

The Fiscal-Military State  
in Eighteenth-Century Europe  
Essays in honour of P.G.M. Dickson

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is remarkable that, having transformed our understanding of one subject – British public credit in the first half of the eighteenth century – the same historian has then gone on to revolutionize our grasp of a very different one – the finances of the Austrian Habsburgs in the later eighteenth century. The massive archival research underpinning these impressive contributions in two distinct fields is very unusual in a present-day historian. The financial records of the eighteenth century are very difficult for later generations to interpret: there were no regular budgets until quite late, so the historian has to piece figures together from numerous – innumerable – scraps. By supplying reliable figures Dickson has provided the crucial raw material for subsequent scholars – notably John Brewer – to write more generally about public finance. Put simply, much of the financial, and implicitly the broader political history of eighteenth-century Europe would have remained *terra incognita* without the painstaking, groundbreaking efforts of Peter Dickson.<sup>110</sup> This has been a bravura performance on the part of a historian who, for most of his professional life, was a Fellow of Saint Catherine's College, Oxford, where he shouldered the usual massive teaching load and tutored generations of Modern History students. At the same time he has given generous and extensive assistance to other scholars in the field – help which has been immensely important in the furthering of the subject.

The contributors hope that this collection is a fitting tribute to Professor Dickson and his outstanding achievements as a historian of European public finance during the eighteenth century.

## Chapter 1

# The Fiscal-Military State and International Rivalry during the Long Eighteenth Century

Hamish Scott

*[A]n army is a beast that hath a great belly, and must be fed ...*

James Harrington

*A financial system, handed over by father to son and constantly improved, can change a government's position. From being originally poor it can make a government so rich that it can throw its grain into the scales of the balance between the European great powers.*

Frederick the Great

### I

Two contrasting episodes, separated by almost exactly a century, encapsulate the central theme of this chapter.<sup>2</sup> The first was the debate, or more accurately the ministerial rivalries, at the French court, which preceded Louis XIV's attack on the Dutch Republic in the spring of 1672. The issue of peace or war provoked a struggle among the king's advisers, which began in the later 1660s and continued for several years. It ranged Jean-Baptiste Colbert, the influential financial and naval minister, against the rising star of the court, Louvois, son of the war minister Le Tellier.<sup>3</sup> The king was determined to punish the upstart Dutch. As a Catholic absolutist ruler, he abhorred their Calvinism

1 James Harrington, *The Commonwealth of Oceana* (1656), in J.G.A. Pocock, ed., *The Commonwealth of Oceana and A System of Politics* (Cambridge, 1992 edn), pp. 13–14; Walther Hubatsch, *Frederick the Great: Absolutism and Administration* (Engl. trans., London, 1975), p. 147.

2 An earlier version of this chapter was given to the Modern European History Seminar of the University of Cambridge, and I am grateful to the members of that Seminar for their questions and comments. Grateful thanks are also due to Derek Beales, Derek McKay, Brendan Simms and Peter Wilson, who all commented constructively on a draft of the chapter. It was completed during my tenure of a Leverhulme Major Research Fellowship, and I am indebted to the Trust for its support.

3 His approach is analysed by Paul Sonnino, 'Jean-Baptiste Colbert and the Origins of the Dutch War', *European Studies Review*, 12 (1982), pp. 11–6.

and republicanism, while he resented their temerity in intervening unexpectedly in the War of Devolution in 1667–68, limiting France's territorial gains. He was supported in this by the military leaders, headed by Turenne and, in particular, egged on by the young, ambitious, bellicose Louvois, who shared his sovereign's conviction that France's powerful army could resolve any problem in foreign policy.

Colbert was on the other side of the argument. Though the Dutch were an important trading rival and a serious obstacle to French economic recovery, his approach at this period was strongly pacific, and he did all he could to prevent renewed fighting. He was concerned about the likely economic and financial repercussions for France and specifically the threat to the monarchy's stronger fiscal position, which his policies had created during the preceding decade. In a clear attempt to influence this struggle, Colbert submitted to the king a remarkable document, the so-called 'Memoir to the King on the Finances'. Drawn up in October 1670, it was the latest in an annual series of reports, although it was even more detailed than its predecessors and was dominated by the overwhelming economic and fiscal reasons why he believed that France should remain at peace.<sup>4</sup> It discreetly threatened the king, if he went to war, with an intensification of the economic recession which had started to affect France in that summer, with financial chaos and a return to the critical situation at the beginning of the personal rule in 1661, and, perhaps worst of all, with insufficient funds for what was now Louis XIV's favourite project, the building of a great palace at Versailles.

Colbert's 'Memoir', however, has a far wider importance for the subject of this chapter. It set out a case, unusual at the time of its composition, that wars have financial consequences and, at one level, challenged a long-established assumption: the idea that rulers, especially powerful and therefore wealthy ones, could fight wars with impunity, always being able to raise the necessary resources and ignore the fiscal, financial and economic consequences. As he himself had grumbled several years before, 'They [*sic*: the ruler and his military advisers] raise troops and then they press for the money!'<sup>5</sup> Rejecting any such approach, Colbert instead set out the likely repercussions of any war – which, as it transpired, he foresaw with grim accuracy – and buttressed his arguments with an array of statistics: what he termed the 'mathematical and demonstrable truths which cannot be denied, provided that it pleases Your Majesty to listen to them carefully'.<sup>6</sup>

Colbert's arguments were ignored, as he had perhaps anticipated. At the end of his 'Memoir' he had noted Louis XIV's 'preference for war over all other things' and complained that 'the financial administration and everything which relates to it, which consists of dull figures, is not the usual and natural function of kings. Your

4 An English translation can be found in Orest and Patricia Ranum, eds, *The Century of Louis XIV* (London, 1973 edn), pp. 112–36. The original is printed in Pierre Clément, ed., *Lettres, instructions et mémoires de Colbert*, 8 vols (Paris, 1861–82), vol. VII, pp. 233–56. The dating of the 'Memoir' was established by Sonnino, 'Jean-Baptiste Colbert', p. 5. An example of earlier 'Memoirs' is that of July 1666, printed in Clément, ed., *Lettres...de Colbert*, vol. II, pp. ccxvii–ccxxvi.

5 To Nicolas Passau (chief clerk in the foreign office) in August 1667: quoted by

Majesty thinks of war ten times more than he thinks of his finances...'.<sup>7</sup> His proposals for cuts were rejected, and fighting began 18 months later. Yet if Colbert had lost this battle, his approach represented the future, aware as he was that international rivalries were not cost-neutral and that foreign policy had to take account of the likely economic and financial consequences of any particular course of action. In a second respect, moreover, his approach was distinctly modern in his careful marshalling of detailed figures to support his recommendations. Budgets – that is, the careful adding up of income and expenditure accompanied by an attempt to balance the two – on which Colbert's 'Memoir' and, indeed, his whole financial policy depended were not yet established as a part of domestic government, and although his ministry saw important steps in this direction, they were not continued under his successors.<sup>8</sup>

The second episode took place over a century later, at the court of a later French king, Louis XVI, although it had a very different outcome. It concerned the question of intervention in the Dutch Republic in the later 1780s, to support the Patriot party, which wished to see a broadening of the basis of Dutch political life and was supported by France. A formal Franco-Dutch alliance had been signed in autumn 1785. Throughout the 1780s effective political authority within the Republic had ebbed towards the Patriots, but in 1787 they faced the threat of Prussian intervention to restore the authority of the Stadtholder, William V, who was married to the sister of Prussia's King, Frederick William II. By this point the French monarchy was effectively bankrupt, while the ministry was increasingly divided.<sup>9</sup> The fault lines at Versailles transferred themselves to France's diplomacy in the Republic, where there were never less than two divergent diplomacies in operation, each conducted by a different French agent.<sup>10</sup> In the discussions at the French court in 1787 over possible intervention, which French diplomats and France's clients within the Republic were urging, and over the response to the Prussian invasion in September, French policy was dictated by financial weakness. The veteran foreign minister, Vergennes, fully recognized this unpalatable truth during the final months of his life, and his approach was confirmed by his successor, Montmorin.<sup>11</sup>

Although France's predicament at this time was unique in its severity, the wider implications of this episode are instructive. The French state's financial weakness was recognized by policy-makers at Versailles and a pacific approach upheld, which avoided a costly war but at the price of destroying its international standing. The Dutch

7 Ibid., p. 133.

8 For example, Clément, ed., *Lettres...de Colbert*, vol. II, pp. 83–88; vol. VII, pp. 256–58.

9 See below, pp. 44–45, for its financial disarray.

10 There are good accounts of the Dutch imbroglio and its implications for France by Orville T. Murphy, *Charles Gravier, Comte de Vergennes: French Diplomacy in the Age of Revolution 1719–1787* (Albany, NY, 1982), pp. 459–72; Munro Price, 'The Dutch Affair and the Fall of the Ancien Régime, 1784–1787', *Historical Journal* 38 (1995), pp. 875–905; and idem, *Preserving the Monarchy: The Comte de Vergennes, 1774–1787* (Cambridge, 1995), pp. 187–222.

11 See, in particular, the 'Instructions' for the comte de Saint-Priest, 14 September 1787,

crisis of 1787–88 revealed to Europe that the Bourbon monarchy could no longer be ranked among the Great Powers. In a wider sense, it suggested that, by the second half of the eighteenth century, policy could no longer be drawn up without an assessment of likely costs – exactly as Colbert had unavailingly argued a century before.

These two episodes highlight a decisive change, though one that was relative rather than absolute. By the later eighteenth century, military, and therefore diplomatic, calculations were more closely linked to an assessment of their probable financial impact. In a general way, ministers, advisers and even rulers had usually acknowledged that their policies had to take account of the ability to fund a particular course of action. What was new during the long eighteenth century was the recognition that all such decisions had an important financial dimension, together with the greater degree of statistical precision which such calculations acquired, first apparent in Colbert's 'Memoir to the King'.

## II

The very notion of a 'budget', in the sense of a relatively precise statement which tried to record income and project expenditure on an annual and cumulative basis, was a comparatively recent innovation and had established itself at a surprisingly late date. The first use of the English term 'budget' in this, its modern sense, seems to have been in 1733 when a pamphlet critical of Sir Robert Walpole and his projected Excise Bill was entitled *The Budget Opened*.<sup>12</sup> In its modern sense the word was only coming into common usage in Britain during the final third of the eighteenth century. Until then, such statements were known as 'états', or in France as 'comptes rendus'.<sup>13</sup> The term 'budget' migrated to France in the 1760s, first of all to describe the British financial statement and then to designate France's own assessments of income and expenditure, and by the 1780s and 1790s it was established.<sup>14</sup> Subsequently it spread throughout Europe, becoming ubiquitous.

The changing meaning of the word 'budget' reflected the replacement of elementary accounts by annual statements of revenues and expenditures.<sup>15</sup> Although such accounting procedures had long been established in merchants' firms, it was only during this period that the governments of major states began to emulate this practice, and even then in a very rudimentary way. States where much of the monarch's revenue was from the royal domain were the first to acquire such

<sup>12</sup> J.A. Simpson and E.S.C. Weiner, eds., *The Oxford English Dictionary* 2nd edn, 20 vols (Oxford, 1989), vol. II, pp. 620–21. Hitherto, the word had been used to designate a small leather bag.

<sup>13</sup> J.F. von Bielfeld, *Institutions Politiques* (1760; 3 vol. edn; Leiden, 1767–72), vol. I, p. 444.

<sup>14</sup> Alain Rey, ed., *Dictionnaire historique de la langue française*, 2 vols (Paris, 1992), vol. I, pp. 304–05; J.F. Boshier, *French Finances, 1770–1795: From Business to Bureaucracy* (Cambridge, 1970), p. 42; [Jacques-Philibert Rousselot de Surgy] *Encyclopédie méthodique: finances*, 3 vols (Paris and Liège, 1784–87), vol. I, pp. 145–46.

estimates: Sweden, from as early as the 1620s, and Denmark, from 1662, had what were in effect detailed budgets which allocated anticipated revenues to particular expenses. Colbert, as we have seen, was producing detailed financial estimates, yet it would be the Napoleonic period before a modern budget was drawn up in France. It was the long eighteenth century before this practice was adopted in other leading states, and then only hesitatingly and partially. The English treasury began to draw up statements of income and expenditure from the 1690s; the Habsburg Monarchy announced that it would do so in 1719–20; while Russia's ruler, Peter the Great, compiled a surprisingly detailed state budget in 1724.<sup>16</sup>

One obstacle was the absence, in many countries, of a minister or administrative body responsible for all revenues and expenditures. In Russia at Catherine II's accession in 1762 there were no less than 50 separate agencies involved in collecting and spending taxation, and, while this was an unusually high figure, most old regime governments lacked any centralized control of state finances.<sup>17</sup> This reflected the way in which financial systems had usually developed piecemeal and over several centuries, with a consequent lack of clarity and manifold ambiguities. Income could not always be distinguished from expenditure, and this confusion was reinforced by the way in which early modern finance directed particular revenues to specific purposes.<sup>18</sup>

A second, even more fundamental barrier to accurate budgeting was governments' remarkable slowness in adopting double-entry book-keeping, which was essential if annual revenues were to be measured against expenditures, or a rapid and accurate assessment made of the detailed financial situation at any point. In the world of commerce, double-entry book-keeping had become commonplace in the Italian peninsula by the end of the fifteenth century and north of the Alps 100 years later, but it was the eighteenth century before most European governments adopted the practice and, even then, in an incomplete form. Sweden, where it had been introduced as early as 1623 by the Dutchman Abraham Cabiliau (Cabeljau), was extremely unusual in doing so. Notoriously, Sully – Henry IV's great finance minister in early seventeenth-century France – rejected its introduction when it was recommended to him. By the eighteenth century, double-entry book-keeping was slowly making inroads into parts of the French administration, but it was to be 1808 before it was established in all the

<sup>16</sup> P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688–1756* (London, 1967), p. 46; Leon Jespersen, ed., *A Revolution from Above? The Power State of 16<sup>th</sup> and 17<sup>th</sup> Century Scandinavia* (Odense, 2000), pp. 97, 101; Claes Peterson, *Peter the Great's Administrative and Judicial Reforms: Swedish Antecedents and the Process of Reception* (Stockholm, 1975), p. 191; Boshier, *French Finances*, pp. 41–45; Michael Hochedlinger, *Austria's Wars of Emergence, 1683–1797* (London, 2003), p. 233; Arcadius Kahan, *The Plow, the Hammer and the Knout: An Economic History of Eighteenth-century Russia*, ed. Richard Hellie (Chicago, IL, 1985), p. 319.

<sup>17</sup> The importance of this was emphasized by Bielfeld, *Institutions politiques*, vol. I, p. 332.

<sup>18</sup> See Christopher Storrs, *The Resilience of the Spanish Monarchy 1665–1700* (Oxford, 2006), ch. 3 for a valuable discussion of Spain's later seventeenth-century financial system.

financial departments.<sup>19</sup> Significantly, Jacques Necker's celebrated *Compte rendu au Roi*, published in 1781, presented its figures in single-entry book-keeping.

In the Austrian Habsburg Monarchy an instruction of August 1723 imposed the obligation to keep all accounts in 'mercantile form', but it was another generation before it had much impact and the 1760s before it was established at all securely.<sup>20</sup> The proposal to draw up annual statements of income and expenditure also initially had limited impact, until it was revived by the important administrative and financial reforms of 1749.<sup>21</sup> It was to be the 1780s before Karl von Zinzendorf introduced a new form of accounting, which permitted estimated revenues and expenditures for the whole Monarchy to be produced.<sup>22</sup> In Russia, too, the state budget introduced in 1724 failed to take root. Its fate is a warning against assuming a linear development in state finance. Peter the Great's successors rapidly abandoned this practice, which was only resumed – and then in a rather different form – under Catherine II (r. 1762–96). Only from 1781 can we speak of a regular Russian budget.<sup>23</sup> Russia, in common with most states during the eighteenth century, lacked much in the way of coherent budgetary planning.<sup>24</sup>

These delays and shortcomings must be borne in mind: all economic planning was an irregular, approximate business in old regime Europe. The figures which resulted were imprecise and incomplete, could be inaccurate and frequently contained serious arithmetical errors.<sup>25</sup> But the change from earlier centuries was crucial for the way in which public finance was viewed and incorporated into policy-making during the long eighteenth century. Colbert had complained about raising troops and only then seeking the money to pay for them, while in 1699 the president of the Austrian Court Chamber declared that a ruler's fiscal demands should be determined

19 Richard Bonney, 'Revenues', in idem, ed., *Economic Systems and State Finance* (Oxford, 1995), pp. 428, 430; idem, 'Jean-Roland Malet: Historian of the Finances of the French Monarchy', *French History* 5 (1991), pp. 180–233 (at p. 208, n. 139). Michel Morineau's argument to the effect that the 'états de prévoyance' produced at this time were budgets in all but name has not secured widespread acceptance: see 'Budgets de l'État et gestion des finances royales en France au dix-huitième siècle', *Revue historique* 264 (1980), pp. 289–336.

20 P.G.M. Dickson, *Finance and Government under Maria Theresia 1740–1780*, 2 vols (Oxford, 1987), vol. II, pp. 80–87; cf. Franz Freiherr von Mensi, *Die Finanzen Österreichs von 1701 bis 1740* (Vienna, 1890), p. 571.

21 Dickson, *Finance and Government*, vol. II, p. 81.

22 P.G.M. Dickson, 'Count Karl von Zinzendorf's "New Accountancy": The Structure of Austrian Government Finance in Peace and War, 1781–1791', *International History Review*, 29 (2007), pp. 22–56. This change had to some extent been anticipated by an earlier modification introduced in 1774.

23 Kahan, *The Plow, the Hammer and the Knout*, p. 339; James A. Duran, Jr, 'The Reform of Financial Administration in Russia during the Reign of Catherine II', *Canadian Slavic Studies*, 4 (1970), pp. 485–96; Richard Hellie, 'Russia, 1200–1815', in Richard Bonney, ed., *The Rise of the Fiscal State in Europe c.1200–1815* (Oxford, 1999), pp. 481–506 (at p. 496); John P. LeDonne, *Ruling Russia: Politics and Administration in the Age of Absolutism 1762–1796* (Princeton, NJ, 1984), pp. 226–65 passim.

not by available resources, but simply by the requirements of expenditure on the army. Taxation, in other words, was the levying of such sums as the high command deemed necessary.

Twenty years later the efforts to establish an Austrian budget were in reality an attempt to relate military expenditure to economic capacity. Similar initiatives were apparent all across Europe – efforts which were not always successful and could often be partial and incomplete, but were nevertheless real. They were assisted by the growing reliance in several European countries on long-term borrowing: the need to determine the scale of loans and the burden of repayments encouraged more precise calculations. The eighteenth century was a much more statistical age, where more accurate – or, rather, less inaccurate – information was sought and disseminated on a new scale. These developments in turn had implications for foreign policy. Financial calculations – even if based on inaccurate or downright misleading estimates – assumed a wholly new importance for decision-making, alongside the established dynastic, strategic and power political elements. Isaac de Pinto, in his celebrated economic treatise published in 1771, explicitly declared that the most important object in all the 'science of government' [*science politique*] was the condition of the finances, on which everything else depended.<sup>26</sup>

### III

Early modern Europe had seen very significant changes in the scale and nature of warfare, and therefore its costs, which increased sharply. This was Harrington's 'beast that hath a great belly and must be fed'. Central to the notion of the Military Revolution, which is embedded in recent historiography, is a massive numerical growth in military forces.<sup>27</sup> Although efforts to measure the increase have failed to produce any consensus, it was considerable: by the eighteenth century most European states were maintaining forces in wartime four or five times larger than two centuries earlier and, in some instances, more than that.<sup>28</sup> A peak may have been reached in the early eighteenth century, during the simultaneous War of the Spanish Succession (1701–14) and the Great Northern War (1700–21). By then, France's annual military expenditure had doubled since the Dutch War a generation before.<sup>29</sup> The decades

26 Isaac de Pinto, *Traité de la Circulation et du Crédit* (Amsterdam, 1771), pp. 138–39.

27 Geoffrey Parker, *The Military Revolution: Military Innovation and the Rise of the West, 1500–1800* (Cambridge, 1988) and Clifford J. Rogers, ed., *The Military Revolution Debate: Readings on the Military Transformation of Early Modern Europe* (Boulder, CO, San Francisco and Oxford, 1995) are the most satisfactory introductions to a debate which has continued ever since Michael Roberts first advanced the notion of a 'Military Revolution' half a century ago.

28 See Table 3:1, p. 80, in Peter Wilson, 'Warfare in the Old Regime 1648–1789', in Jeremy Black, ed., *European Warfare 1453–1815* (Basingstoke, 1999) for a valuable tabulation of relative army size.

between the 1720s and the 1780s saw significant reductions in these totals, before the new peaks of the Revolutionary and Napoleonic Wars of 1792–1815.

It was not merely that warfare was on a new scale. The armies were different in two further respects, both of which pushed up costs, sometimes quite sharply. First, they primarily consisted not of mercenary troops hired for a precise period and paid off – albeit with difficulty and at considerable expense – at the end of the fighting, but of directly recruited soldiers, many of whom remained under arms when peace was restored.<sup>30</sup> Armies, in other words, had become predominantly standing forces, permanently in existence. Second and as a corollary, governments were directly responsible for them in ways and to an extent that their predecessors had not been. These regiments were recruited, fed, clothed, equipped, housed and paid by governments, which from the mid-seventeenth century had become directly responsible for far more of their own forces. The transition was neither immediate nor complete. Europe's protean administrative structures were unable to cope completely with the resulting burdens, and states long continued to rely on noble officers to supplement their own activities, as traditional practices survived and even prospered long into the eighteenth century. The change was undeniable, however, and it was increasingly evident to contemporaries.

Military expenditure was also being forced upwards, as equipment, more extensive fortifications and the new barracks all cost significantly more. Wider economic trends also helped to drive up costs. During the eighteenth century, particularly after 1750, much of Europe experienced significant inflation, accompanied by sharp increases in population and notable economic expansion. Although these changes theoretically made it easier to collect more taxes and secure loans, one structural problem now facing many governments was that costs ran significantly ahead of their ability to raise money.

It was not, of course, simply a matter of land warfare. The Dutch Republic, the British state, France, Spain and – at the very end of the eighteenth century – Russia all operated or acquired navies of an altogether new size, demanding bases, dockyards and a level of infrastructure which even exceeded that required for armies.<sup>31</sup> The frequency and extensive duration of wars also pushed expenditure upwards. There were periods of large-scale conflict, involving several leading states, from 1689–97, 1701–14, 1739–48, 1756–63 and for almost three decades after 1787. The long eighteenth century thus saw a culmination of the trend apparent since the very beginning of the early modern period, as warfare became increasingly expensive and required far greater fiscal and administrative efforts from the governments which waged them.

Recognition of the ubiquity and new scale of warfare has led some historians, especially British and American scholars, to embrace the concept of the 'fiscal-military state' as shorthand to describe the efforts of European governments to raise

<sup>30</sup> Isaac de Pinto identified this change as crucial for the development of State borrowing: *Traité de la Circulation et du Crédit*, p. 137.

<sup>31</sup> Jan Glete, *Navies and Nations: Warships, Navies and State Building in Europe and*

resources through taxation and, to a lesser extent, loans to finance it.<sup>32</sup> The phrase itself seems have been coined by John Brewer as recently as 1989, in his celebrated study of eighteenth-century Britain's mobilization for warfare, and it was certainly popularized by him.<sup>33</sup> Brewer's use of the term was quite precise. He argued that Britain's constitutional monarchy placed it at a particular advantage: subjects who had voted taxes and guaranteed loans in parliament either directly or through their representatives were more willing to contribute to the activities of the state.<sup>34</sup> But the concept of the fiscal-military state had been widened far beyond Brewer's original intention and is now applied to absolute monarchies as well as to more constitutional states, and to the entire early modern period, in a notably indiscriminate way.

Brewer may have invented the term, but its intellectual antecedents lie much further back. In 1918 the great economist Joseph Schumpeter, with at least one eye on the economic and financial chaos at the end of the First World War, which he himself would face as Austria's short-lived finance minister in 1919–20, published a celebrated essay on 'The Crisis of the Tax-State'.<sup>35</sup> This argued that the new scale of military expenditure was the principal motor of change, that it promoted the shift from a medieval barter economy to a modern cash economy and that the rise of 'tax-states' during the early modern period fostered the growth of representative institutions able to control the level and collection of taxation, which would contribute to the subsequent emergence of democracy. Schumpeter's essay has been extremely influential, being the principal basis both of the Danish historian Ladewig Petersen's important studies of the seventeenth-century rise of the 'tax-state' and of the two substantial and informative volumes on taxation and public finance produced by the European Science Foundation project on 'The Origins of the Modern State in

<sup>32</sup> See the convenient introduction to recent scholarship by Jan Glete, *War and the State in Early Modern Europe: Spain, the Dutch Republic and Sweden as Fiscal-Military States, 1500–1660* (London, 2002), especially chs 1 and 2. There is a valuable historiographical review by Ronald G. Asch, 'Kriegsfinanzierung, Staatsbildung und ständische Ordnung in Westeuropa im 17. und 18. Jahrhundert', *Historische Zeitschrift*, 268 (1999), pp. 635–71. In what follows, no attempt is made to provide full a full bibliography on the fiscal-military state.

<sup>33</sup> J. Brewer, *The Sinews of Power: War, Money and the English State, 1688–1783* (London, 1989), especially p. 27; Lawrence Stone, ed., *An Imperial State at War: Britain from 1689 to 1815* (London, 1994) is a valuable collections of articles which develop and refine many of Brewer's ideas.

<sup>34</sup> This approach has been taken up, with uneven results, by the contributors to Philip T. Hoffman and Kathryn Norberg, eds, *Fiscal Crises, Liberty, and Representative Government 1450–1789* (Stanford, CA, 1994), and by David Stasavage, *Public Debt and the Birth of the Democratic State: France and Great Britain, 1688–1789* (Cambridge, 2003).

<sup>35</sup> 'Die Krise des Steuerstaates', originally in *Zeitfragen aus dem Gebiet der Soziologie*, 4 (1918), pp. 3–74, and most readily accessible in the same author's *Aufsätze zur Soziologie*, ed. Erich Schneider and Arthur Spiethoff (Tübingen, 1953), pp. 1–71. The contemporary resonances are most clearly evident on pp. 1ff and 32ff. Schumpeter did not invent the notion of a 'tax-state', which can be found in the writings of nineteenth-century German economic historians, but he gave it far wider currency. See also Eduard März, *Joseph Schumpeter:*

Europe', which have come to be incorporated within the intellectual umbrella of the fiscal-military state.<sup>36</sup>

These and similar studies have made clear that the Thirty Years War (1618–48) and the recurring conflicts (1667–1714) during the age of Louis XIV saw crucial developments in how wars were financed. Traditionally, rulers had relied on indirect taxes, such as customs revenues, and on income from their own landed estates to finance the normal expenditure of monarchy and government, and had requested extraordinary taxation to deal with an emergency, such as a war or a royal marriage or coronation, and then only intermittently.<sup>37</sup> The unprecedented continuity and the new scale of warfare during the seventeenth century meant that further indirect taxes and, in some states, direct taxation gradually became established as a fixed and permanent element both in rulers' incomes and in the lives of their subjects. Towards the close of the sixteenth century Giovanni Botero had noted that, over time, extraordinary taxes tended to become ordinary ones, and the next 100 years demonstrated the truth of his assertion.<sup>38</sup> Both the novelty of more or less annual tax demands and the increasing sums requested aroused political and popular resistance, but they gradually became established, particularly in western Europe.

In certain countries this regular fiscal income was used to support long-term borrowing on a wholly new scale. Rulers had always secured loans to make ends meet, but these had often been short-term arrangements at high rates of interest. During the seventeenth century the Dutch Republic led the way in using the wealth of its citizens and its own secure income from regular taxation, collected at the provincial level, to borrow at relatively low rates of interest and over the long term.<sup>39</sup> The accession of a Dutch Stadtholder to the British thrones after 1688–89 saw these financial techniques adopted in England, with the development of a funded debt underwritten by parliament.<sup>40</sup> Borrowing by other states was on a much smaller scale at this time, but during the wars of 1688–1714 France and even Austria were both forced to borrow far more extensively than before.

There is universal agreement among historians that early modern governments were driven by the new scale and enlarged demands of warfare to adopt more interventionist

36 E. Ladewig Petersen, 'From Domain State to Tax State', *Scandinavian Economic History Review*, 23 (1975), pp. 116–48, and his overlapping article, 'War, Finance and the Growth of Absolutism: Some Aspects of the European Integration of 17<sup>th</sup> Century Denmark', in G. Rystad, ed., *Europe and Scandinavia: Aspects of the Process of Integration in the 17<sup>th</sup> Century* (Lund, 1983), pp. 33–49; Richard Bonney, ed., *Economic Systems and State Finance* (Oxford, 1995) and the same author's edited volume, *The Rise of the Fiscal State*.

37 Gabriel Ardant, *Histoire de l'impôt*, 2 vols (Paris, 1971–72), vol. I, pp. 203–627; vol. II, pp. 29–242 provides a long-term perspective; cf. the same author's shorter account, 'Financial Policy and Economic Infrastructure of Modern States and Nations', in Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton, NJ, 1975), pp. 164–242.

38 G. Botero, *Reason of State* (1589), in P.J. Waley and D.P. Waley, eds, *The Reason of State: The Greatness of Cities* (London, 1956), p. 135 and, more generally, pp. 132–35; cf. Bonney, 'Revenues', in idem, ed., *Economic Systems*, p. 428.

39 M. 't Hart, J. Jonker and J. Luiten van Zanden, *A Financial History of the Netherlands* (Cambridge, 1997), ch. 2 provides a good summary

domestic policies and to seek to extract more and more resources from their subjects, an attempt which expanded the administrative infrastructures of the states themselves. Central to the notion of the fiscal-military state is the recognition that resources as such were less important than the effectiveness with which they were mobilized. This was one reason why the seventeenth-century Dutch Republic and the eighteenth-century British state were so successful internationally and were able to compete effectively with France, although the latter had substantially more demographic and economic resources than either of its competitors. International rivalry, in other words, was the principal catalyst of domestic policy, as it had always been.<sup>41</sup> In the language of Charles Tilly, this is the coercion–extraction cycle, which he sees as the fundamental development during these centuries.<sup>42</sup> Edmund Burke had made essentially the same point rather more elegantly 200 years before, in his lapidary verdict that '[r]evenue is the chief preoccupation of the state. Nay more it is the state...'.<sup>43</sup>

While in no sense questioning, far less rejecting, this approach, this chapter poses exactly the opposite question, until now neglected. It asks: what were the consequences of the fiscal-military state for the rivalries of Europe's leading powers during the long eighteenth century? How was the nature of international relations and the conduct of national foreign policies influenced, and even determined, by their expanded capacity to raise taxes and borrow money to finance wars on a new scale? It asserts, and may even assume, that the relationship between internal and foreign policies was organic, rather than linear, that domestic developments could influence and even determine international competition, as well as themselves being shaped by it, and that the two areas of state activity were mutually reinforcing. This is an unsurprising conclusion, but one that is at variance with a powerful historiographical tradition in which domestic developments and international rivalries seem almost to exist in hermetically sealed containers, so complete is the separation between the two subjects. Professor Dickson has shown an acute awareness of the importance of diplomacy in his writings, and international historians need to return the compliment.<sup>44</sup>

#### IV

The Dutch Republic had pioneered the new techniques for funding warfare through a combination of taxation and long-term borrowing, but ironically proved to be their first victim. During the later sixteenth and seventeenth centuries the Dutch Republic had become the strongest economy in Europe and a leading military and naval power.<sup>45</sup> It had sustained the long struggle for independence against Spain from the 1560s to the 1640s, fought England in three conflicts between the 1650s and 1670s,

41 For example (from numerous examples), P.K. O'Brien and P.A. Hunt, 'The Rise of a Fiscal State in England, 1485–1815', *Historical Research*, 66 (1993), pp. 129–76 (at pp. 129, 130).

42 C. Tilly, *Coercion, Capital and European States, AD 990–1990* (Oxford, 1990).

43 Quoted by O'Brien and Hunt, 'Rise of a Fiscal State in England', p. 130.

44 For example, *Financial Revolution*, p. 9; 'Count Karl von Zinzendorf's "New Accountancy"', pp. 22–23.

and then played a leading role in the anti-French struggle between 1672 and 1713. After the War of the Spanish Succession, however, it rapidly retreated into passivity and neutralism, primarily because of the massive financial problems it faced with the coming of peace.<sup>46</sup>

The wars against Louis XIV's France had seen the Dutch Republic assume the role of a major land power, with an army nominally 130,000 strong on the eve of the Peace of Utrecht; it had also given generous subsidies to allies and maintained a respectable and, at times, powerful navy. The fiscal and financial cost had been very considerable: in 1713 Simon van Slingelandt, Secretary of the Council of State, despaired that Holland was 'burdened to the point of sinking'.<sup>47</sup> Taxation had nearly doubled between 1672 and 1713 at a time when the economy was contracting and prices falling, but the sums produced were far short of those required, and the fighting had been substantially financed by further borrowing.

Holland was the leading province and traditionally had carried a far heavier share of the financial burden – around 58 per cent during the seventeenth and eighteenth centuries.<sup>48</sup> After 1713, however, it could not bear the cost of the massive loans which had financed the struggle. Its experience underlined that there was a ceiling to the level of borrowing that could be supported through taxation, particularly during a period of economic contraction and even decline. The War of the Spanish Succession alone had added 128 million guilders to Holland's debt, which stood at 310 million when peace was restored.<sup>49</sup> The province's annual tax income was insufficient to pay the interest due on these loans, and in 1715 the public treasury suspended payments for nine months, undermining the confidence of investors. These were only restored after an imposed cut in interest, which fell from 4 to 3 per cent. This restored a degree of stability, but the situation remained serious.<sup>50</sup> Holland's annual income in 1719 was 1.2 million guilders *less* than the cost of interest payments, while overall expenditure was 8.7 million guilders *more* than income.<sup>51</sup> By 1728 the annual cost of interest payments was 14.5 million guilders; half a century before the figure had been 5.7 million.<sup>52</sup> Other

46 See the exceptionally interesting analysis produced by the marquis de Fénelon, to guide M. de La Baune, who was to act as chargé d'affaires during the ambassador's absence: Louis André and Emile Bourgeois, eds, *Recueil des Instructions...Hollande, II: 1698–1730* (Paris, 1923), pp. 474–98.

47 Quoted by Jan de Vries and Ad van de Woude, *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500–1815* (Cambridge, 1997), p. 119.

48 't Hart, Jonker and van Zanden, *Financial History*, pp. 15–16.

49 De Vries and van de Woude, *The First Modern Economy*, pp. 117, 119.

50 See the illuminating discussion by J. Aalbers, 'Holland's Financial Problems (1713–1733) and the Wars against Louis XIV', in A.C. Duke and C.A. Tamse, eds, *Britain and the Netherlands*, vol. VI: *War and Society* (The Hague, 1977), pp. 79–93; cf. the same author's more extended account, *De Republiek en de vrede van Europa: De buitenlandse politiek van de Republiek der Verenigde Nederlanden na de vrede van Utrecht (1713), voornamelijk gedurende de jaren 1720–1733*, (Groningen, 1980), vol. 1, pp. 61–150.

51 Aalbers, 'Holland's Financial Problems', p. 82.

52 M. 't Hart, 'The Dutch Republic: The Urban Impact upon Politics'. in Karel Davids

provinces, particularly the landward ones, contributed less, but there, too, the situation was becoming impossible, with large loans to be serviced and further increases in taxation difficult. It was worsened first by an economic slow-down after the peace settlement, with declining rents and agricultural prices, and then by severe floods and an outbreak of cattle plague.

The armed forces were the first victims of the Republic's desperate financial plight. The nominal establishment of 130,000 on the eve of the Utrecht settlement was cut to 90,000 in 1713, 40,000 two years later, and 34,000 by 1717.<sup>53</sup> Naval expenditure, which was managed by the provincial admiralties, was also sharply reduced, and the fleet soon decayed. This was a turning point in the Republic's history. Since the 1590s it had been a prominent military and naval power, but no longer: the War of the Spanish Succession was the final European conflict in which it participated as a leading state.<sup>54</sup> These cut-backs contributed directly to the neutralist foreign policy now adopted. When Antonie Heinsius, the architect of Dutch-British co-operation during the Spanish Succession struggle, died in 1720, his successor was Isaac van Hoornbeeck, the pensionary of Rotterdam. The relatively obscure Hoornbeeck was chosen as grand pensionary in preference to the more able Slingelandt because he could be relied on to abandon the interventionist tradition of Heinsius.<sup>55</sup> The urban patriciates, who had invested so heavily in the loans which had sustained the Republic's international role, remained wealthy, but they were reluctant to see further adventures and so supported reductions in the armed forces and an international policy of neutrality. In any case, the limits of borrowing and taxation had been reached: a commission concluded in 1721 that further loans were impossible. The relative decline of the Dutch economy and the final collapse of its trading system from the 1720s confirmed that the Republic could no longer play an active European role and made any improvement very difficult. Its lack of territorial ambitions facilitated this transition, but it resulted primarily from the strains on its public finances.

The retreat into non-alignment was apparent to contemporaries, who appreciated the Republic's financial plight. Although it remained part of the international system through the earlier treaties and continued to conduct diplomacy during the generation after the peace of Utrecht, it had next to no influence on events.<sup>56</sup> The Dutch appeared able to abandon any active policy, secure behind the Barrier, a system of fortresses in the Southern Netherlands garrisoned by Austrian troops and guaranteed by international treaty, which had been established to defend their territory at the end of the War of the Spanish Succession. The underlying financial problems remained, however, and this became immediately evident when a generation of peace ended in the 1740s.

53 Jonathan Israel, *The Dutch Republic: Its Rise, Greatness and Fall, 1477–1806* (Oxford, 1995), pp. 985, 988. The effective strength was probably 28,000–29,000: Aalbers, *De Republiek en de vrede van Europa*, p. 303.

54 Cf. Israel, *Dutch Republic*, p. 960.

55 *Ibid.*, p. 989.

56 Aalbers, *De Republiek en de vrede van Europa*; Hugh Dunthorne, *The Maritime*

The Republic was inevitably drawn into the wider European struggle over the Austrian succession, paying subsidies to Vienna for the defence of the Southern Netherlands and being forced once again to increase its military establishment, which by 1743 had reached 84,000.<sup>57</sup> However, its powerlessness became apparent as soon as French armies under the maréchal de Saxe menaced Dutch territory. Although the Stadtholderate was restored in 1747, the Republic was now prostrate and bankrupt, as the new Stadtholder William IV (1747–50) freely admitted.<sup>58</sup> In the early 1750s interest payments were again temporarily suspended, and the financial position was more serious than ever.<sup>59</sup> The Republic declared itself neutral in the European Seven Years War (1756–63) and thereafter played a minor international role.<sup>60</sup> Although the second half of the eighteenth century saw some reduction in the country's debt, the 1780s and 1790s saw a further and serious deterioration. One figure graphically expressed the insoluble financial problems which had destroyed the Republic's international role: by 1806 interest payments consumed 41 per cent of annual income, a tenfold increase since the 1640s when the comparable figure had been around 4 per cent.<sup>61</sup>

## V

Dutch non-alignment after the Peace of Utrecht reflected its distinctive problems of financial overcommitment, fiscal exhaustion and – eventually – economic decline, but it was an extreme example of a more general trend. During the next generation the foreign policies of all the major states were influenced, and at times determined, by the financial legacies of the Spanish succession struggle and its predecessor, the Nine Years War (1688–97). The wars of 1688–1714 had seen 'unprecedented' levels of expenditure, accompanied by the appearance of new methods of finance, sometimes involving long-term borrowing, and these had an enduring impact.<sup>62</sup> Britain's

<sup>57</sup> Israel, *Dutch Republic*, p. 996.

<sup>58</sup> To Charles Bentinck, 12 March 1748 [OS], in Th. Bussemaker, ed., *Archives ou Correspondance Inédite de la Maison d'Orange-Nassau*, 4th series, 4 vols (Leiden, 1908–14), vol. I, pp. 156–59; cf. the formal 'Instructions' to Charles Bentinck, 28 Feb. 1748 [OS], in *ibid.*, vol. I, pp. 152–56, especially pp. 155–56.

<sup>59</sup> See, in particular, [W. Bentinck], 'Exposé du triste état de la République par le trésorier-général Hop' (incorporating Hop's lamentations during an extended conversation with Bentinck), after 17 April 1755 [OS], *Archives...Orange-Nassau*, 4th series, vol. II, pp. 522–25.

<sup>60</sup> See the 'Instructions' for the comte d'Affry, 22 November 1755 [OS], in André and Bourgeois, eds, *Recueil des Instructions...Hollande*, III, pp. 242–47; cf. Alice Clare Carter, *The Dutch Republic in Europe in the Seven Years War* (London, 1971).

<sup>61</sup> M. 't Hart, 'The United Provinces, 1579–1806', in Bonney, ed., *The Rise of the Fiscal State*, pp. 309–26 (at p. 311).

<sup>62</sup> P.G.M. Dickson and John Sperling, 'War Finance, 1689–1714', in J.S. Bromley, ed., *The New Cambridge Modern History*, vol. VI: *The Rise of Great Britain and Russia, 1688–1725* (Cambridge, 1970), pp. 284–315, especially pp. 285, 313; in the 1780s the survey in the

funded public debt, for example, had risen from £16.7 million in 1697, itself a vast increase on the figure before 1688, to over £40 million by autumn 1714 and over £50 million by 1720, the year of the financial crash of the South Sea Bubble.<sup>63</sup> The following two decades saw significant reductions in the level of debt, accompanied by a strongly pacific foreign policy during the ministry of Sir Robert Walpole.<sup>64</sup> These had their counterparts on the other side of the Channel, where peace abroad was sought because of the kingdom's exhaustion after Louis XIV's wars.<sup>65</sup> France, too, had had its financial crash caused by John Law's Mississippi venture, although the problems were more serious and deeply rooted. By 1720 its borrowing stood at 1700 million livres, even after the forcible reduction of paper debts.<sup>66</sup> The long ascendancy of Cardinal Fleury (1726–43) – which resembles Walpole's ministry in so many ways – was initially characterized by a concentration on financial and economic recovery at home, rather than on an active European policy.<sup>67</sup>

Identical priorities were apparent in Austria. Finance had always been the Habsburg Monarchy's Achilles' heel, and this was certainly true during this period.<sup>68</sup> The distinctive political structure of the Monarchy, the limited effectiveness of central government in Vienna, and the enduring power of the estates in many of the Habsburg territories limited what could be raised by taxation. Many assemblies controlled both the level and the collection of taxes, which could only be raised with difficulty and after extensive negotiation. As a result, the Habsburg dynasty had increasingly been forced to borrow in order to fund warfare.<sup>69</sup> This borrowing had been distinctive in one respect: it was primarily domestic, from its own courtiers and nobility and from Jewish financiers. The wars of 1688–1714, together with Austria's parallel struggle with the Ottoman Empire between 1683 and 1699 and again in 1716–18, had pushed up expenditure and, with it, borrowing to new levels, and the post-Utrecht period saw

<sup>63</sup> Brewer, *Sinews of War*, p. 114; Dickson, *Financial Revolution*, p. 80.

<sup>64</sup> The best account is Dickson, *Financial Revolution*, chs 7–9.

<sup>65</sup> See the 'Instructions' for the comte de Morville, 18 May 1718, André and Bourgeois, ed., *Recueil des Instructions...Hollande*, II, pp. 389–90.

<sup>66</sup> Bonney, 'France, 1494–1815', p. 147.

<sup>67</sup> See Arthur McCandless Wilson, *French Foreign Policy during the Administration of Cardinal Fleury, 1726–1743* (Cambridge, MA, 1936), especially chs 1–2.

<sup>68</sup> There is an illuminating and well-informed analysis of the 'grands dérangements dans ses [sic: Charles VI's] finances', and how this is a structural problem which recent Habsburg gains have accentuated, in the 'Instructions' for the duc de Richelieu, 28 March 1725: see Albert Sorel, ed., *Recueil des Instructions...Autriche* (Paris, 1884), p. 208. Mensi, *Die Finanzen Österreichs*, contains much valuable detail on Vienna's financial problems and efforts to solve them; see also J.W. Stoye, 'Emperor Charles VI: The Early Years of the Reign', *Transactions of the Royal Historical Society*, 5th series 12 (1962), pp. 63–84, especially pp. 63–72, and the recent article by William D. Godsey, Jr, 'Stände, Militärwesen und Staatsbildung in Österreich zwischen Dreissigjährigen Krieg und Maria Theresia', in Gerhard Ammerer, William D. Godsey, Jr, Martin Scheutz, Krieger Urbanitsch and Alfred Stefan Weiss, eds, *Bündnispartner und Konkurrenten der Landesfürsten? Die Stände in der Habsburgermonarchie* (Vienna-Munich, 2007), pp. 233–67.

<sup>69</sup> For the financial system in the seventeenth century, see the illuminating study by

efforts at financial retrenchment.<sup>70</sup> These achieved far less than had been anticipated. When Austria began renewed warfare in the 1730s, fighting first over the Polish succession and then against the Ottomans, its financial problems remained as chronic as ever. The debt quadrupled between 1700 and 1740, by which point it stood at 100 million florins, at a time when annual revenue was around 22 million. In 1729 the cost of servicing this debt was already some 27 per cent of annual expenditure.<sup>71</sup>

The financial difficulties and domestic priorities of Europe's leading states after 1713–14 gave a subdued tone to international relations during the next generation.<sup>72</sup> Other, sometimes related, factors pointed in exactly the same direction. Ships and dockyards had to be repaired and rebuilt, new soldiers recruited and trained – tasks which were even more difficult to accomplish during a period of severe retrenchment. The widespread financial problems were a symptom of a wider exhaustion and war-weariness, while the fact that many of the individuals who controlled foreign policy after Utrecht had themselves lived through the long years of warfare contributed to the widespread caution and even pacifism evident at this time.<sup>73</sup> The dynastic uncertainties apparent in each of Europe's leading monarchies reinforced the general search for peace. A new dynasty had assumed the throne in the British Isles in 1714 in the person of the Hanoverian elector who now became George I (r. 1714–27); the failure of Charles VI (r. 1711–40) to produce a male heir posed the problem of succession both to the Monarchy itself and, even more fundamentally, to the Holy Roman Empire; while the sickly Louis XV (r. 1715–74) had been five when his great-grandfather Louis XIV died, necessitating a regency in France until the mid-1720s. But it was primarily efforts to deal with soaring deficits and promote economic expansion to boost fiscal revenues that made governments all across Europe anxious to avoid further fighting during the generation after the Spanish succession conflict.<sup>74</sup> It was instructive that all the belligerents suffered serious financial problems in the early years of peace, and three of them experienced a full-scale crisis: the suspension of interest payments in the Dutch Republic, the South Sea Bubble in England and the collapse of John Law's Mississippi scheme in France.

This pattern was to continue down to 1815 and beyond and largely determined the broader shape of eighteenth-century international relations. Phases of intensive and costly fighting – 1688–1713/14, 1739–63, 1787–1815 – were followed by extended periods of general peace, when the financial and material legacies of the recent fighting

70 The Habsburg predicament is evident from the Table of War Costs, 1702–1733, in Hochedlinger, *Austria's Wars of Emergence*, p. 233; see, more generally, Mensi, *Der Finanzen Österreichs*, pp. 62–178, 340–423, and 663–704 passim.

71 Hochedlinger, *Austria's Wars of Emergence*, p. 233; Dickson, *Finance and Government*, vol. II, p. 6.

72 Cf. Dickson and Sperling, 'War Finance, 1689–1714', p. 313. There are surveys of these decades by Lucien Bély, *Les relations internationales en Europe XVIIe–XVIIIe siècles* (Paris, 1992), pp. 434–84; Jeremy Black, *European International Relations 1648–1815* (London, 2002), pp. 103–58; and Derek McKay and H.M. Scott, *The Rise of the Great Powers, 1648–1815* (London, 1983), pp. 94–159.

73 Robert Walpole is a very good example: see Dickson, *Financial Revolution*, p. 200.

74 For example, Paul Vankar and Paul Vankar, 'The Financial Revolution of 1713–14', p. 100.

were governments' main priorities. There was no general war involving more than two European Great Powers between 1714 and 1741, or between 1763 and 1792, although both periods did see important bilateral conflicts. Exhaustion produced periods of peace, as it would do once again after 1815. The more detailed awareness of the financial legacies of the fighting, a consequence of the fiscal-military state, was one important source of this. Yet retrenchment seldom produced the desired improvement in the financial situation. The Seven Years War (1756–63) provides a particularly clear demonstration of this.<sup>75</sup> The fighting overseas, and particularly in Europe, far eclipsed the most recent conflict, that over the Austrian succession (1740–48) and seems to have cost approximately twice as much as the earlier conflict.<sup>76</sup> The leading figure in the continental war, Prussia's King Frederick the Great, explicitly declared that general financial exhaustion was the main reason for the fighting to end, for the rapid conclusion of the peace settlement at Hubertusburg, and for the peaceful international scene which followed.<sup>77</sup>

This verdict is borne out by the only two continental states whose finances have received scholarly study: Austria and France. The consequences for both were massive and enduring. The Austrian war effort was primarily funded by borrowing, and the state debt rose from 113 million florins to 285 million florins, seven or eight times annual revenue and 150 per cent more than the pre-war total. Rigorous financial retrenchment, accompanied by the continuation of wartime levels of taxation after 1763, contributed significantly to the peaceful foreign policy pursued for the next decade and more. The significant reduction of the debt, which these measures achieved by the mid-1770s, was undermined by the War of the Bavarian Succession (1778–79), which once again pushed up the level of borrowing.<sup>78</sup> These financial priorities and a desire to promote economic development were also behind the novel concentration on domestic reform after the Seven Years War.

The impact on France was even greater. Choiseul, until the final weeks of his ministry in 1770, acknowledged that the financial costs of the Seven Years War demanded peace at almost any price, and pursued a very moderate line in a series of colonial disputes with Britain. The fighting had been funded very substantially by borrowing, and by the later 1760s the debt was estimated to be at least 2,000 million livres, six times the Crown's annual revenue.<sup>79</sup> By that point repayment charges

75 H.M. Scott, *The Emergence of the Eastern Powers, 1756–1775* (Cambridge, 2001), pp. 68–100 and passim.

76 Scott, *Eastern Powers*, pp. 69, 74.

77 See his *Histoire de la Guerre de Sept Ans* (2 vols.; Berlin, 1847), ii.218, 233; cf. the king's 'Mémoires depuis la paix de Hubertusburg, 1763, jusqu'à la fin du Partage de la Pologne, 1775', in *Oeuvres Historiques* (Berlin, 1847), pp. 9, 73–90 passim. (These are vols 4, 5 and 6 in the standard edition of the *Oeuvres de Frédéric le Grand*, ed. J.D.E. Preuss, 30 vols in 10 vols edn (Berlin, 1847)).

78 The authority for this is Dickson, *Finance and Government*, especially vol. II.

79 James C. Riley, *The Seven Years War and the Old Regime in France: The Economic and Financial Toll* (Princeton, NJ, 1986), pp. 182–84; Joël Félix, *Finances et politique au siècle des Lumières: Le ministère L'Averdy, 1763–1768* (Paris, 1999), especially parts two

were consuming around 60 per cent of the monarchy's annual revenue, double that in 1753. The methods through which French officials had funded the Seven Years War, like all eighteenth-century conflicts, increased the problems when peace was restored. In order to fund necessary expenditures widespread use had been made of unofficial short-term credit of all kinds, with annual interest on the sum owed until it was repaid and the promise of full repayment when the fighting ended.<sup>80</sup> This was done to iron out blips in the arrival of revenue during the fiscal year, but it also created a serious need for ready cash when peace was restored. The short-term debt which resulted from such practices was substantial and it, too, was a priority. Only in November 1763 did the naval department begin calculating its debts to contractors from 1754–57; in 1765 it did so for 1758 and 1759. Repayment was another matter entirely. The international passivity of both France and its ally, Austria, after the Seven Years War, and their reduced role within an international system dominated by Russia and Britain, were rooted in the financial legacies of that struggle.

Yet some of the more extreme fears about the potential impact on international relations proved exaggerated. The anxieties expressed after the Seven Years War by the noted French military reformer, the comte de Guibert to the effect that the scale of borrowing would lead to a crisis in the Great Power system, proved to be unfounded.<sup>81</sup> A generation earlier, David Hume had written graphically, in his celebrated essay 'Of Public Credit' (1752), that 'when [he saw] princes and states fighting and quarrelling, amidst their debts, funds and public mortgages, it always brings to my mind a match of cudgel-playing fought in a china shop', but his anxieties – like those of Guibert – were not to be realized.<sup>82</sup> The fiscal-military state did as much to limit the duration of wars as to prolong them during the long eighteenth century, which was less bellicose than the preceding century.

## VI

The eclipse of the Dutch Republic also made clear that international success and failure were linked more closely than hitherto not only to the level of resources available, but also to a government's capacity to mobilize these to support an active external policy. The Republic's relatively small population – never more than 2 million during its seventeenth-century heyday – always set limits to its international role, and its eclipse

80 See T.J.A. Le Goff, 'How to Finance an Eighteenth-century War', in Mark Ormrod, Margaret Bonney and Richard Bonney, eds, *Crises, Revolutions and Self-sustained Economic Growth: Essays in European Fiscal History, 1130–1830* (Stamford, 1999), pp. 377–413.

81 Michael Sonenscher, 'The Nation's Debt and the Birth of the Modern Republic: The French Fiscal Deficit and the Politics of the Revolution of 1789', *History of Political Thought*, 18 (1997), pp. 64–103 and 267–325 (at p. 85). The implications of large-scale borrowing for the social and political fabric of countries were an important eighteenth-century theme, illuminated by Dr Sonenscher's major article and now developed in an important book: *Before the Deluge: Public Debt, Inequality, and the Intellectual Origins of the French Revolution* (Princeton, NJ, 2007).

82 David Hume, *Selected Essays*, ed. Stephen Coulson and Andrew Dawson (Oxford, 1999),

after 1713–14 simply made this apparent. Central to the idea of the fiscal-military state was the recognition that international power rested on the ability to extract resources, rather than the level of resources per se.<sup>83</sup> Here, the contrast between the Bourbon and Austrian Habsburg regimes is instructive. France was certainly more populous and its economy more advanced, but not to the extent that would account for the plausible estimate that in the later seventeenth century its monarch enjoyed around five times the fiscal income of his counterpart in Vienna.<sup>84</sup> While the precision of this calculation can be questioned, its underlying import is undoubtedly correct: Louis XIV's regime could mobilize far more of its available resources.

The size of a country's population and the extent to which its economy had developed, however, were clearly significant, as eighteenth-century assessments of political power recognized. These decades saw the appearance of a more precise analysis of relative power, especially in central Europe, and the ideas behind the fiscal-military state were fundamental to it.<sup>85</sup> Cameralist writers such as Johann Heinrich Gottlieb von Justi and Jakob Friedrich von Bielfeld fully elaborated this approach during the 1750s in a series of writings.<sup>86</sup> It combined an older Cameralist tradition, which assumed that a government could pursue policies that would enhance a country's economic well-being and thus its own revenues through taxation, with the writings of English theorists such as William Petty and Charles Davenant and the ideas set out in Montesquieu's *De l'Esprit des Loix* (1748), the key work of the European Enlightenment. This synthesis enabled them to measure power, both of individual states and relative to competitors and potential allies. These measurements were made with rather greater precision than in the past and took account of the available economic, demographic and even geographical resources in order to calculate a country's political potential. This in turn depended on the simultaneous emergence of a distinctively German science of political geography, based on the collection of statistics (*Staatenkunde*). Assembling reliable figures facilitated calculations of relative international strength.

Both Bielfeld and Justi – exactly like the earlier authors to whom they were indebted – emphasized the centrality of economics to assessments of power. They also made clear that a state's international standing ultimately rested on internal strength, coherence and organization. Such assessments were qualitative as well as quantitative.<sup>87</sup> The scale and efficiency of government, the exploitation of natural

83 See Glete, *War and the State*, pp. 2, 126 for the importance of organization.

84 Ardant, 'Financial Policy and Economic Infrastructure', p. 208.

85 There is a notable study by Harm Klueting, *Die Lehre von der Macht der Staaten: das aussenpolitische Machtproblem in der 'politischen Wissenschaft' und in der praktischen Politik im 18. Jahrhundert* (Berlin, 1986), which should be read in the light of the major review by Grete Klingenstein in *English Historical Review*, 103 (1988), pp. 134–38.

86 Bielfeld, *Institutions Politiques* (1767–72 ed.), ii.496–583, set out their basic approach.

87 See the overlapping discussions in the article 'Puissance' in Denis Diderot and Jean Le Rond d'Alembert, *Encyclopédie, ou Dictionnaire raisonné* (17 vols.; Paris, 1751–65), xiii.556–57, J.H.G. von Justi, *Die Chimäre des Gleichgewichts von Europa* (Altona,

resources and even the moral condition of a ruler's subjects were all important elements in this calculation. These ideas had an undoubted impact on practical statecraft and influenced many of the leading figures of the age: rulers and statesmen such as Prussia's King Frederick the Great, one of his leading advisers, Ewald Friedrich Graf von Hertzberg (who became even more influential under his successor, Frederick William II), and the Austrian Chancellor Wenzel Anton von Kaunitz.<sup>88</sup> Although the Cameralists were most explicit in articulating these ideas, the notion that sound finances were the foundation of political power was a commonplace of the Enlightenment and of earlier authors, as well as being central to the ideas which underpin the fiscal-military state.<sup>89</sup>

In this perspective, states located along Europe's Atlantic coastline, with their ease of access to Europe's most dynamic economic sector, were at a considerable advantage, as Cameralist writers recognized. This was especially true of the British state which had emerged during the wars of 1688–1714 and whose spectacular success down to 1815 and beyond was made possible by notable economic expansion and by its government's remarkable efficiency in extracting resources. Its effectiveness is exemplified by Patrick O'Brien's calculation that between 1665 and 1790 the government increased tax income no less than sevenfold in real terms and fourfold as a proportion of national income.<sup>90</sup> The income sustained a system of long-term borrowing at relatively low interest rates, which gave Britain a distinct advantage over all her political rivals, as contemporaries were fully aware.<sup>91</sup> This was particularly evident to France, where, after the Seven Years War, there was a detailed study of the British credit system, described by a French financial expert as 'one of

88 Frederick's Political Testaments of 1752 and 1768 demonstrated this influence: they are printed in Richard Dietrich, ed., *Die politischen Testamente der Hohenzollern* (Berlin, 1986), pp. 253–695. Hertzberg's indebtedness to it is apparent from his 1782 lecture to the Berlin Academy, *Réflexions sur la force des États et sur leur Puissance relative et proportionnelle, which is printed in his Huit dissertations... lues dans les assemblées publiques de l'Académie Royale des Sciences et Belles Lettres de Berlin, tenues pour l'anniversaire du roi Frédéric dans les années 1780–1787* (Berlin, 1787); for Kaunitz, see the excellent study by Lothar Schilling, *Kaunitz und das Renversement des alliances: Studien zur aussenpolitischen Konzeption Wenzel Antons von Kaunitz* (Berlin, 1994), especially part III.

89 Such an approach runs through Vergennes' 'Mémoire' of March 1784, with its recognition that international power depends on well-ordered finances: this is printed in L.P. comte de Ségur, ed., *Politique de tous les cabinets de l'Europe pendant les règnes de Louis XV et de Louis XVI*, 3 vols (Paris, 1802), vol. III, pp. 196–219, especially p. 216; cf. Dietrich, ed., *Die politischen Testamente*, pp. 258, 260, 400, 464, for Frederick the Great's identical approach.

90 See, in particular, O'Brien and Hunt, 'Rise of a Fiscal State'; Patrick O'Brien, 'The Political Economy of British Taxation, 1660–1815', *Economic History Review*, 2nd series 41 (1988), pp. 1–32; cf. Richard Bonney, 'Towards the Comparative Fiscal History of Britain and France during the "Long" Eighteenth Century', in Leandro Prados de la Escosura, ed., *Exceptionalism and Industrialisation: Britain and its European Rivals, 1688–1815* (Cambridge, 2004), pp. 191–215 (at p. 191).

the wonders of the world'.<sup>92</sup> The British national debt rose from less than £2 million before 1688 to £834 million in the reign of George IV, but despite recurring anxieties about the level of borrowing, particularly after periods of warfare, this immense increase was comfortably managed – with parliament's important backing, along with the financial muscle of the City of London – until the end of the Napoleonic Wars and beyond.<sup>93</sup> The contrast with France was striking and was exemplified by the estimate that the per capita debt burden was 15 times higher in Britain than on the other side of the Channel.<sup>94</sup> Yet the cost of servicing this borrowing was double in France (7.5 per cent of annual national income as against 3.8 per cent), even though the debt itself was far smaller: 56 per cent of French national income compared with 182 per cent in Britain.<sup>95</sup>

Britain enjoyed plentiful and relatively cheap credit throughout her eighteenth-century struggle with France and its allies. Thirty per cent of the costs of warfare were consistently met through such borrowing, and in the Seven Years War this figure approached 40 per cent. Only from the 1790s did it fall below 30 per cent.<sup>96</sup> This structural advantage was why eighteenth-century Britain was able to be so bellicose and to fight for such extended periods. Counting the long eighteenth century as the decades from 1688 to 1815, the British state was at war for over half of this time: about 70 years out of 127. No other contemporary state, with the single exception of its great rival, France, approaches this total. By contrast, eighteenth-century Prussia, which unfairly enjoys a reputation for aggressive militarism, was fighting for a little more than one-fifth of this period.<sup>97</sup> The Hohenzollern Monarchy was undoubtedly a successful fiscal-military state – or rather a military-fiscal one<sup>98</sup> – but until the 1790s it was also a power which sought to avoid warfare, and did so with some success.<sup>99</sup>

Financial strength was crucial at a time when states' economic resilience determined their armed struggles. One major consequence of the fiscal-military state was that warfare became at least as much of a financial struggle as a military and naval one. In 1695, during the Nine Years War, the English pamphleteer Charles Davenant had declared that '[w]henever this war ceases, it will not be for want of mutual hatred in the opposite parties, nor for want of men to fight the quarrel, but that side must first give out where money is first failing'.<sup>100</sup> His verdict applies to all

92 Quoted by Robert D. Harris, 'French Finances and the American War', *Journal of Modern History*, 48 (1976), pp. 233–58 (at p. 243).

93 O'Brien and Hunt, 'Rise of a Fiscal State in England', p. 134.

94 See the figures given by Bonney, 'Revenues', in *Economic Systems and State Finance*, p. 382.

95 David R. Weir, 'Tontines, Public Finance, and Revolution in France and England, 1688–1789', *Journal of Economic History*, 49 (1989), pp. 95–124, especially Table I, p. 98.

96 Dickson, *Financial Revolution*, p. 10. This fall was due to Pitt's introduction of income tax in 1799: see below at p. 53.

97 This total would rise if wars to which Prussia sent contingents of soldiers in return for subsidies, but did not fight as a principal, were to be included, but the basic point remains valid.

98 See below, n. 48, for this distinction.

the major wars of the long eighteenth century.<sup>101</sup> Eight decades later, during a very different conflict, the War of American Independence (1775–83), it was to be echoed both in London and at Versailles. George III declared that ‘this war, like the last, will prove one of credit’, while France’s foreign minister, the comte de Vergennes, concurred, styling it a ‘*guerre d’écus*’.<sup>102</sup> Financial preparedness – or the lack of it – also became an indication of the belligerent intentions of other states.<sup>103</sup> This was why, during the second half of his reign, when peace was Prussia’s greatest priority, Frederick the Great took such pains to assemble information on the credit rating of rivals and potential enemies on the Amsterdam money market.<sup>104</sup>

The advantages which Britain enjoyed through its access to low-interest loans and its own notable economic development become even clearer when compared to France, its great rival during the ‘Second Hundred Years War’ (1689–1815). The French monarchy had a population almost three times that of Britain and also possessed a flourishing agrarian economy with fast-developing commercial and manufacturing sectors, making it clearly the continent’s leading economic power – one that was possibly developing more rapidly than Britain during the eighteenth century. Unfortunately, its fiscal system was much less effective in extracting these resources, while its capacity to borrow at low interest rates over the long term was significantly less than its rival. There was a political and financial reason why France always had to borrow at higher interest rates. Its established reputation as a state which had a notably inelastic fiscal system and had defaulted on interest payments made credit expensive, as did its preference for self-amortizing loans – that is, loans which paid back capital as well as interest – in contrast to the sinking fund favoured by Britain. France’s growing financial problems and the scale and political repercussions of its mounting burden of debt are part of the wider question of why the Bourbon Monarchy collapsed at the end of the 1780s.<sup>105</sup> By 1788 the costs of servicing this debt were absorbing almost 62 per cent of the Crown’s tax revenues and amounted

101 See Fernand Calmettes, ed., *Mémoires du duc de Choiseul 1719–1785* (Paris, 1904), p. 393 for an identical verdict on the outcome of the Seven Years War, from the duc’s ‘Mémoire au Roi’ of 1765.

102 See H.M. Scott, *British Foreign Policy in the Age of the American Revolution* (Oxford, 1990), p. 311 for both quotations.

103 See, for example, the ‘Instructions’ for the Marquis d’Hautefort, 14 September 1750, in Sorel, ed., *Recueil... Autriche*, pp. 316–17 for an explicit recognition of the extent to which financial factors now determined policy.

104 H.T. Colenbrander, ed., *Dépêches van Thulemeyer 1763–1788* (‘Werken uitgegeven door het Historisch Genootschap’, 3rd series (Amsterdam, 1912), vol. 30, pp. 132, 173, 192, 213, 244, 278–79, 283–84, 294, 296).

105 For an excellent introduction by the leading authority on eighteenth-century French finances, see Joël Félix, ‘The Financial Origins of the French Revolution’, in Peter R. Campbell, ed., *The Origins of the French Revolution* (Basingstoke, 2006), pp. 35–62 and 311–13. See also Weir, ‘Tontines, Public Finance and Revolution’; and Francis R. Velde and David R. Weir, ‘The Financial Market and Government Debt Policy in France, 1746–

to almost half (49.3 per cent) of its expenditure.<sup>106</sup> One specific consequence was the collapse of French foreign policy in 1787 over the Dutch crisis.<sup>107</sup> Here there is only space to point to the wider international repercussions of repayments on this scale.

Two particular consequences can be identified. The first is that, in many eighteenth-century wars, Britain’s superior staying power forced France to the negotiating table first, as it did at Aix-la-Chapelle (1748), Paris (1763) and even Versailles (1783), and contributed significantly to the contours of the final settlement. Britain had its own financial problems in all these conflicts, but France’s were always far more serious. Both governments’ awareness of Britain’s clear advantage in funding wars influenced the diplomacy of peacemaking, as it did very clearly during the War of American Independence. In 1780–81 France’s severe financial problems inspired Jacques Necker, who was effectively in charge of government finances, unsuccessfully to approach London – behind the back of the foreign minister, Vergennes – to suggest a compromise peace. Both then and in 1782–83, when peace was negotiated, Britain’s greater financial resilience was important. The state of French and, even more, Spanish finances contributed significantly to the final treaty.<sup>108</sup> The impact of chronic financial weakness on France’s European role had long concerned French observers. In the early months of Louis XVI’s reign (1774–93), the comte de Broglie, director of the *secret* (the private foreign policy established and operated by Louis XV), had frankly told the new king that, without real financial recovery, France’s international decline, apparent since the Seven Years War, would not be halted.<sup>109</sup> Strategic factors and questions of morale and resilience were part of the political equation, but financial and material exhaustion contributed most of all.

This was also decisive in a second area – that of maritime rivalry. During the long eighteenth century growing competition with the British state added a naval and colonial dimension to France’s established continental preoccupations. Anglo-French and – after the accession of the Bourbons in Spain at the beginning of the eighteenth century – Anglo-Spanish rivalry made navies crucial. Once again, France, like Spain, was at a significant disadvantage, unable to compete effectively at sea for most of this period. The capital costs of becoming and remaining a naval power were very high – far greater than maintaining a powerful army.<sup>110</sup> Navies needed dockyards and other expensive infrastructure on land, while vessels had a limited lifespan, calculated by French experts in the mid-eighteenth century at around 12 years. Building and repairing ‘ships of the line’ was capital-intensive, timber and other naval stores had to be purchased, frequently abroad at hefty premiums, while shipbuilding was a

106 Weir, ‘Tontines, Public Finance and Revolution’, Table I, p. 98; Richard Bonney, ‘What’s New about the New French Fiscal History?’, *Journal of Modern History*, 70 (1998), pp. 639–67 (at p. 640), citing the calculation of Frédéric Braesch.

107 See above, pp. 25–26.

108 Andrew Stockley, *Britain and France at the Birth of America: The European Powers and the Peace Negotiations of 1782–83* (Exeter, 2001), pp. 14–15, 88–91.

109 See his ‘Mémoire’ of 1 March 1775, printed in Ségur, ed., *Politique de tous les cabinets*, vol. I, pp. 183–202 (at pp. 195–96).

110 See the notably thoughtful survey by Daniel A. Baugh, ‘Naval Power: What Gave the

specialized trade commanding relatively high wages. France, moreover, was forced to create a fighting navy almost from scratch: traditionally, it had been a land power which had put resources into the army, but after Utrecht it was forced to build a fleet capable of competing with its British rival. The two greatest requirements were money and manpower to crew the fleet, and these were never reliably available.

The resulting problems were particularly apparent during the Seven Years War, when the French fleet was first weakened by economies in 1758 and then, after a full-scale financial crisis in autumn 1759, completely disabled for the rest of the conflict by a shortage of money.<sup>111</sup> The scale of these difficulties is apparent from the cuts made in the naval budget for 1760. In the previous year this had stood at almost 57 million livres, but for the next campaign Berryer, the naval minister, requested 40 million, was given authorization to spend only 30 million and actually received less than 24 million, representing little more than 40 per cent of expenditure in 1759 – a salutary reminder that allocations were often not paid in full, or anything like it. And, in any case, over half of this reduced sum was required to settle bills from the previous year.<sup>112</sup>

The eighteenth century saw sustained, though intermittent, efforts to build up the French fleet, and collectively these enjoyed a considerable degree of success.<sup>113</sup> Yet the targets always proved overoptimistic and less – sometimes much less – was achieved than was necessary to mount an effective challenge to the British fleet, which was itself growing steadily and, at times, spectacularly. The relative failure of French naval reconstruction owed much to a shortage of the necessary funds. The vigorous efforts by the duc de Choiseul, leading minister from 1758 to 1770, to rebuild the fleet after the Seven Years War were a case in point. These achieved some success, but were undertaken against a background of a large and seemingly permanent peacetime deficit and inevitable financial stringency.<sup>114</sup> The correspondence of French naval intendants at this time is dominated by pleas for the necessary funds and thinly veiled complaints when money was not provided.<sup>115</sup>

111 See the financial minister's graphic account: 'Mémoire sur la situation des Finances, lu et présenté au conseil du roi par M. de Silhouette, en 1759', printed in Charles Joseph Mathon de la Cour, ed., *Collection de Comptes-Rendus, Pièces Authentiques, États et Tableaux, concernant les Finances de France depuis 1758 jusqu'en 1787* (1787; 2nd edn, Lausanne-Paris, 1788), pp. 29–45; cf. James C. Pritchard, *Louis XV's Navy 1748–1762: A Study of Organization and Administration* (Montreal, 1987) for the endemic financial problems; also Jonathan C. Dull, *The French Navy and the Seven Years' War* (Lincoln, NB, 2005), pp. 172–75, 212–15, 224–26 for the impact on operational capacity in the final campaigns.

112 Figures from Dull, *French Navy*, p. 170.

113 This is evident from Diagram 23:1 in Glete, *Navies and Nations*, vol. I, pp. 285. The main periods of construction were the 1720s, the late 1730s and early 1740s, the period after 1749, the 1760s, the years after 1776 and the decade after 1783.

114 As were the parallel efforts to restore French military power: see his 'Mémoire au Roi', in Calmettes, ed., *Mémoires de Choiseul*, pp. 395–97. There is much financial information in the two 'Memoirs' which Choiseul produced in 1770 in a vain attempt to retain power: *ibid.*, pp. 243–68.

Although other factors contributed, the monarchy's financial problems are the principal explanation for the inability of eighteenth-century France to create a fleet capable – in partnership with the Spanish navy – of challenging Britain at sea. The one point when it did – the decade after 1783, when France 'won' what contemporaries recognized to be a naval race – involved a financial effort which contributed to the monarchy's collapse. Britain, too, experienced financial problems in keeping her fleet in good repair, particularly in the 1760s, but these paled into insignificance compared with her main rival.<sup>116</sup>

Spain – a French ally throughout much of this period – also had serious financial problems, exacerbated by the widely dispersed and poorly administered colonial empire which its new Bourbon rulers had to defend against its dynamic British rival. This militated against effective Spanish support to France. Yet in his celebrated, if overdrawn, analysis of international power penned in November 1760, Choiseul included Spain and, even more remarkably, the Dutch Republic among the continent's leading states:

Colonies, commerce and the maritime power which accrues from them [he wrote] will decide the balance of power upon the continent. Austria, Russia and the King of Prussia are only second class powers, like all others who can make war only when they are subsidised by the commercial powers, which are France, England, Spain and Holland.<sup>117</sup>

His comments – which were endorsed by other contemporaries – highlighted the importance of colonial possessions, as sources of raw materials and as captive markets, and their empires were undoubtedly one source of the prosperity of the leading states along Europe's Atlantic coastline. They also underestimated the extent to which resources could be extracted from a state's subjects in forms other than taxation. In the more advanced commercial societies of western Europe, governments taxed and borrowed. In northern, central and eastern Europe, however, smaller amounts could be raised through the fiscal system within less commercialized and so less advanced economies. Instead, men, to serve as conscript soldiers, and grain and animals, to feed and transport the army, were extracted systematically and constituted a larger proportion of state revenues.

Russia and Prussia led the way, finalizing systems of territorially-based recruitment in 1705 and 1733 respectively. One inspiration for this was Sweden, where Charles XI after 1680 had introduced the celebrated *Indelningsverket* ('allotment system'); another, more distant inspiration was Ancient Rome's military colonies. Although Russian recruitment in particular was notably inefficient, both it and the Prussian cantonal system ensured a steady supply of recruits and were the envy of their rivals. These systems were the principal foundation of both states' military emergence and enhanced roles within the eighteenth-century European states system. A similar

116 The importance of superior finance emerges very clearly from N.A.M. Rodger, *The Command of the Ocean: A Naval History of Britain, 1649–1815* (London, 2004): see especially p. 291 and the important Appendix on 'Naval Finance', pp. 640–46.

117 Quoted and translated by Alan Christelow, 'Economic Background of the Anglo-Spanish War of 1762', *Journal of Modern History*, 18 (1946), pp. 22–36 (at p. 26).

system of territorial recruitment, modelled on Prussia's cantonal system, was set up in parts of the Habsburg Monarchy in 1771, and during the next decade efforts were even made to incorporate the Kingdom of Hungary and the Tyrol into its operations, although success was only partial.<sup>118</sup>

Both Prussia and Russia also established new forms of taxation – respectively, the contribution and the excise, collected more systematically from the second half of the seventeenth century onwards, and the poll tax [literally the 'soul tax'] levied after 1724 – and these raised significant sums. But levies of recruits, grain and animals were proportionately far more important resources and suggest that both Prussia and Russia were in reality 'military-fiscal states', rather than fiscal-military ones.<sup>119</sup> In other words, in at least two of the eastern powers taxation provided a much smaller proportion of the resources extracted by governments than human and other resources.

There were, however, limits to what could be achieved internationally by levies of soldiers and grain, backed by some tax revenues. The states of central and eastern Europe – as Choiseul had pointed out<sup>120</sup> – were placed in a subordinate position by their relative poverty and their lower levels of income from taxation. The same was true of medium-ranking continental states such as Bavaria, Saxony, Savoy-Piedmont or Denmark, which in earlier generations had played significant international roles but which declined in importance during the eighteenth century. One significant reason was the way in which the techniques of the fiscal-military state magnified their relative weakness and shortage of resources. This was even truer in the case of Poland-Lithuania, where one source of the country's destruction in three partitions at the end of the eighteenth century (1772, 1793, 1795) was the inability of its central government to raise resources for the purpose of national defence.

Western Europe's leading states could seek to make up this shortfall, and thereby secure political leverage, in two related ways: by means of subsidies and through loans to political and military allies.<sup>121</sup> Subsidies were important as a way of securing additional soldiers in wartime, and for the recipient came to be a significant source of revenue: Savoyard-Piedmont is one example of a country whose finances and military

118 This is currently being studied by Dr Michael Hochedlinger: see his 'Rekrutierung-Militarisierung-Modernisierung: Militär und Ländliche Gesellschaft in der Habsburgermonarchie im Zeitalter des Aufgeklärten Absolutismus', in Stefan Kroll and Kersten Krüger, eds, *Militär und ländliche Gesellschaft in der frühen Neuzeit* (Hamburg, 2000), pp. 327–75; and the summary in his *Austria's Wars of Emergence*, pp. 291–97.

119 A distinction which Peter K. Taylor has proposed, though with a rather different emphasis: *Indentured to Liberty: Peasant Life and the Hessian Military State, 1688–1815* (Ithaca, NY, 1994), p. 5, and n. 4.

120 Cf. above, p. 47.

121 The most satisfactory study of how subsidies operated in practice is P.C. Hartmann, *Geld als Instrument Europäischer Machtpolitik im Zeitalter des Merkantilismus* (Munich, 1978), a detailed examination of the Wittelsbach territories from 1715 to 1740. The famous *Soldatenhandel*, by which minor German states hired out soldiers to leading powers, is surveyed in a richly informative essay by Peter H. Wilson, 'The German "Soldier-Trade" of the Seventeenth and Eighteenth Centuries: A Reassessment', *International History Review*

build-up in the decades around 1700 were both dependent on foreign subsidies.<sup>122</sup> Several minor German states continued, throughout the eighteenth century, to hire out their soldiers to France and particularly to Britain, whose own military establishment was relatively small. During the first half of the century, moreover, subsidies continued to be paid by the two western powers to larger states. During the Seven Years War the annual British subsidy to Prussia of £670,000 – even though it was only paid from 1758 to 1761 – contributed almost one-fifth of that kingdom's total war costs and had the additional advantage of being paid in specie.<sup>123</sup>

Subsidies had considerable drawbacks, however, and these were increasingly recognized during the second half of the eighteenth century.<sup>124</sup> The sums promised were often not paid in full, as was the case with France's substantial subsidies to Austria during the Seven Years War.<sup>125</sup> French financial problems, along with changing strategic priorities, were responsible, and the subsidy arrears were not made up until 1769. Indeed, after the Seven Years War France largely abandoned her previous and notably generous use of subsidies, giving much smaller sums to selected clients and then usually in wartime.<sup>126</sup> This was modelled on the approach of its principal rival, Britain, which had provided fewer and smaller subsidies during the eighteenth century, partly because parliament disapproved of such payments in peacetime. Instead, British governments frequently preferred to facilitate borrowing on the London money market by its allies, even to the extent of guaranteeing such loans, as it did for Austria.<sup>127</sup> Even when paid, subsidies rarely produced the kind of sums needed by the recipient. They also posed a further problem. The tacit influence on another ruler's policy, which the payment and receipt of a subsidy appeared to concede, could not be reconciled with the enhanced aspirations of new Great Powers such as Prussia and Russia. Although subsidies became more significant during the wars of 1792–1815, they were eclipsed as a source of essential revenue by borrowing, which assumed an altogether new importance and also changed in nature after the mid-eighteenth century, when such loans were increasingly sought

122 Christopher Storrs, *War, Diplomacy and the Rise of Savoy, 1690–1720* (Cambridge, 1999), ch. 2, especially pp. 87, 103–18.

123 See the figures in Bernhard R. Kroener, 'Die materiellen Grundlagen österreichischer und preussischer Kriegsanstrengungen 1756–1763', in idem, ed., *Europa im Zeitalter Friedrichs des Grossen: Wirtschaft, Gesellschaft, Kriege* (Munich, 1989), p. 76, Table 17; and in Hubatsch, *Frederick the Great*, p. 140.

124 See the notably cool article in the *Encyclopédie Méthodique: Économie politique et diplomatique*, 4 vols (Paris-Liège, 1784–88), vol. IV, pp. 248–50.

125 Dickson, *Finance and Government*, vol. II, pp. 173–84 passim.

126 The main reasons for this are set out in Choiseul's 'Mémoire au Roi': see Calmettes, ed., *Mémoires de Choiseul*, pp. 383–86 passim, 390–91, 393.

127 See the studies by Gustav Otruba, 'Die Bedeutung englischer Subsidien und Antizipationen für die Finanzen Österreichs 1701 bis 1748', *Vierteljahrschrift für Sozial-und*

abroad, especially in Amsterdam.<sup>128</sup> Such indebtedness to foreign bankers was, for the eastern powers, a consequence of their enhanced political status.

Loans of various kinds had long been a feature of the budgets of Europe's leading monarchies. Such borrowing, however, had not been universal, had usually been domestic and had been deliberately shunned by some continental governments. Prussia was the leading example of a major state unwilling to borrow on any substantial scale: it is striking that the Prussian official Bielfeld's extended discussion of state finances hardly mentions loans.<sup>129</sup> Prussia was also notable for the absence of annual deficits throughout most of the eighteenth century, as available resources were husbanded with extreme care and a peacetime surplus was even built up. The rigorous economic autarky maintained by Frederick William I (1713–40) and largely continued by his son and successor, Frederick the Great, precluded such borrowing, since it would have led to the outflow of specie for interest payments. In the emergency of the struggle over Silesia during the first half of his reign, Frederick the Great had contracted loans, both with individuals and with the provincial estates – exactly as earlier Hohenzollerns had done – but the sums involved had been relatively modest.

International borrowing by the Prussian Crown began only in the reign of Frederick William II (1786–97), whose political and territorial ambitions were eclipsed only by his financial imprudence.<sup>130</sup> The first such loan at Amsterdam was not concluded until 1792–93 and it was accompanied by borrowing at Frankfurt-am-Main.<sup>131</sup> Russia, too, began to borrow abroad, possessing neither a commercial sector of any size nor any private bank equivalent to the Bank of England (established in 1694) or the Vienna City Bank (1705–06), which could channel such loans to the government. After an initial, unsuccessful attempt in the Seven Years War, the first loans were secured from Amsterdam and Genoa during the Russo-Ottoman War of 1768–74.<sup>132</sup> Thereafter, such borrowing became a more regular feature of Russian finances, particularly in wartime, although in the decades down to 1815 it was relatively modest in scale.<sup>133</sup> Particularly after the Seven Years War, Austria, too, moved to borrow outside its traditional area of the Habsburg territories in central

128 See, in particular, James C. Riley, *International Government Finance and the Amsterdam Capital Market 1740–1815* (Cambridge, 1980); there is also a useful sketch by Maarten G. Buist, 'The Sinews of War: The Role of Dutch Finance in European Politics (c.1750–1815)', in Duke and Tamse, eds, *Britain and the Netherlands*, vol VI: *War and Society*, pp. 124–40.

129 Bielfeld, *Institutions Politiques* (1767–72 edn), vol. I, pp. 329–456. Borrowing is primarily discussed on pp. 450–51.

130 See the notably informative article by Willy Real, 'Die Preussischen Staatsfinanzen und die Anbahnung des Sonderfriedens von Basel 1795', *Forschungen zur Brandenburgischen und Preussischen Geschichte*, NF I (1991), pp. 53–100.

131 Riley, *International Government Finance*, p. 287, n. 9.

132 For the role of Genoa, see Giuseppe Felloni, *Gli investimenti finanziari genovesi in Europa tra il seicento e la Restaurazione* (Milan, 1971), a detailed and scholarly study. Loans to France are examined in ch. 6; those to Austria in ch. 7.

133 Marten G. Buist, *At Spes Non Fracta: Hope and Co 1770–1815 – Merchant Bankers*

Europe and the Reich and made more extensive recourse to the capital markets of Brussels in the Southern (Austrian) Netherlands, Genoa and Milan, as well as Amsterdam which was an established source of funds.<sup>134</sup> Borrowing by the eastern powers was always much more tentative, and was from economies that were less commercialized and therefore less able to support repayments.<sup>135</sup>

By the second half of the eighteenth century the Amsterdam capital market had become crucial to most leading states and several minor ones. Dutch investment in the English public debt was considerable and long established, while the French monarchy, Russia and (at the very end of the period) Prussia increasingly turned to Amsterdam, as the Habsburg Monarchy had long done. For the eastern powers such borrowing facilitated the maintenance of political independence, which might be compromised by subsidies, but at the price of financial indebtedness. An established eighteenth-century definition of a Great Power was a state which could support a major war from its own resources, and that status might be undermined by the acceptance of a subsidy. Only the life-and-death struggle with the revived power of France during the 1790s and 1800s once more made British subsidies both acceptable and essential. These payments were surprisingly modest, and were accompanied and frequently eclipsed by significant loans overwhelmingly contracted in London.<sup>136</sup>

In October 1787 the leading Amsterdam merchant banker, Henry Hope, declared that 'the credit of a country depends largely upon its [military and political] successes, and conversely its success depends upon its credit'. He had one eye on Russia, which had just gone to war with the Ottoman Empire and with which he was trying to arrange a loan.<sup>137</sup> But he was also identifying a crucial change that had occurred during the previous generation, which operated against the states in central and eastern Europe, compounded France's difficulties and favoured Britain most of all. Here, as in most of the repercussions of the fiscal-military state for Europe's Great Powers, its techniques initially appeared to be a possible way in which countries with fewer demographic and economic resources could compete with the more commercialized states, but ultimately confirmed the ascendancy of the leading western powers. This was also to be evident throughout the next cycle of generalized warfare from 1787 to 1815.

## VII

The renewed cycle of general warfare, which began with a Russo-Austrian conflict with the Ottoman Empire (1787/88–92), expanded after 1792 into a struggle between the revived power of France, under a menacing Revolutionary regime, and the established European monarchies. It continued until 1815 and placed domestic

134 Dickson, *Finance and Government*, vol. II, ch. 9 and Table 9.6.

135 Bielfeld, *Institutions Politiques* (1767–72 edn), vol. I, p. 320 for the obstacles.

136 John M. Sherwig, *Guineas and Gunpowder: British Foreign Aid in the Wars with France, 1793–1815* (Cambridge, MA, 1969); Riley, *International Government Finance*, especially ch. 8.

governments under far greater pressure than hitherto, because of the sheer continuity of the fighting and its wholly new scale. During the 1790s successive French Revolutionary regimes were operating what was in effect an undisclosed bankruptcy, as the established fiscal system was rejected and all efforts to raise taxes fell far short of expectations.<sup>138</sup> Despite the substantial booty secured by the nationalization of Church lands and the spoliation of occupied lands, together with the celebrated use of the printing press to keep the French state afloat – the so-called *assignats* – by the mid-1790s France was facing the first hyperinflation in modern times. Its financial problems reached the point where the Directory in 1797 did what neither Louis XV nor Louis XVI had been prepared to do: repudiate debts to buy itself time.<sup>139</sup>

Even more important was the decision in autumn 1793 to change from being a fiscal-military state into a military-fiscal one: through the celebrated *levée en masse* and the subsequent creation of the war economy. Men and *matériel* were levied on an altogether new scale, first within France and then, as the armies of the Revolution won victories and conquered territories, in the occupied lands as well – a technique employed even more systematically by Napoleon.<sup>140</sup> The resulting and spectacular increase in the French military establishment has attracted most attention: by the mid-1790s anything between 750,000 and over a million men were under arms, with immense implications for both the military struggle and the infrastructure needed to sustain it. The impact on domestic regimes and particularly on the finances of France's adversaries was even greater, and it was to be greatest of all for Austria.

The Habsburg Monarchy had entered the war against the Ottoman Empire in 1788, and concluded peace in 1791. Although the fighting pushed up borrowing, which had risen by around 37 per cent in the decade since 1781, its finances were still in reasonable shape in the early 1790s, with debt repayment absorbing around one-fifth of annual income.<sup>141</sup> The struggle with Revolutionary France, in which Austria played the leading military role down to 1801 and in some degree thereafter, undermined and finally destroyed this stability.<sup>142</sup> Its policy-makers were alarmed by the implications for the Monarchy's rickety domestic structure of trying to conscript and tax on the scale that Revolutionary France was doing, and feared the kind of domestic political and social upheavals which its enemy was undergoing. They therefore funded the struggle through renewed and large-scale borrowing (including forced loans), and eventually by printing a paper currency which held its value only as long as its armies remained undefeated, which was always improbable in

<sup>138</sup> F. Crouzet, *La Grande Inflation: La monnaie en France de Louis XVI à Napoléon* (Paris, 1993) is a good introduction.

<sup>139</sup> Although the abbé Terray, who took over control of the royal finances in 1769, had defaulted on part of the state debt: see Félix, 'Financial Origins', p. 50. E.S. Brezis and F. Crouzet, 'The Role of Assignats during the French Revolution: An Evil or a Rescuer?', *Journal of European Economic History*, 24 (1995), pp. 7–40 is an informative revisionist survey.

<sup>140</sup> This is made clear by T.C.W. Blanning in his *The French Revolutionary Wars 1787–1802* (London, 1996).

<sup>141</sup> Dickson, 'Count Karl von Zinzendorf's "New Accountancy"', p. 23.

a struggle with the French Leviathan. These decisions weakened and, eventually, destroyed the Austrian financial system: in 1811 it was forced to declare a state bankruptcy. Its other rival, Prussia, whose financial stability had been undermined by Frederick William II's adventurous foreign policy and by participation in the War of the First Coalition (1792–97), retreated into neutralism and in effect became a French satellite for a decade after the Peace of Basel (1795). Even this failed to restore financial stability, however, and from the 1790s Prussia also began to borrow abroad on a significant scale. The third of the eastern powers, Russia, delayed entering the struggle with France, but, once it began to fight, financial problems quickly followed and intensified the longer the war continued.

Even Britain found the scale, intensity and – eventually – sheer length of the struggle with France hard to bear. The established financial strategy of funding warfare through borrowing and increased taxation broke down in the later 1790s, because of the exceptional costs of the First Coalition and a shift towards indirect taxation in the course of the eighteenth century, which made it more difficult to raise large sums quickly in the way possible with the land tax. The response of the prime minister, William Pitt the Younger, was to introduce income tax in 1799, initially for the duration of the conflict.<sup>143</sup> This, together with a further and massive increase in borrowing, created the financial resources needed to fight and defeat France.

Britain, of course, was the only state to be a member of every single coalition against France between 1793 and 1815. Financial resilience, together with the navy that Britain maintained, the subsidies it paid and, eventually, the army it despatched to fight on the continent, brought about the defeat of France. Britain's foreign secretary, Lord Castlereagh, did much to shape the final settlement concluded in 1814–15 and to bring about the realization of British strategic and commercial interests. At the same time, London was becoming Europe's leading financial centre, as the French occupation of Amsterdam first weakened and then destroyed its role as a source of government borrowing. London's rise and Amsterdam's eclipse underlined the fact that Britain's emergence as a European and world power ultimately rested on the distinctive and uniquely successful fiscal-military state which it had evolved during the long eighteenth century, and on the Financial Revolution which had done so much to sustain this.