2

Gaining Force

From Fragmentation to Centralization

Fiscal fragmentation and absolutism plagued Old Regime states. This chapter examines fiscal centralization, the first fundamental political transformation that European states underwent. It begins by characterizing the problem of fiscal fragmentation in both qualitative and quantitative terms. It then describes the coding process for institutional reform and identifies the dates for fiscal centralization for each sample country.

2.1. The Fragmented Old Regime

Most polities in Europe were fiscally fragmented before the nineteenth century. Contrary to the conventional wisdom, early modern monarchs confronted a host of incumbent local institutions that reduced their fiscal powers.[1] To illustrate, this section examines France, Spain, the Netherlands, and England, four of the most celebrated cases in the literature on state formation in Europe.

Modern France inherited the territorial borders set under Louis XI during the late 1400s. As the state expanded, it was forced to superimpose control on top of entrenched regional institutions. The fiscal implications of this political arrangement, which Brewer (1989, p. 6) describes as "particularistic," were harsh. Since the French Crown had to negotiate independently over tax amounts with local authorities, tax rates were

[1] In the words of Epstein (2000, p. 13): "[D]ecades of research on pre-modern political practices … has shown how 'absolutism' was a largely propagandistic device devoid of much practical substance." Also see Henshall (1992), Hoffman and Norberg (1994b), Hoffman and Rosenthal (1997), Rosenthal (1998), O'Brien (2001, pp. 14–24), and Magnusson (2009, ch. 2).

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uneven. Whole towns and provinces avoided certain duties. From the fifteenth century onward, nobles in central and northern France were exempt from the land tax (*taille*), the most valuable direct tax. Nobles in the south paid the *taille* for only certain holdings. Fiscal fragmentation, moreover, was persistent.[2] The ultimate "success" of Finance Minister Colbert's reforms in the 1660s, for instance, was to carve France into eight distinct tariff areas. In the aftermath, there were still local excises, including five within the Five Great Farms, the largest French customs zone.[3] Shapiro and Markoff (1998) argue that the bewildering variety of taxes, levied at diverse local rates, was a key complaint on the eve of the French Revolution.[4]

The Spanish kingdoms of Castile and Aragon (including Catalonia and Valencia) were united in 1497. The subsequent conquest of a large portion of the Basque Country gave Spain its modern contours by the start of the sixteenth century. Repeated attempts to forge tax agreements among the five kingdoms united under the Spanish Crown were unsuccessful. Seventeenth-century efforts by Count-Duke Olivares to implement structural fiscal changes were a failure, for instance, and so the national government had to impose new royal taxes on top of traditional local ones. The Bourbon tax reforms of the early 1700s also fell short. Unable to extend the Castilian tax system eastward, the Crown was again forced to superimpose additional duties. The incongruous names of the new tax, called the *contribución única* in Aragon, the *catastro* in Catalonia, and the *equivalente* in Valencia, reflected the disparities in tax rates that remained. As in France, fiscal fragmentation in Spain was chronic. Comín (1990, p. 86) claims that the first genuine reform of the Spanish tax system did not take place until the middle of the nineteenth century.[5]

[2] In the words of White (2001, p. 66): "Several times an invigorated Crown initiated new reforms to centralize and simplify the tax system, but in the long run the government had limited success in altering the basic tax structure."

[3] Johnson (2006) analyzes the fiscal effects of Colbert's reforms.

[4] Also see Sutherland (1986), Rosenthal (1992), Hoffman (1994), Major (1994), and Sargent and Velde (1995).

[5] In the words of Tortella (2000, pp. 174–5): "Until 1845 the Spanish taxation system was a disorganized and unsystematic mosaic … not only were the privileged classes virtually exempt from taxation, but the Church and the nobility often had quasi-fiscal prerogatives, since they collected in their own names rents which looked very much like taxes. The tax burden varied from region to region and there were even specific taxes for particular cities or districts.… The total taxation picture was a hodgepodge of incomplete and variable components." Also see Elliot (1986), Lynch (1989), and Tortella and Comín (2001).

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The borders of the Dutch Republic, which officially declared its independence from Spain in 1581, correspond to those of the modern Netherlands. The Republic was a confederation composed of seven sovereign provinces.[6] Each province had separate public finances, and no unified tax system was ever implemented. To fund common costs of warfare and administration, there was a quota system in which the seven provinces promised to pay fixed amounts.[7] The largest share of the burden (almost 60 percent of the total) fell to Holland, the most populated and wealthiest province. Van Zanden and van Riel (2004, chs. 1, 2) argue that fiscal fragmentation weakened the Republic's ability to raise funds and service debts, since other provinces typically shirked their obligations and free-rode on Holland's payments. Provincial elites, moreover, resisted calls for fundamental tax reforms. Van Zanden and van Riel claim that, over the long term, this political stalemate created an untenable fiscal situation.

One general feature of fragmented states, whether in France, Spain, or the Dutch Republic, was the close relationship between local tax control and political autonomy. Provincial elites had strong incentives to oppose fiscal reforms that threatened traditional tax rights. The result was a classic public goods problem. Since each local authority attempted to free-ride on the tax contributions of others, the revenues that national governments could gather on a per capita basis were low.

England was exceptional in this regard. The Norman Conquest of 1066 established a uniformity of laws and customs that other European states did not achieve until much, much later.[8] Furthermore, Brewer (1989, p. 4) argues that the development of a strong national parliament paralleled the emergence of a powerful, centralized monarchy. The English king thus avoided costly, drawn-out tax negotiations with provincial elites.[9]

6 The Republic also included the sparsely populated rural lordship of Drenthe and, after the Peace of Westphalia in 1648, the Generality Lands.

7 See t'Hart (1997) and Fritschy (2007).

8 See Brewer (1989, pp. 3–7), Sacks (1994, pp. 14–23), and Hoffman and Norberg (1994b).

9 Also see Epstein (2000, ch. 2) and O'Brien (2001, pp. 14–24). We must distinguish between English fiscal and political institutions and those for the British Isles as a whole. In the words of Brewer (1989, pp. 5–6): "There was certainly an English medieval state, made from a Norman template, but not a British one.… Nevertheless the English core of what was eventually to become the British state was both geographically larger and better administrated than its French equivalent." For consistency, the term "England" is used throughout the text. Appendix 2 documents the construction methods of the English time series for the various fiscal indicators.

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To resolve the problem of local tax free-riding elsewhere in Europe, executives had to gain the fiscal authority to impose standard tax menus rather than bargain place by place over individual rates. So long as states equalized rates across provinces at relatively high levels, government revenues per head rose. Hoffman and Rosenthal (2000) argue that both executives and local elites may have preferred centralized fiscal regimes as part of power-sharing agreements in which the former received larger funds and the latter, which coordinated efforts through representative bodies, could finance a larger portion of the public services that they desired. Chapter 3 further examines this possibility.

2.2. Quantitative Analysis

2.2.1. *Research Design*

A simple quantitative analysis that examines changes in fragmented authority over time complements the qualitative accounts of fiscal fragmentation. The focus is again on France, Spain, the Netherlands, and England, four of the most prominent cases in the historical literature on state formation in Europe.[10] The sub-period under study, from 1700 to 1815, captures the critical institutional crossroads that occurred with the French Revolution (1789–99).

Although an ideal test of fiscal fragmentation would be to measure the size of fiscal zones within states and record institutional changes one by one as they occurred over time, data sufficiently comprehensive for such a study to be undertaken do not exist. Given the lack of systematic information that is available prior to the nineteenth century, any alternative indicator should provide a succinct measure of institutional fragmentation that is comparable across states.

Internal customs borders are one unique source of data that satisfy this condition. Domestic tariffs, in the words of Adam Smith, obstructed the most important branch of commerce, the interior trade of a country.[11] Trade barriers hampered the legitimate market exchange of goods and services. Major rivers and roads typically crossed multiple customs frontiers where holdups occurred and tariffs had to be paid. In this way, trade barriers encouraged black market traffic. The administration of customs was also expensive and prone to inefficiency. Epstein

[10] Dincecco (2010b) examines a larger set of sample states.

[11] See Smith (2003, p. 1135). The description attributed by Henderson (1939, pp. 22–3) to an influential merchant union was more vivid: customs barriers "cripple trade and produce the same effect as ligatures which prevent the free circulation of blood."

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(2000, chs. 1, 2) argues that the total effect of internal barriers was to impose costs, delays, and risks that atomized domestic economies and restricted growth.

Domestic tariffs were also part of a larger problem of fragmented sovereignty. As described in the preceding section, towns and provinces often had distinct economic and political institutions, including local customs, tax privileges, weights and measures, and monopolist guilds. Furthermore, centralizing reforms like the unification of domestic tariffs, the establishment of national tax systems and central banks, the standardization of weights and measures, and the abolition of guilds often took place in one fell swoop.[12]

A focus on major internal customs facilitates the analysis. This simplification suggests that some of the smaller steps toward centralization were missed. For instance, for tractability the Five Great Farms in France is recorded as a unified zone from the 1660s onward, though at least five local tariffs remained. Systematic underestimation of the true extent of divided authority biases the analysis against finding evidence of institutional fragmentation. Any results that still indicate the presence of divided authority will thus be stronger than otherwise.

As described in the preceding section, sovereign borders for France, Spain, and the Netherlands were put in place by the 1600s and remained relatively stable thereafter. Net growth in physical size from 1700 to 1815 was small. Though France conquered the Netherlands in 1795, it became independent by the end of the Napoleonic era. Since the analysis focuses on changes in fragmented authority in 1815 relative to the Old Regime, this set of events did not have a significant effect.

Across the English Channel, however, we must discriminate between English and British customs institutions.[13] As described in the preceding section, the unification of internal tariffs in England occurred during the eleventh century. England conjoined with Wales in 1536. The Scottish and English Crowns were united in 1603, but it was not until the 1707 Act of Union that the internal customs border separating the two territories was eliminated. A similar Act of Union conjoined Ireland in 1800.[14] Although net gains in physical size for countries like France were small from 1700 to 1815, growth in the size of the British state was large and permanent. The present investigation concerns fragmented authority within polities rather

12 See Dincecco (2010b, table 1).

13 See Brewer (1989, pp. 3–7) for a general discussion of this point.

14 The Irish Free State was established in 1922.

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than state consolidation. To avoid confounding the effects of internal and external fragmentation, the analysis is restricted to England (including Wales).[15] However, the use of Britain (England, Scotland, and Wales), which was already established and was free of internal customs by the start of the 1700s, generates results similar to those obtained for England itself.

The sample consists of all 175 cities in England, France, the Netherlands, and Spain with at least 10,000 inhabitants in 1800 from De Vries (1984, app. 1). Each polity is well represented: there are 44 English, 19 Dutch, 78 French, and 34 Spanish sample cities. Since the investigation focuses on the Continent, where rapid urbanization did not begin until after the end of the Napoleonic Wars (1803–15), the use of 1800 as the base year mitigates problems of sample bias.[16]

Although it would be useful to evaluate the economic impact of differences in marginal tax rates across internal customs zones, systematic information does not exist. Data for physical sizes and urban populations, however, are available. Employing both measures ensures that the results are not contingent upon a particular approach. The first method estimates the sizes of the regions in square kilometers within which goods from sample cities could travel duty free. Historical accounts were used to characterize major internal customs borders for each country. Dincecco (2010b) documents the sources and construction methods. Since the analysis concerns the centralization of authority within European states themselves, only domestic sovereign areas are considered.[17]

The analysis used changes (if any) in internal tariff borders to calculate the area of the customs zone that surrounded each sample city at different points in time. Dincecco (2010b) provides the details. The chosen breaks were 1700, 1750, 1788 (just before the French Revolution), and 1815 (marking the end of the Napoleonic era). The unification of domestic customs took place when the final internal tariff barrier was eliminated. To compare levels of internal fragmentation across countries of different physical sizes, customs zones were calculated as percentages of total sovereign areas.

De Vries (1984, app. 1) provides urban populations at 50-year intervals over the eighteenth century. The second method summed the populations

15 By the same logic, territories east of the Rhine River, which constitutes part of the eastern border of France, were not examined, since there were major changes in sovereign borders over time. Dincecco (2010b) tests state consolidation in the German and Italian territories over the nineteenth century.

16 See Hohenberg and Lees (1985), Bairoch (1988), and Mokyr (1998).

17 Colonial goods typically faced customs taxes at home ports. See Bordo and Cortés-Conde (2001).

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TABLE 2.1. *Average Internal Customs Zones as Percentages of Sovereign Areas, 1700–1815*

	1700 (%)	1750 (%)	1788 (%)	1815 (%)
England	100	100	100	100
France	22	22	22	100
Netherlands	14	14	14	100
Spain	61	94	94	94

Note: For example, the size of the average customs zone in France in 1700 was 22% of total sovereign area.
Source: Dincecco (2010b).

of all sample cities contained within each customs zone in 1700, 1750, and 1800. These sums were then divided by total urban populations among sample cities within each country. Dincecco (2010b) describes the details. This technique produces reliable estimates so long as one assumes that internal tariffs had the largest effect on urban merchants, since rural populations typically produced subsistence goods.

2.2.2. *Results*

Table 2.1 indicates that, notwithstanding England, which was centralized from medieval times, there was a remarkable difference between the size of internal customs zones surrounding sample cities and total sovereign areas under the Old Regime. The average customs zone in France constituted just 22 percent of its total area. This result is consistent with Nye (2007, pp. 56–7), who argues that cumbersome tariffs created a virtual autarky between French regions. Similarly, the average customs zone in the Dutch Republic was only 14 percent of its total area. This finding concurs with Griffiths (1982, pp. 514–17), who claims that internal barriers created isolated economic Dutch sub-units. Finally, note that the use of the median or the largest customs zones was also indicative of internal fragmentation.

Spain was exceptional in this regard. The average Spanish customs zone, at 61 percent of total sovereign area in 1700, increased to 94 percent by 1750 due to the abolition of internal customs by Bourbon reformers in the 1710s. Prior to the eighteenth century, there were internal customs borders between Castile, Aragon, Catalonia, Valencia, and the Basque Country. Basque customs were restored in 1722 and lasted until 1839, when internal tariffs were finally abolished.[18]

[18] See Tortella and Comín (2001, pp. 155–65).

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TABLE 2.2. *Cumulative Percentage of Sample Cities Surrounded by Internal Customs Zones of Various Sizes, 1700–1815*

Size (km^2)	1700 (%)	1750 (%)	1788 (%)	1815 (%)
< 50,000	32	29	29	11
< 100,000	39	36	36	11
< 150,000	39	36	36	11
< 200,000	65	61	61	37
< 250,000	85	81	81	37
< 300,000	85	81	81	37
< 350,000	85	81	81	37
< 400,000	100	81	81	37
< 450,000	100	81	81	37
< 500,000	100	100	100	55
< 550,000	100	100	100	100

Note: 175 cities with at least 10,000 inhabitants in 1800 in England, France, the Netherlands, and Spain were included. For example, 32% of sample cities in 1700 were surrounded by a customs zone of less than 50,000 square kilometers.
Source: Dincecco (2010b).

By nearly all other fragmentation measures, however, Spain was worse off than other Old Regime states. Centralizing reforms like the establishment of a national tax system and central bank, the standardization of weights and measures, and the abolition of local guilds did not occur until the 1830s or later.[19] Poor transportation networks also hindered economic development. In 1800, there were nearly 30,000 kilometers of English roads but fewer than 5,000 kilometers of Spanish ones, though Spain was more than three times as large as England.[20] The calculations that use internal customs are thus strong underestimates of the true extent of divided authority in early modern Spain.

Other measures also suggest that internal customs zones were generally small before 1789. Table 2.2 indicates that more than 25 percent of sample cities were surrounded by a customs zone of less than 50,000 square kilometers, more than 60 percent were surrounded by a customs zone of less than 200,000 square kilometers, and more than 80 percent were surrounded by a customs zone of less than 250,000 square kilometers. Furthermore, Table 2.3 indicates that the average customs zone in

[19] See Dincecco (2010b, table 1).
[20] The Spanish estimate is from Vicens Vive (1969, pp. 679–81). Also see Ringrose (1968, 1970) and Tortella (2000, pp. 115–20). The English estimate is from Bogart (2005, p. 440).

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TABLE 2.3. *Average Sizes of Internal Customs Zones, 1700–1815*

Size (km²)	1700	1750	1788	1815
England	151,000	151,000	151,000	151,000
France	118,000	118,000	118,000	544,000
Netherlands	5,000	5,000	5,000	34,000
Spain	302,000	467,000	467,000	467,000
Overall	150,000	182,000	182,000	375,000

Source: Dincecco (2010b).

1788 was just 182,000 square kilometers. A comparison of France and England is particularly noteworthy, since the average pre-1789 French customs zone was 33,000 square kilometers smaller than England, the only sample polity free of internal tariffs. If France had been centralized, its free customs area would have been more than three and a half times as large as that of its English counterpart.

Table 2.4, which displays the results of the calculations for urban populations within customs zones as percentages of total urban populations over time, also indicates that domestic free-trade areas were fragmented under the Old Regime. The number of urban residents within customs zones was typically less than 10 percent of total urban populations. Exceptions included the Five Great Farms in France, where urban inhabitants made up 55 percent of the total, and the Dutch province of Holland, where they were 75 percent. However, at least five local customs remained within the Five Great Farms after Colbert's 1660s reforms. By restricting the analysis to major internal borders, the French calculations systematically underestimate the true extent of fragmented authority. The same logic holds for the Dutch Republic, where cities, towns, and provinces were largely autonomous.[21] In Spain, urban residents of the Kingdom of Castile constituted 77 percent of the total urban population in 1700, and 98 percent by 1750. As already described, however, the use of internal customs significantly underestimates eighteenth-century institutional fragmentation in Spain.

2.3. Centralization after 1789

Although the process of fiscal centralization in Europe took centuries, the evidence shown in the preceding two sections indicates that it was largely unfinished through the late 1700s. Fundamental changes to tax systems

[21] See van Zanden and van Riel (2004, pp. 32–40).

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TABLE 2.4. *Urban Populations within Internal Customs Zones as Percentages of Total Urban Populations, 1700–1800*

Customs Zone	1700 (%)	1750 (%)	1800 (%)
Panel A: France			
Effectively Foreign 1	4	5	
Effectively Foreign 2	1	1	
Five Great Farms	55	55	
Reputedly Foreign 1A	8	7	
Reputedly Foreign 1B	6	7	
Reputedly Foreign 1C	8	8	100
Reputedly Foreign 1D	7	7	
Reputedly Foreign 2	3	3	
Reputedly Foreign 3	1	1	
Reputedly Foreign 4	6	6	
Panel B: Netherlands			
Friesland	2	2	
Gelderland	3	3	
Generality Lands	6	5	
Groningen	3	4	
Holland	75	75	100
Overijssel	2	2	
Utrecht	5	4	
Zeeland	4	4	
Panel C: Spain			
Aragon	5		
Castile	77	98	99
Catalonia	8		
Valencia	9		
Basque Country	1	2	1

Source: Dincecco (2010b).

were in several cases the result of radical, exogenously imposed administrative reforms by French revolutionary or Napoleonic armies.[22] More generally, fiscal reforms often took place in the context of large-scale administrative reforms that established new government bureaucracies. We may thus typically identify fiscal centralization as part of a structural shift in the institutional basis of states that occurred from 1789 onward.

The quantitative analysis supports this interpretation of the timing of fiscal changes. Whether measured by physical area or urban population, there

[22] See Godechot et al. (1971), Woolf (1991), Grab (2003), and Acemoglu et al. (2009a).

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was a significant increase in the size of internal customs zones after the fall of the Old Regime. The Revolution eliminated major internal customs in France. In the Netherlands, customs unification occurred after the French conquest in 1795. Table 2.1 indicates that domestic customs zones and total sovereign areas coincided in both countries by 1815, and Table 2.4 suggests a one-to-one correspondence between urban populations within customs zones and urban population totals by the start of the 1800s.

Furthermore, Tables 2.2 and 2.3 indicate that internal customs unification took place from 1789 onward. Neither the cumulative percentage of cities surrounded by customs zones of various sizes nor the average size of customs zones in Europe changed much from 1700 to 1788. However, Table 2.2 shows that customs zones grew quickly over the next two and a half decades. Nearly 30 percent of cities were surrounded by a customs zone of 50,000 square kilometers or less in 1788, whereas in 1815 only about 10 percent of cities were surrounded by one of that size. More than 80 percent of cities were surrounded by a customs zone smaller than 450,000 square kilometers in 1788, while in 1815 this figure was less than 40 percent. Likewise, Table 2.3 indicates that the overall average customs zone surrounding sample cities more than doubled in size, from 182,000 square kilometers in 1788 to 375,000 square kilometers in 1815.[23]

2.4. Coding Centralization

A clear and simple definition of fiscal centralization facilitates comparison across states. The process of fiscal centralization was completed the year that the national government first secured its revenues through a standard tax system with uniform rates throughout the country.[24] All precentralized regimes were classified as entirely fragmented, even for states where fiscal divisions were relatively small. This choice implies that some regimes counted as fully fragmented will encompass data associated with

[23] These results are consistent with the literature on the integration of domestic European grain markets. Persson (1999), Jacks (2005), and Keller and Shiue (2007) find that Old Regime markets were inefficient but that there were significant reductions in price dispersions after 1815. British markets, which were efficient by the late 1700s, were exceptional.

[24] This definition does not imply that central governments became tax monopolists. The history of the United States just after the Revolution of 1776 illustrates this point. Under the Articles of Confederation, the first U.S. constitution, Congress could only request tax funds from states. Fiscal centralization took place in 1788, when the new constitution granted Congress the legal power to ensure that states complied with national tax standards. However, states could still levy local taxes. Also see Edling (2003).

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better fiscal outcomes (e.g., higher per capita revenues). Average improvements after fiscal centralization will therefore be smaller than otherwise. Systematic underestimation of the fiscal effects of centralization biases the data against the hypothesis that fiscal centralization improved public finances. The results of the empirical analysis in Chapters 4 to 7 will thus be stronger than otherwise if they still indicate that fiscally centralized regimes had significant positive effects on the various fiscal indicators.

Table 2.5 displays the dates of fiscal centralization for Group 1 and Group 2 countries. As described in Section 2.1, England had centralized institutions from very early on. In many parts of continental Europe, structural fiscal changes took place swiftly and permanently after the fall of the Old Regime. With the start of the Revolution (1789–99), the National Assembly transformed the tax system in France by eliminating traditional privileges. Napoleon completed this process upon taking power in 1799. The First French Republic conquered the Low Countries in 1795, and the Southern Netherlands including Belgium became standard French departments. The Batavian Republic, the successor to the Dutch Republic, established a national system of taxation under French rule in 1806. Napoleonic conquest at the start of the 1800s was also the major catalyst for fiscal change on the Italian peninsula. However, the unification of tax systems among pre-unitary Italian states did not occur until after the establishment of the Kingdom of Italy in 1861. Finally, Prussia undertook major administrative reforms, including fiscal centralization, after its loss to France in the Battle of Jena-Auerstedt in 1806.[25]

Although Napoleon defeated Austria in 1805 and invaded Portugal in 1807 and Spain in 1808, he failed to implement lasting administrative changes in those territories. Fiscal centralization did not take place in the Austrian Empire until after the Revolutions of 1848, which had important implications for bureaucratic structures. Most notably, the central government in Vienna began to implement an effective Cisleithanian tax system in Hungary.[26] Fiscal centralization also occurred in the 1840s in

[25] For France, see Bordo and White (1991, pp. 314–16) and White (1995, pp. 234–41). For Belgium, see Holtman (1967, p. 100) and Sutherland (1986, pp. 344–6). For the Netherlands, see Fritschy and van der Voort (1997, pp. 78–82) and van Zanden and van Riel (2004, pp. 40–51). For Italy, see Cohen and Federico (2001, ch. 3) and Federico (2010, pp. 192–3). For Prussia, see Kiser and Schneider (1994, pp. 200–1), Breuilly (2003, pp. 131–2), and Ziblatt (2006, pp. 114–15).

[26] Austria and Hungary were the largest territories of the Austrian Empire (1804–67). The Compromise of 1867 led to the establishment of the Austro-Hungarian Empire (1867–1918). For consistency, the term “Austria” is used throughout the text. Also see Pammer (2010, pp. 132–3).

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TABLE 2.5. *Dates of Fiscal Centralization in Europe*

	Year	Event
Group 1		
England	1066	Norman Conquest and erosion of provincial authority
France	1790	Administrative reforms after Revolution of 1789
Netherlands	1806	Administrative reforms under French control
Prussia	1806	Administrative reforms after French defeat in battle
Spain	1845	Administrative reforms during Moderate Decade
Austria	1848	Administrative reforms during Year of Revolutions
Group 2		
Belgium	1795	Administrative reforms after French annexation
Portugal	1859	Centralization and regulation of government accounts
Italy	1861	Establishment of kingdom and tax unification
Sweden	1861	Abolition of pre-modern tax system
Denmark	1903	Abolition of pre-modern tax system

Note: Group 1 includes core powers and has long data series over diverse political regimes. Group 2 includes peripheral powers and has shorter data series. The second column indicates the year that the process of fiscal centralization as defined in the text was completed. The final column offers brief explanations for these dates, which the text elaborates upon.
Source: See text.

Spain during a decade of major institutional reforms. Significant changes in public finances in Portugal took place in the 1850s, after the end of the revolutionary era (1820–51). The 1859 reform led to the centralization and regulation of government accounts.[27]

Pre-modern fiscal structures remained in Scandinavia through much of the 1800s. Major tax changes did not occur until the second half of the nineteenth century or later. The 1861 reform in Sweden abolished the ancient system of dividing tax subjects into different classes, with many sub-groups and different rules for fixed contributions for each of

[27] For Austria, see Pammer (2010, pp. 136–9, 156–7). For Spain, see Tortella (2000, pp. 173–92) and Comín (2010, pp. 220–6). For Portugal, see Cardoso and Lains (2010b, pp. 261–4). Because of new evidence published in Cardoso and Lains (2010a), the coding for Denmark, Portugal, Spain, and Sweden was updated from Dincecco (2009a).

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Dincecco, Mark. Political Transformations and Public Finances : Europe, 1650-1913, Cambridge University Press, 2011.
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them. Similarly, the 1903 reform in Denmark eliminated traditional tax structures and introduced a modern income tax with standard, country-wide rates.[28]

Fiscal prowess is a key factor that characterizes today's rich countries. Yet many advanced economies were not "born" with strong tax institutions. To understand how wealthy states gained tax force, we must look to the past. This chapter has examined fiscal centralization, the first fundamental political transformation that European states underwent. Both the qualitative and quantitative evidence indicates that the establishment of national tax systems was the result of a long and difficult historical process and was not typically completed until after the fall of the Old Regime at the end of the eighteenth century.

Although fiscal centralization granted new fiscal authority to European states, the problem of executive discretion remained, since rulers could still use government funds as they wished (e.g., on foreign military adventures). The focus now turns to the second fundamental political transformation in European fiscal history, the shift from absolutist to parliamentary regimes.

[28] For Sweden, see Schön (2010, pp. 169–78). Hans Christian Johansen provided the account for Denmark. Also see the preceding footnote.

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