in mundane commodities also provided a kind of cheap money for merchants involved in the long haul of luxury goods. If they simply loaded their ships with luxuries, they would have to parcel out these goods along the way in order to buy food and water. By ballasting with bulk commodities, they could exploit local differences in prices between points A, B, and C to earn enough to provision their ships at each of those points. They thus preserved their luxury cargo for resale at the end of their journey, where it would fetch the highest possible price. Long-distance merchants thus sought to capture grain and labour by moving high-value, low-weight luxuries to microeconomies for sale to the nobility.

Merchants linked communities on the coast and navigable rivers through flows of money and goods. These communities benefited from the fact that water transportation undid the limits on the division of labour imposed by local food supplies. Because waterborne food from other microeconomies augmented local supplies, the urban population could grow and more labour could be devoted to industrial activities. And water transport gave these communities access to luxury goods at the point of production, where they were cheap. Merchants could thus arbitrage between low production costs and the high prices scarcity created, because by definition nobles only gained status by consuming goods in short supply. A bigger division of labour and the ability to accumulate large sums of cash gave merchant cities power all out of proportion to their actual size. In the 1500s Genoa raised revenues usually equalling and sometimes three times those of the 'King' of France, for example (Anderson, 1974: 193). Money meant merchants often could assemble and pay for substantial military forces.

Long-distance merchants thus sought and often attained independence from kings and nobles by constructing the networks of armed trading cities that cropped up in any area with easy access to water: the Rhineland corridor, the Baltic, the Indian Ocean, Southeast and Northeast Asia. These networks often defeated efforts by the nobility or king to simply steal their money. Moreover, kings facing external and internal threats needed more regular access to this money than they could get from erratic rip-offs. So kings resorted to borrowing money from, or selling monopolies (like the salt monopoly) to, merchants.

Merchants liked this since it provided an outlet for surplus funds. And since kings in effect used this money to monetize microeconomies, they increased the markets available to merchants by integrating microeconomies into the network of waterborne trade. Finally, merchants benefited from the kings' ability to deploy violence on their behalf against competing merchants and predatory nobles and kings (Lane, 1958).

Merchants' and kings' common interests everywhere coalesced in mercantilist policies fusing violence and trade. Two things made the European outcome different: kings never succeeded in subordinating merchants and absorbing luxury trade into the state's hands, and the most successful European states diverted the interests of powerful nobles into external trade, fusing the nobility's interests with those of the monarch. This fusion of interests over European-style mercantilism is what lay behind Karl Polanyi's (1957: 68) comment that 'The territorial state … [was] the instrument of the "nationalization" of the market and the creator of internal commerce.' Successful monarchs monetized their economies, and in doing so they brought their microeconomies into contact with the bigger global economy. By contrast, geography helped various Chinese dynasties and the Ottomans to centralize control over the silk road land route; control over oases (water holes) in the deserts of what is now Xinjiang province, Arabia, and Iraq conveyed control over the movement of caravans. Similarly, Chinese dynasties exercised varying degrees of control over waterborne commerce with Southeast Asia through the tribute system. The Chinese and Ottomans thus monetized their economies without simultaneously empowering long-distance merchants as a social class. Chapter 4 will pick up these themes, but now we must turn to the actual process of state-building.

STATE-BUILDING: LAWYERS, GUNS, MONEY, AND GOD

Kings, nobles, and merchants each possessed a preferred vision for the world, respectively absolutist states, hyperfragmented entities like the Holy Roman Empire or Poland, and networks of mercantile cities like the Hanse or Italian city-states. (Peasants, of course, preferred none of the above.) Each of the large-scale societies outside of Europe presents a variant of one of these forms. But in Europe the respective weaknesses of each group and their mutual vulnerability to external competitors combined with their occasionally overlapping interests to produce the peculiar amalgam of lawyers, guns, money, and god characterizing the modern state. Compromises brokered among all three parties were regularized into constitutions that defined property rights and political obligations (lawyers). These states rested on territorially defined monopolies over violence, deployed against internal and external threats (guns). The bureaucracy running this monopoly of violence depended on a parallel bureaucracy for revenue extraction (money). And national myths unified the population behind and justified states' actions (god).

States' constitutions developed at the intersection of conflicts and common interests among kings and nobles. The medieval revival of Roman law provided principles facilitating a deal between monarchs and nobles over property rights (Anderson, 1979; Reynolds, 1994). Roman law contained two absolute but conflicting principles. First, it guaranteed an absolute right to private property, unlike the multitude of weak rights and mutual obligations that feudal law placed on property and persons. The nobility seized on this principle to guarantee their rights to landownership and the rents thereof, to neutralize centralizing kings and rebellious peasants who also claimed some degree of landownership. Second, Roman law implied that the sovereign's will was law, in contrast with limits feudal obligations placed on kings. Would-be kings seized on this principle to justify imposing taxes and reducing the privileges of the nobles. Islamic law similarly justified the absolute powers of the Ottoman emperors, while Chinese emperors relied on the mandate of heaven and a millennium of Confucian legal thinking.

The clash of these two Roman legal principles and the common fear of internal and external enemies led to regular parliaments that authorized the king to raise and finance a central military, while also protecting new property rights. In these constitutional compromises, kings reduced the nobility's privileges and power (that is, exemptions from taxation and their right to private armies), but not to the point where nobles would revolt and seek aid from other kings against their own. Although the nobles submitted to regular taxes, they limited the king's ability to impose them without the permission of the assemblies of nobles. They also permitted the king to raise his own army, but only if they were allowed to staff that army. Regular taxes allowed kings to generate the steady flow of money that their new bureaucracies of violence (police and armies) and administration required. Kings destroyed common property rights in land (primarily peasants') to create new rights for the nobility, but in doing so they made it possible to identify specific, individual property owners who could be subjected to taxation, unlike the collective owners of the past.

The intersection between kings and merchants produced the public debt and overseas trading companies as linked institutions. As specialists in organized violence, kings enticed long-distance merchants to support them in return for protection from other kings and merchants. Merchants supported kings' efforts to build more powerful militaries with loans and, sometimes, taxes. These more powerful militaries often took on a quasi-private form in the giant trading companies, like the British and Dutch East India Companies, that opened otherwise closed markets, reduced the risks of long-distance trade, and exploited other people's economies (Lane, 1958; Steensgaard, 1974; Tilly, 1990). These giant companies acted as external states, blending military and economic power to extract revenue and funnel it back to owners in the Netherlands (including burghers from the major cities) and Britain (including the extended royal family).

The intersection of nobles' and merchants' conflicting and common interests produced lawyers. Both groups wanted absolute private property rights, and both groups had an interest in limiting kings' ability to tax them. At the same time, both had an interest in colonizing a king's bureaucracy so as to seize control of the revenues it generated. Absolute private property rights and regular taxation created a legal framework in which mercantile activity could flourish.

The intersection of different kings' conflicting and common interests produced formidable armies but also grudging agreement to respect one another's control of specific turfs. In other words, it produced a belief in absolute sovereignty that replaced prior feudal practices of divided and partial sovereignty – a noble could theoretically owe allegiance to multiple lords – with the notion that loyalty had to be undivided.

Charles Tilly (1985) borrowed the perfect metaphor for this process of compromise from Norbert Elias (2000): state-building was at first a form of organized crime. Just like the modern-day mafias, would-be absolutist monarchs tried to establish monopolies of violence over specific turfs, promising protection to nobles and especially merchants on that turf. Kings were would-be godfathers seeking to transform a multitude of small neighbourhood gangs run by nobles into one larger gang. Merchants benefited from protection, as long as conquest opened new markets, piracy hurt only competing merchants, and trade barriers kept out competing merchants enough to offset taxes and the occasional defaulted loan. Merchants' and nobles' acquiescence gave legitimacy to the violence that states deployed inward; the violence they deployed outward won grudging respect from other, competing godfathers. And violence was pervasive, with European states at war 90 per cent of the time from 1500 to 1800.

MERCANTILISM AS THE HINGE: INTERNAL AND EXTERNAL STATE-BUILDING PROJECTS

The characteristic policy of these 'mafias' en route to statehood was the messy agglomeration of practices later called mercantilism. Economists typically view mercantilism as a misguided use of state taxing power in pursuit of trade surpluses, and condemn it as irrational from the point of view of neoclassical economic theories. Mercantilist states did try to boost their exports and limit their imports so as to accumulate specie – metallic money.

When we consider mercantilism as a two-sided project with both an external and an internal impulse, a compelling and rational political logic reveals itself: trade surpluses and the accumulation of metallic money were the most practical way for kings to monetize their realms. As Gustav Schmoller (1897: 51) wrote, mercantilism aimed at 'the total transformation of society and its organizations, as well as of the state and its institutions, in the replacing of a local and territorial economy by that of a nation state'. Because of limits on overland grain transport, far greater resources lay out in the global economy as compared to virtually non-existent 'national' markets. Given this situation, states consciously tried to use external resources to provide immediate revenues while cultivating long-term and dependable internal revenues. Running trade surpluses allowed a king to exchange the many diverse commodities created by his many otherwise worthless subjects in the microeconomies for the one crucial commodity needed to build a state: money. This money accumulated directly in royal companies and indirectly in local merchants' hands.

Mercantilism had a second internal aspect. Kings removed barriers to the movement of goods that the nobility imposed and tried to make noble wealth taxable by homogenizing the legal status of all of the king's subjects. Eliminating barriers to trade reduced the sources of revenue the nobility controlled. Thus the global economy and state system grew simultaneously. States that successfully used mercantilism to fund and consolidate their bureaucracies simultaneously impoverished and weakened their rivals; meanwhile mercantilist imperialism created new and broad markets abroad. As Michael Mann (1986) notes, European kings' long-standing inability to tap internal resources intensively led them to tap external sources extensively, and this ironically helped merchants expand their own power and become indispensable to wannabe monarchs. The final two sections of this chapter will look at this process for several European states.

Each of the European states that survived and thrived from the fifteenth to the nineteenth century – and over 300 potential states did not – worked out its own version of the lawyers, guns, money, and god compromise. To steal Tilly's phrase, if states made war and war made states, war also *unmade* many states. States that evolved ever better, ever cleverer, and ever more efficient means for extracting revenue, deploying armies, and winning internal consent through submission rather than coercion were more likely to survive (Parker, 1972, 1988; Spruyt, 1994). These advances in the social technologies for funding and deploying organized violence ultimately allowed relatively backward states to invade and transform societies that were often demographically larger and more advanced technologically and administratively. A quick survey of areas outside Europe shows why otherwise successful empires were vulnerable to the emerging European empires, even though those non-European empires were administratively, militarily, and to a lesser extent, economically more advanced.

STATE-BUILDING OUTSIDE EUROPE

Imperial China, where successive dynasties created absolutisms more absolute than any found in Europe, and the Indian Ocean trading economy, where merchants largely triumphed and created a trade-based world, provide a useful comparison with the European experience (Abu-Lughod, 1990; Chaudhuri, 1985, 1990; Reid, 1990).

As William Skinner (1964) has shown, emperors in China strove to create a highly commercialized (monetized) economy in which most microeconomies were linked to a complex hierarchy of towns and cities. Politically, 'centralization of political power curtailed seigneurial and urban monopolies, privileges, and jurisdictional authorities that … hindered market integration, commercial competition, technological diffusion, and industrial investment' (von Glahn, 2016: 9). Economically, commercialization and monetization allowed the monarchy to extract the peasant surplus as money and then use this to pay a dedicated corps of civil servants, selected by examination, rather than having to delegate authority to nobles 'paid' in kind or land as in western Europe.

As in Europe, external and internal enemies threatened central authority in China. When these enemies triumphed, however, they tended to restore central authority. With a few exceptions, the administrative superiority of China's bureaucracies made it easier to restore the old system than to invent better ways to use violence in the pursuit of money. Invading 'barbarians' assimilated themselves into the administrative elite. Internally, China's highly commercialized economy – much more advanced than Europe's in the 1400s and 1500s – made it easy for central authority to gather the resources needed to contain challenges from local officials and landowners hoping to reconstitute an aristocracy. Meanwhile state control over long-distance trade deprived merchants of the ability to challenge the central state. Many prices appear to have been set administratively, by power brokers, and the Chinese state did not tolerate the fusion of mercantile power with military might that characterized European incursions into the New World and Asia (Arrighi et al., 2003: 276–81; Dunstan, 2006; Mann, 1986: 297; Pomeranz, 2000: 203–05). Most mercantile activity was inward-oriented, focusing on day-to-day life or the network of canals in southern China. Merchants unhappy with bureaucratic control over trade via the tribute system could flee to Southeast Asia, but once there did not constitute any viable threats to the empire, as they created a fragmented system of port-polities (city-states) with limited military capacity.

In contrast, the Indian Ocean and its neighbouring Southeast Asian archipelagos harboured a complex network of trading communities whose power and autonomy most European merchants could only envy. The ability to shift business to any of the many port-polities in the archipelago insulated these communities from the various inland empires. Therefore, inland rulers were content to buy what they needed, extract some tax revenue, and leave merchants alone. The different merchant communities had reasonably peaceful relations among themselves. Most merchants were small, privately organized traders plying between independent emporium ports organized as city-states (Chaudhuri, 1985; Reid, 1990). These ports sometimes exploited their upriver hinterlands, as in Sumatra, but just as frequently merchants simply 'rented' space in a city nominally controlled by a local noble.

While piracy did exist, it was not the state-organized, tax-funded piracy that Europeans developed. None of the merchant or pirate communities possessed the capacity for organized conquest at sea, or generated durable state-organized and militarized merchants akin to those of Venice. Consequently, no one successfully monopolized the sea-lanes. Unlike Europe's Mediterranean coasts, where Muslim and Christian fought with considerable hostility, Muslims, Hindus, and a score of other groups cohabited the Indian Ocean's coasts with a minimum of conflict.

These two situations reveal extremes that were rare in Europe. Chinese dynasties often made real what European monarchs dreamed: parallel civil and military bureaucracies controlled by the king, barred from direct landownership, and paid by a king able to extract revenue from an extensive, highly monetized continental economy populated by small-holding, docile peasants. Periodically these dynasties would collapse into 'European'-style multi-state systems, as in the Warring States era (475–221 BCE), the Three Kingdoms era (220–280 CE) or the Five Dynasty era (907–960 CE). But the administrative and symbolic residues of prior dynasties and the relative newness of potential landed aristocracies enabled emperors to reconstitute central control.

The Southeast Asian archipelago and littoral embodied merchants' dreams: a multitude of ports and coastal economies unfettered by imperial authorities, linked by a dense network of financial and commercial ties, sharing enough common Hindu and Islamic culture to interact, and hungering for the multitude of goods sea-trade offered. Periodically an empire might emerge, linking different arms of the trading network, as with the Chola empire (peak: 1010–1153 CE) in the eastern Indian Ocean littoral, or its rival Srivijaya empire (peak: *c*. 850–1025 CE) in the modern-day Indonesian and Malay archipelagos.

These two outcomes were much harder to achieve in *medieval* Europe. Europe's geography presented a much higher ratio of microeconomies on coasts and navigable river to inland microeconomies than did China's (perhaps excepting southeast China). This created much greater opportunities for European merchants to generate cash by trading long distance while simultaneously evading central control. Thus Europe's mercantile community was stronger relative to the monarchy than China's. Yet if merchants were more powerful relative to wannabe monarchs than they were in China, many of them resided in inland river cities, where they were much more vulnerable to land-based powers than Indian Ocean and Southeast Asian merchants. Merchant cash represented the only easily accessible source of finance for centralizing kings and for nobles resisting centralization.

Among the European states, Britain's administrative centralization best approximates China's, but most wannabe monarchs had to rely on a mixture of their few literate household servants and the occasional trustworthy priest. While France is usually seen as the pinnacle of administrative centralization, the French nobility retained considerable independent power and privilege, and overseas commerce provided many cities on the periphery of France with the resources to resist Paris (Fox, 1966).

Still, even if European monarchs lacked administrators and money, they did possess enough guns to prevent merchants from creating Indian Ocean-style safe havens in insular city-states. The many merchant city-states in the Rhine corridor, Italy, and on France's coast that were absorbed into larger, microeconomy-based political units reveal the fragility of merchant cities that cannot easily move their capital. In contrast, geography shielded mercantile states like England, and, to a lesser extent, the United Provinces (Holland). The larger hinterlands of these mercantile states enabled them to raise armies strong enough to prevent their neighbours from conquering them.

Europe's specific geographic balance of coastal and inland areas combined with its relative backwardness in administrative technologies to block exclusive dominance by any single state. But in turn this meant continuous warfare from 1500 to 1814. War meant continuous pressure on states and their merchant communities to develop better forms of organized violence. This evolutionary pressure ratcheted up European states' ability to use violence 'productively,' as the successful European incursions into the Indian Ocean littoral show. The next chapter first sketches the development of various uneasy combinations of and equilibria among lawyers, guns, money, and god in Spain, France, and England, and then examines Portuguese, Dutch, and English incursions into the Indian Ocean.

SUMMARY

States use monopolies over military violence, taxation, law, and symbolic legitimation to control and defend their territory. This requires resources. The agricultural economies of 1500 generated limited moveable resources. Long-distance trade, however, generated commodities that could be used to raise revenue directly and to monetize peasant economies and thus allow easier internal taxation. Other ancient agrarian empires, like China and the Ottomans, were successful in monetizing their territory, taxing peasants, and subordinating both merchants and the landed aristocracy. But no European state succeeded in unifying Europe. Instead, constant military competition forced those states to develop increasingly more sophisticated systems to raise revenue in cooperation with long-distance merchants. European states used the policy of mercantilism to expand and control long-distance trade. Successful European states used mercantilism to build up military and administrative capacity, enabling them to project violence into the rest of the world while fending off the Ottomans and European rivals. Mercantilism was most successful in the Indian Ocean.

TIMELINE: CHAPTERS 1 AND 2

Date	Brief description
400s	Disintegration of Western Roman Empire
987–1328	Capetian dynasty begins centralization of France
1066	Normans conquer England
1250–1350	Mongolian Empire and Pax Mongolica from modern Korea to modern Russia and Mideast
1328–1789	Valois and Bourbon dynasties complete centralization of France
1368–1644	Ming dynasty in China
1453	Ottoman Turks conquer Byzantium (modern Istanbul) and found Ottoman Empire
1492	Italian-born Spanish admiral Christopher Columbus crosses the Atlantic
1494	Papal Treaty of Tordesillas dividing the non-European world between the Spanish and Portuguese empires
1498	Portuguese admiral Vasco de Gama finds a sea route to the Indian Ocean
1516–1558	Unification of Spanish and Habsburg empires under Charles V
1517	Martin Luther (founder of modern Protestantism) nails the Ninety-Five Theses to the door of the church in Augsburg
1529	First Ottoman siege of Vienna (Habsburg capital); high tide of Ottoman expansion under Süleyman the Magnificent; beginning of 150 years of intermittent war
1556–1598	Philip II, King of Spain, expansion of Spanish rule in Latin America and Pacific Ocean
1555	Peace of Augsburg ends religious wars in central Europe; establishes *cuius regio, eius religio* (‘whose realm, his religion’)
1568–1648	Dutch (Seven Provinces) revolt against Spanish Habsburg empire in Eighty Years War

1613–1917	Romanov dynasty centralizes Russian empire
1618–1648	Thirty Years War in central Europe, pitting Protestant German and Scandinavian states, as well as Catholic France and the Muslim Ottomans against the Catholic Habsburg empire (Austria and Spain); Protestant England largely supports the Dutch against the Spanish and the French
1624–1661	Cardinals Richelieu and Mazarin subdue landed aristocracy and merchants on behalf of the French king
1642–1651	English Civil War; Charles I executed; parliamentary supremacy confirmed
1648	Treaty of Westphalia ending the Thirty Years War; reaffirms *cuius regio, eius religio*, Dutch independence from Spain, and the principle of sovereign states
1683–1699	Great Turkish War (Habsburgs and Poland against the Ottomans); Second Ottoman siege of Vienna, 1683
1687	Chagatai Khanate, last Mongol kingdom, collapses
1688	'Glorious Revolution' in England; William III replaces James II; fusion of Dutch and British commercial interests begins
1700	Separation of Spanish and Habsburg empires upon death of Charles II; War of the Spanish Succession (1701–1714)
1701–1918	Hohenzollern dynasty centralizes Prussia (1871, creates German empire)
1706/07	Acts of Union between England and Scotland

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Glossary entries in **bold**