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Institutional selection in international relations: state anarchy as order

Hendrik Spruyt

In effect, what this question asks is why, at various times and in differing contexts, individuals and groups believe one political form rather than another is best suited to advance their interests.

—Robert Gilpin

At the end of the feudal era, a dramatic economic change occurred. Localized barter exchange started to give way to monetary exchange and translocal trade. By the beginning of the fourteenth century, a variety of new institutional forms had emerged for organizing political and economic life. Sovereign territorial states, city-leagues, and city-states all tried to tap into the new sources of economic wealth, particularly long-distance trade. Indeed, the city-based political organizations initially did very well. In the long run, however, roughly by the middle of the seventeenth century, city-states and city-leagues had fallen by the wayside. In this article, I attempt to answer the question of why this was so and chart how sovereign territorial states displaced their contemporary rivals.

I argue that the sovereign territorial state prevailed because it proved more effective at preventing defection by its members, reducing internal transaction costs, and making credible commitments to other units. It did this in three ways. First, sovereign rulers were better at centralizing jurisdiction and authority.¹ Consequently, they were in a better position to prevent free riding and to gradually rationalize their economies and standardize coinage and

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1. In the following pages I sometimes denote “sovereign territorial state” with either the term “territorial state” or “sovereign state.” These terms all refer to a particular form of government wherein authority claims internal hierarchy and recognizes no higher authority beyond its borders. For this definition see Stanley Benn, “Sovereignty,” in *The Encyclopedia of Philosophy* (New York: Macmillan, 1967), pp. 501–5.

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weights and measures. This economic rationalization corresponded with a greater capacity to wage war. The institutional makeup of sovereign territorial states thus gave them competitive advantages over other organizational possibilities.

Second, sovereign territoriality, when confirmed to other actors, was a means of structuring interunit behavior.² States, or rather the political and social elites within sovereign states, preferred similar types of units in their environment because sovereign rulers could more credibly commit the members of their organization (through their control of free riding and defection) and because their authority was exactly specified by territorial parameters.

Third, and as a consequence of the first two conditions, actors from other institutional arrangements defected to states or copied their institutional makeup. Displacement of alternative types thus occurred from the bottom up as well as the top down—actors “voted with their feet” or copied what they perceived to be the superior organizational type.

The principle of sovereign territorial authority differed from other systems of rule. Although inherent in the early medieval attempts to reconstruct the Roman Empire and the attempts of the popes to build a Christian theocracy was a notion of internal hierarchy, both organizational attempts lacked precise territorial specifications. The newer institutional types—the city-leagues and city-states that emerged in the course of the twelfth and thirteenth centuries—also differed from sovereign territorial rule. The city-states acknowledged territorial limits but often lacked clear internal hierarchy. The city-leagues had neither, lacking both territorial contiguity and fixed borders (that is, they were not territorially specified). Additionally, they largely were loose confederations having no clear sovereign.

This article begins with the premise that the possibilities of continued feudalism, a centralized empire, and theocracy had all waned by the early fourteenth century.³ The future lay with three new institutional arrangements: the city-league, the city-state, and the sovereign territorial state. The question is why did the last system of rule win out. Thus, while we often talk about the emergence of the state in terms of increased taxing powers, the formation of public rather than private authority, and the growth of the state in terms of scale, those are not the features of the state that this essay will examine. In essence, city-leagues, city-states, and sovereign territorial states were all state forms, but not all had internal hierarchy or territorial limits.⁴ Instead, the focus

2. The term “international” semantically prejudices the issue, since it is an anachronism for this period.

3. For an argument that these three institutional arrangements had run their course by 1300, see Charles Tilly, ed., *The Formation of National States in Western Europe* (Princeton, N.J.: Princeton University Press, 1975), p. 26.

4. For a discussion of the various meanings of the term “state,” see J. P. Nettl, “The State as a Conceptual Variable,” *World Politics* 20 (Summer 1968), pp. 559–92.

of this essay is on a critical feature of the modern state: the principle of sovereignty—the principle that authority is limited by precise spatial terms and is subject to no other authority. Stated another way, authority is territorial and exclusive. The origins of that principle, which came to dominate Europe, can be traced to the late Middle Ages. We need now to explain its dominance.

The next part of this article suggests that two bodies of literature—new institutional history (NIH) and historical sociology—can be useful in analyzing the interaction between markets and hierarchies. Both have analyzed how actors, operating in the absence of higher authority to arbitrate disputes and enforce agreements, try to overcome that difficulty by favoring certain institutional solutions. Historical sociology provides for a taxonomy of how actors in practice have resolved the tensions between markets and hierarchies. The NIH literature provides a variety of tools to explain why institutional arrangements historically have taken a particular shape. Moreover, while it is sometimes claimed that NIH is by definition a post hoc enterprise, I will argue that this approach provides some a priori criteria to suggest which institutions will be more viable in the long run.

The following parts of this article comprise the main body of my argument, beginning with a description of how the old political order—consisting of crosscutting and overlapping jurisdictions of feudal lords, church, emperor, and aspiring but weak kings—proved unsuitable for an emerging precapitalist economic environment.⁵ The legal climate was unfavorable for trade given the underdevelopment of written codes, the importance of local customary proceedings, the lack of instrumentally rational procedures, and the crosscutting nature of jurisdictions. Economically, commerce suffered from great variation in coinage and in weights and measures and a lack of clearly defined property rights. Transaction costs were high.⁶

Newer forms of organization—sovereign territorial states, city-states, and city-leagues—were in essence attempts to solve the discrepancy between emerging translocal markets and existing political arrangements. These forms of organization were all, to some degree, the result of increasing demands by the towns to change the existing order to one more conducive to their preferences and the result of political rulers seeking to expand their revenue and resources.

5. The literature on emergent capitalism ranges in perspective from a neo-Marxist one to a liberal economic one, focusing on property rights and individual incentives. For an example of the former perspective, see Perry Anderson, *Lineages of the Absolutist State* (London: Verso, 1974); and Immanuel Wallerstein, *The Modern World System*, vol. 1 (New York: Academic Press, 1974). For the public choice approach, see Douglass North and Robert Thomas, *The Rise of the Western World* (Cambridge: Cambridge University Press, 1973); Douglass North, *Structure and Change in Economic History* (New York: W. W. Norton, 1981); and Margaret Levi, *Of Rule and Revenue* (Berkeley: University of California Press, 1988).

6. I define transaction costs as the costs of arranging a contract *ex ante* and monitoring and enforcing it *ex post*. See Thrain Eggertson, *Economic Behavior and Institutions* (New York: Cambridge University Press, 1990), p. 14.

This article does not examine the origins of these organizations. The literature on state formation is vast and diverse, and no attempt is made to engage the literature on the emergence of particular systems of rule. There is no suggestion that the territorial state emerged as an optimal solution to individual preferences. Rather, I examine why sovereign territorial states eventually displaced other institutional possibilities in Europe. The emphasis is thus placed on explaining selection among already existing alternatives.

I then compare the account herein to rival explanations and discuss the larger implications of this article. The most obvious conclusion is that the international system can go through dramatic transformations that are distinct from the less comprehensive changes in ordering principle or the distribution of power.⁷

Two perspectives on markets and hierarchies: new institutionalist theory meets historical sociology

When do individuals who engage in economic transactions seek hierarchy? When might political elites seek to capitalize on expanding their rule and when not? Those questions are central to NIH and have a direct bearing on institutional change in international relations.

But whether or not NIH literature can explain actual political outcomes is a matter of debate.⁸ I argue that this approach can indeed fruitfully be brought to bear on some of these issues, provided it is sensitive enough to historical cases; and here, historical sociology comes in.

The deductive perspective of new institutionalism

The NIH approach explains institutions as contractual agreements between rational individuals. This, of course, need not take the form of a formal contract, but the premise of this view is that individuals engage in strategic exchange. Individuals, whether they behave in an optimizing or satisficing way, pursue the formation of institutional structures that they believe will best meet

7. This lies in contrast to Waltz's view of international systems. His argument is that such systems vary only by ordering principle and capabilities. See Kenneth Waltz, *Theory of International Politics* (New York: Random House, 1979), pp. 82ff. While both ordering principle and capability remain critical elements in any understanding of international affairs, they alone do not determine structure. In other realist understandings, the most fundamental type of change in the international system is that of unit change. See Robert Gilpin, *War and Change in World Politics* (Cambridge: Cambridge University Press, 1981), pp. 39–42.

8. See Kathleen Thelen and Sven Steinmo, "Historical Institutionalism in Comparative Politics," in Sven Steinmo, Kathleen Thelen, and Frank Longstreth, eds., *Structuring Politics* (New York: Cambridge University Press, 1992), pp. 1–32; and James Caporaso, "Microeconomics and International Political Economy: The Neoclassical Approach to Institutions," in Ernst-Otto Czempiel and James Rosenau, eds., *Global Changes and Theoretical Challenges* (Lexington, Mass.: D. C. Heath, 1989), pp. 135–59.

their interests.⁹ Traders will prefer institutions that protect them physically and economically. That is, they will prefer systems of rule that help them to enter into stable contracts and that do not charge exorbitant taxes or fees. They will be concerned with *ex post* renegeing and will prefer institutional mechanisms that diminish that probability.¹⁰ From their side, political entrepreneurs will seek to capitalize on gains from trade and will seek to expand their rule in order to do so.¹¹ They perform a rough calculus aimed at maintaining or expanding their own political positions.

Following the classic Coase theorem, market arrangements will suffice to achieve efficient solutions. However, when transaction and information costs are not zero, a more hierarchical form of organization is called for. In short, institutions can be explained by microlevel analysis of individuals' preferences and contractual choices. Oliver Williamson thus explains firm organization by individual choices to reduce transaction and information costs.¹² That is, when transaction costs are high and property rights are ill-defined, then the contracting actors will benefit from structuring their interactions in a hierarchical fashion. Vertical integration, that is, hierarchy, will be pursued to the point that further integration increases marginal costs of expansion over marginal benefits.¹³

Individuals engaging in commerce thus will have reasons to prefer more hierarchy when this reduces information and transaction costs and creates more certitude in their environment. Political entrepreneurs will prefer to extend such hierarchy based on a calculation of a variety of factors. This calculation will depend on their responsiveness to the demands of domestic actors and on the costs of attempting such a strategy.

NIH literature also forces us to focus on the consequences of institutional choice. Two facets of institutional arrangements are critical: the ability to prevent free riding and the ability to credibly commit. The ability to prevent free riding has an obvious internal component. Collective goods will be underprovided unless the group is sufficiently small or unless there is a

9. For excellent overviews of the literature, see Terry Moe, "New Economics of Organization," *American Journal of Political Science* 28 (November 1984), pp. 739–77; and Beth Yarborough and Robert Yarborough, "International Institutions and the New Economics of Organization," *International Organization* 44 (Spring 1990), pp. 235–59.

10. See, for example, the discussion on renegeing by Beth Yarborough and Robert Yarborough, *Cooperation and Governance in International Trade* (Princeton, N.J.: Princeton University Press, 1992), pp. 14ff. For an example of how actors seek to devise institutions to limit *ex post* renegeing in foreign investments, see Charles Lipson, *Standing Guard* (Berkeley: University of California Press, 1985).

11. For one account that uses such "entrepreneurial logic" see David Friedman, "A Theory of the Size and Shape of Nations," *Journal of Political Economy*, vol. 85, no. 1, 1977, pp. 59–77.

12. See Oliver Williamson, *Markets and Hierarchies* (New York: The Free Press, 1975); and Oliver Williamson, *Economic Organization* (New York: New York University Press, 1986).

13. For an expansion of this logic to the integration of states, see Beth Yarborough and Robert Yarborough, "International Contracting and Territorial Control: The Boundary Question," *Journal of Theoretical and Institutional Economics*, forthcoming.

dominant actor to prevent such free riding.¹⁴ But it also has external implications: can a particular actor credibly commit? That is, to what extent can one expect an actor to comply with the terms of an agreement once it has been concluded?¹⁵ I will argue that some types of organization (particularly the city-leagues) lacked the ability to credibly commit, either because it was not clear that the negotiating party spoke on behalf of all the members of the organization or because the rulers of such organizations could not prevent free riding by their constituents.

In short, NIH literature can be useful in explaining the preferences for particular institutions. It furthermore contributes to explaining domestic and international consequences of institutional outcomes.

Some problems with new institutionalism

Despite the elegant and parsimonious explanations made possible by this theoretical approach, any extension of this theory from economic organization to political institution building must be made with caution. As NIH proponents themselves suggest, economic and political organizations differ in some fundamental respects. Most notably, the absence of a clear medium of exchange—that is, the absence of profit making as an evaluative mechanism of the rationale of such association—makes comparisons problematic.¹⁶

Second, political associations are based on a variety of individual motives: military protection, ideological affinities, as well as economic rationale.¹⁷ Individual kings, lords, clergy, and merchants will have variant sets of preferences. The political bargain struck between them need not a priori be reducible to any particular set of preferences. The resulting organization cannot be reduced to simple optimal efficiency arguments.

Moreover, NIH proponents, because they assume that institutions are basically rational, run the risk of committing a similar error to that of functionalist arguments. Namely, they deduce from the existing institution that its development had to take this particular course: the *post hoc, ergo propter hoc* fallacy. The existence of the institution is imputed to derive from the functions it performs. NIH assumes a direct connection between the preferences for an institution that would perform certain functions and the actual existence of a

14. The standard argument is by Mancur Olson, *The Logic of Collective Action* (Cambridge, Mass.: Harvard University Press, 1965). See also Russell Hardin, *Collective Action* (Washington, D.C.: Resources for the Future, 1982).

15. For a brief discussion of some of the issues involved, see Williamson, *Markets and Hierarchies*, pp. 20 and 48.

16. Moe, "New Economics of Organization," p. 761.

17. For example, Margaret Levi suggests that political associations are based on security motives; see Levi, *Of Rule and Revenue*. See also Richard Bean, "War and the Birth of the Nation State," *Journal of Economic History* 33 (March 1973), pp. 203–21; and Edward Ames and Richard Rapp, "The Birth and Death of Taxes: A Hypothesis," *Journal of Economic History* 37 (March 1977), pp. 161–78.

given institution. Sometimes preferences are then deduced tautologically from the functions that the existing institution performs.

Finally, transaction costs are often imputed post hoc, as well. Depending on whether a particular outcome occurred, transaction costs are suggested to have been high or low. But as Williamson himself notes, this leads to a tautological use of transaction costs.¹⁸

For these reasons, greater historical and empirical sensitivity is warranted. Preferences need not be imputed. The fallacy of post hoc rationalization can be avoided by describing the institutional choices then available to the individuals.¹⁹ Rather than deduce preferences from current functions, one can examine the individual's actual choices among alternatives. What transaction costs and credible commitments really mean can be made plausible by empirical data. They need not be deduced post hoc. Stated another way, new institutionalism needs history.²⁰

In sum, a microlevel focus on the contractual nature of institutions, which empirically takes account of the role that transaction and information costs play in institutional choice, can be useful. It illuminates the reasons for political entrepreneurs and merchants to strike particular bargains. Moreover, it provides for hypotheses on whether or not institutional arrangements will be competitively successful in the long run. Thus one might expect that institutions will be competitively successful if they can prevent free riding and defection. This ability will provide the means to rationalize the *domestic* economy and reduce transaction and information costs. Additionally, if particular organizational units can reduce the level of defection and *ex post* renegeing *between* themselves, then they can credibly commit to long-term agreements. If an organization cannot do so, there is good reason to exclude such an actor from the preferred set of units. Historically, sovereign rulers provided focal points to regularize transactions.²¹ They could do so because they could plausibly speak on behalf of their subjects and commit them. In game-theoretic terms, they were able to engage in iterative behavior.²²

18. Oliver Williamson, *The Economic Institutions of Capitalism* (New York: The Free Press, 1985), p. 4.

19. For brief and insightful critiques of functionalist explanations, see Robert Keohane, *After Hegemony* (Princeton, N.J.: Princeton University Press, 1984), pp. 80–83; Brian Barry, *Sociologists, Economists, and Democracy* (Chicago: University of Chicago Press, 1978), p. 169; and Yarborough and Yarborough, "International Institutions and the New Economics of Organization," pp. 252–55.

20. Many of these points are also raised in Thelen and Steinmo, "Historical Institutionalism in Comparative Politics."

21. For a discussion of focal points in enhancing cooperation, see Thomas Schelling, *The Strategy of Conflict* (Cambridge, Mass.: Harvard University Press, 1980). In my usage, however, I do not associate it with tacit communication.

22. See the discussion of how such actors can overtake the elements in an entire set in Robert Axelrod, "The Emergence of Cooperation Among Egoists," *American Political Science Review* 75 (June 1981), pp. 306–19. For a discussion of the prerequisites of iteration, see Kenneth Oye, *Cooperation Under Anarchy* (Princeton, N.J.: Princeton University Press, 1986), chap. 1.

Two historical solutions to markets and hierarchy

Historically, the relation between market and political authority has often taken two forms—imperial organization and ad hoc lord–merchant arrangements. Both forms can be understood within the explanatory framework of NIH.

In traditional empires, most economic interaction takes place within the boundaries of the empire. The geographical extension of political authority roughly corresponds with the spatial extension of the primary market. According to Roberto Unger, “Its most tangible feature is the overall coincidence of economic and political boundaries.”²³ Anthony Giddens argues that “imperial expansion tends to incorporate all significant economic needs within the domain of the empire itself, relations with groups on the perimeter tending to be unstable.”²⁴ Immanuel Wallerstein suggests that economically integrated zones, that is, world systems, often were transformed into empires.²⁵ While such an empire might recognize an outside world, it is regarded as a periphery with which one would deal as a nonequal.²⁶ The overarching hierarchy can be provided by political imperial control, as occurred in China, or by theocratic authority, as occurred in India.²⁷

The argument does not hold just for traditional empires. Clearly, modern imperial pretensions often have been fostered by coalitions between elites with transnational economic interests and political entrepreneurs. Economic elites might seek resources or markets for their products to which the empire gives them preferential access. Political rulers seek empire as a means of revenue, glory, or manpower.²⁸

But, of course, not all economic transactions fall within unified political control, even though some traders and rulers might desire such outcomes.²⁹ Even in premodern empires, a substantial amount of trade might be conducted beyond the imperial frontiers. Moreover, imperial preferences will be matched by other actors who seek to delimit such extension. Indeed, the greater the

23. Roberto Unger, *Plasticity into Power* (New York: Cambridge University Press, 1987), p. 113. Unger places such modern empires as the twentieth-century German and Japanese programs in this category.

24. Anthony Giddens, *The Nation-State and Violence* (Berkeley: University of California Press, 1987), p. 80.

25. Wallerstein, *The Modern World System*, p. 15.

26. On this point, see Friedrich Kratochwil, “Of Systems, Boundaries, and Territoriality: An Inquiry into the Formation of the State System,” *World Politics* 39 (October 1986), pp. 27–52.

27. For an overview of these dynamics, see John Hall, *Powers and Liberties* (Berkeley: University of California Press, 1985).

28. See Michael Doyle, *Empires* (Ithaca, N.Y.: Cornell University Press, 1986); and Jack Snyder, *Myths of Empire* (Ithaca, N.Y.: Cornell University Press, 1991).

29. As Abu-Lughod notes, many economic zones, and world systems, did not fall under political unification. She also notes, however, that unification can sometimes reduce uncertainty and protection costs. See Janet Abu-Lughod, *Before European Hegemony* (New York: Oxford University Press, 1989), pp. 208–9.

imperial drive, the greater the possibility that a balancing coalition will arise against the imperial actor.³⁰

When commerce occurs across boundaries without political supervision, that is, when the market geographically extends beyond existing political authorities, then merchants must rely on self-help. On the one hand, merchants must strike deals with local lords (or kings) to obtain local protection and trading privileges. Unger terms this set of arrangements “overlord–peddler” agreements. The overlord offers the trader landing rights, unobstructed passage, and protection in exchange for certain fees or taxes. In essence, traders must strike deals themselves, deals that are ad hoc and subject to defection by the local lord. In NIH terms, merchants had to try to create institutional arrangements that limited the incentives for *ex post* renegeing. It was unknown whether the other party would respect the terms of the bargain. As a result, long-distance trade often was conducted by merchants who were related by kin or of similar cultural background.³¹ Clan ties, reputation, and shared culture were critical to commerce, since such traits had particular advantages in preventing renegeing and in reducing transaction and information problems.³²

The problem of hierarchy and markets generally has been solved in two ways. In the imperial logic of organization, political elites might benefit from expanding their authority over the relevant sphere of economic transaction. They might do so to gain more revenue or tribute or to expand their power base. Merchants might acquiesce to such rule as it might create more certitude in their market environment.³³ The Roman Empire thus benefited both emperor and merchant. Similarly, the lamented “barbarian” extension of Mongol rule over much of the Eurasian continent in fact benefited trade by placing East–West trade routes under unified political control. Such developments reduced uncertainty by providing protection against infringement of property rights, violation of contracts, and outright predation by robbers and local lords. Such rule might reduce transaction costs by providing for certain coinage and particular weights and measures and by reducing the amount of legal customs.

30. Snyder, *Myths of Empire*, p. 6.

31. See Curtin’s discussion of trade diasporas in Philip D. Curtin, *Cross-Cultural Trade in World History* (Cambridge: Cambridge University Press, 1984).

32. See Janet Landa, “A Theory of the Ethnically Homogeneous Middleman Group: An Institutional Alternative to Contract Law,” *Journal of Legal Studies* 10 (June 1981), pp. 349–62; Hans-Jörg Schmidt-Trenz, “Private International Trade in the Shadow of the Territoriality of Law: Why Does It Work,” *Southern Economic Journal* 58 (October 1991), pp. 329–38; and Jack Carr and Janet Landa, “The Economics of Symbols, Clan Names, and Religion,” *Journal of Legal Studies* 12 (January 1983), pp. 135–56.

33. One might object that this expansion should not be perceived as a contract between ruler and ruled. However, if one assumes that at least a minimum of quasi-compliance is necessary for a trading system to continue, then a purely extortionist government will destroy its own basis of revenue should it tax its merchants to the point that there are no incentives to continue to engage in commercial activity.

Imperial authority, however, might have a negative consequence: it might exploit traders who, given that the market lies primarily within the empire, would have little opportunity for exit short of surrendering their occupation altogether. Unified control over the market is thus a double-edged sword.

In a decentralized logic of organization, merchants have to strike deals with lords on an ad hoc basis. This reduces the ability of long-term predation by one lord because a merchant can shift to another. But it increases protection problems and magnifies the uncertainty and transaction costs of cross-boundary trade without political protection. (This might be one reason why trade across boundaries was often luxury trade. High profit margins compensated for high risks and transaction costs.)

In Europe a third arrangement emerged. When trade increased in the late Middle Ages, imperial organization, either in the form of the Holy Roman Empire or Roman theocracy, failed. But this did not mean that merchants now had to fend for themselves. The overlord–peddler deals increasingly became supervised and routinized by a variety of political authorities. Of these, sovereign territoriality proved to have long-term advantages in that it created more certitude in the domestic economic environment. It reduced free riding and transaction costs more efficiently than the alternatives. Externally, sovereign authority became a focal point around which to conduct international affairs. In short, the success of the territorial state can at least partially be understood by its solution to the tension between markets and hierarchies.

The feudal era: local trade and barter exchange

Feudalism essentially entailed decentralized political authority, private possession of the means of violence, and the lack of any distinction between public and private authority.³⁴ Those political factors created an environment that greatly hindered commerce. While goods were produced primarily for local consumption and exchange was largely in-kind, this posed few problems. The late medieval expansion of trading opportunities, however, necessitated some institutional changes.

The feudal barriers to trade were varied. First, feudal organization lacked the absolute exclusion that we attach to private property. Instead, continued possession over time, *seisin*, established the legitimacy of the holder. Since production consisted mainly of agricultural commodities that were traded by barter and often took place in the context of reciprocal feudal relations, this was a workable solution. Holdings were embedded in a system of mutual

34. The characteristic features of feudalism are the subjects of long-standing disputes. Strayer's description is widely accepted, and that is the one I use here. See Joseph Strayer, *Feudalism* (New York: Van Nostrand Reinhold, 1965), p. 13.

obligations, and thus one could not easily convey any exclusive right to a third party.³⁵

Second, given that money was scarce, feudal obligations of necessity revolved around in-kind transfers.³⁶ Indeed, the very basis of feudal organization was centered around the granting of land by a high lord or king to a lesser vassal. Lords or knights of the manor demanded in-kind goods and services from the peasants and serfs who worked the lands, in exchange for which they were granted protection. All such relations were highly personalized and context-specific.

The legal system further hindered commercial transactions. Feudalism evolved into a system of preferential birth and operated as a closed caste system favoring the warrior aristocracy.³⁷ No amount of material wealth dispelled the difference between commoner and noble. This entailed preferential judicial procedures such as trial by ordeal and combat and judgment by noble peers rather than by inferiors. Clearly such arrangements did not work in favor of the burghers who sought more rational means of contract enforcement.

The high degree of localized rule also yielded a diversity of legal customs.³⁸ Given that even lesser lords had acquired previously royal rights to pass judgment, so-called banal justice, each locality had its own legal particularities.³⁹ This situation was only exacerbated by the general absence of written law—with the exception of southern France and Italy, the lands of the *droit écrit* (written law). Thus northern France, the land of the *droit coutumier* (customary law), was governed roughly by three hundred local customary codes.⁴⁰

Transaction costs were raised further by the fact that secular and ecclesiastical lords used their own weights and measures. Indeed, manipulation of such measures could yield tidy profits for local lords. They furthermore required traders to use their measures and weights at a given location, of course paying a fee to the lord for such use. By the late Middle Ages, England had hundreds of

35. Michael Saltman, "Feudal Relationships and the Law: A Comparative Inquiry," *Comparative Studies in Society and History* 29 (July 1987), pp. 514–32. See also Marc Bloch, *Feudal Society* (Chicago: University of Chicago Press, 1961), pp. 115–16.

36. Thus, Polanyi defined feudalism as an in-kind economy. See Karl Polanyi, "Primitive Feudalism and the Feudalism of Decay," in George Dalton, ed., *Economic Development and Social Change* (New York: Natural History Press, 1971), pp. 141–47 and p. 142 in particular. An indicator of this local consumption was the itinerancy of kings. Kings traveled to locations to claim lodgings and food, to which they were entitled by the *gîte*, the claim to hospitality from their vassals.

37. Leopold Genicot, "La Noblesse au Moyen Age Dans L'Ancienne 'Francie': Continuité, Rupture ou Evolution?" (Medieval nobility in ancient France: Continuity, break, or evolution?) *Comparative Studies in Society and History*, vol. 5, no. 1, 1962, pp. 52–59.

38. For a good account of the local diversity of law, see Susan Reynolds, *Kingdoms and Communities in Western Europe 900–1300* (Oxford: Clarendon Press, 1984), chaps. 1 and 2. See also Harold Berman, *Law and Revolution* (Cambridge, Mass.: Harvard University Press, 1983), particularly chap. 13.

39. For a discussion of these rights of local lords, see Georges Duby, *Rural Economy and Country Life in the Medieval West* (Columbia: University of South Carolina Press, 1968), p. 181.

40. Jean Dunbabin, *France in the Making 843–1180* (Oxford: Oxford University Press, 1985), p. 277.

different major measures, with perhaps as many as twenty-five thousand local variations.⁴¹

Finally, lords minted their own coins. In France there were perhaps three hundred minters; in Germany, perhaps six hundred. Each Italian town had its own mint.⁴² Traders thus had to learn which exchange rates were operative, whether or not the local lords recently had debased their currency, what the gold value of such coin might be, and so forth.

All such matters made the conduct of any business a highly speculative and sometimes dangerous affair. In the terms of new institutionalism, transaction and information costs were high, and the danger of *ex post* renegeing was ubiquitous.

As long as barter and local exchange prevailed, none of this was particularly problematic. By the late eleventh and early twelfth centuries, however, a dramatic economic transformation began to take place.⁴³ Wastelands and forests were cleared, and agricultural production and trade began to expand. This economic revival had several causes—decreasing invasions, improved agricultural production, possibly even a change in weather. However, the most critical factor in this transformation was the role played by long-distance trade.⁴⁴ Trade made increasing division of labor possible. Consequently, many new towns were founded, and existing towns grew in the wake of this economic boom. Indeed, many current European towns trace their founding to this period.⁴⁵

The growth of towns caused a new political group to emerge: the burghers or town dwellers. The existing institutions had favored the interests and perspectives of clergy and feudal lords. The new actors, the townspeople, had little

41. Ronald Zupko, "Weights and Measures, Western European," in Joseph Strayer, ed., *Dictionary of the Middle Ages*, vol. 12 (New York: Charles Scribner, 1989), p. 582; Witold Kula, *Measures and Men* (Princeton, N.J.: Princeton University Press, 1986), provides a fascinating account of the variety of weights and measures and of their regulation as an issue of contention. For a classic discussion of the variation in weights and measures and coinage throughout the Mediterranean, see Robert Lopez and Irving Raymond, *Medieval Trade in the Mediterranean World* (New York: W. W. Norton, 1967), pp. 11ff.

42. Herbert Heaton, *Economic History of Europe* (New York: Harper and Row, 1948), p. 175.

43. Bloch describes this period as the second feudal period. See Bloch, *Feudal Society*, p. 69. The economic growth is well-documented in Carlo Cipolla, *Before the Industrial Revolution* (New York: W. W. Norton, 1980); Georges Duby, *The Early Growth of the European Economy* (Ithaca, N.Y.: Cornell University Press, 1974); and Jacques Le Goff, *Medieval Civilization* (New York: Basil Blackwell, 1988).

44. See Fernand Braudel, *The Perspective of the World* (New York: Harper and Row, 1984); Henri Pirenne, *Medieval Cities* (1925, reprint; Princeton, N.J.: Princeton University Press, 1952). For a reaffirmation of Pirenne, see Le Goff, *Medieval Civilization*; Fritz Rörig, *The Medieval Town* (Berkeley: University of California Press, 1969), p. 20; Geoffrey Barraclough, *Origins of Modern Germany* (New York: W. W. Norton, 1984), pp. 4 and 76; and Adriaan Verhulst, "The Origins of Towns in the Low Countries and the Pirenne Thesis," *Past and Present* 122 (1989), pp. 3–35.

45. See Paul Hohenberg and Lynn Lees, *The Making of Urban Europe* (Boston: Harvard University Press, 1985); and Edith Ennen, *The Medieval Town* (Amsterdam: North Holland Publishing, 1979).

influence in that political set of arrangements. Thus, coupled with the rise of the towns, a new set of interests and ideological perspectives emerged with a new set of demands. The feudal order—based on crosscutting jurisdictions and on ill-defined property rights and judicial procedures—did not fit the burghers' mercantile pursuits. Market exchange and trade required abstract contractual obligations with money as a medium.⁴⁶ The emergence of towns thus created a dynamic element in the European political system. As Georges Duby wrote, "Central to the revitalized principalities, towns now held the key position in the political order that slowly emerged from the tangle of feudal relations."⁴⁷

Despite the opposition of the feudal aristocracy, the German emperor, and the church, the economic transformation made new political arrangements possible. Most accounts argue that the possibilities of continued feudalism, a centralized empire, and theocracy had waned by the early fourteenth century.⁴⁸ The future lay with three new institutional innovations: the city-league, the city-state, and the sovereign territorial state. All three responded in some degree to the demands of commercial actors, that is, of the townspeople. Sovereign territorial states emerged particularly in England and France, while city-states gradually arose out of the roughly two hundred to three hundred independent communes of Italy. Germany became the primary location of city-leagues, which united to curtail predation by the lords.

All three were able to respond to the precapitalist opportunities of the period. It is thus a mistake to argue that sovereign territorial states supplanted feudal organization in a linear and sequential way. All three institutional arrangements—city-league, city-state, and sovereign territorial state—could mobilize more resources than could traditional feudal organization. The question is not why territorial states replaced feudalism but why they ultimately managed to displace their contemporary competitors.

In short, until the late Middle Ages, European political development differed little from that elsewhere. Decentralized political authority necessitated ad hoc bargains and reliance on self-help by social actors. Alternatively, both emperor and pope attempted to reestablish imperial organization. In Europe none of these possibilities—feudal lordships, empire, or theocracy—eventually carried the day. Instead, the dramatic economic change led to institutional innovation unique to the European historical experience.

We might conjecture that the new institution that would ultimately prove most successful would be the one that could lessen the problems of feudal particularism the most. A successful institution would have to reduce the

46. For a discussion of the significant implications of that transition, see Marvin Becker, *Medieval Italy* (Bloomington: Indiana University Press, 1981).

47. Duby, *The Early Growth of the European Economy*, p. 252. For a similar view, see John Morrall, *Political Thought in Medieval Times* (Toronto: University of Toronto Press, 1980), p. 42.

48. For an assessment that these three institutional arrangements indeed had come to the end of their primacy by 1300, see Tilly, *The Formation of National States in Western Europe*, p. 26; and Morrall, *Political Thought in Medieval Times*.

number of crosscutting and rival jurisdictions. By centralizing justice and authority, it could also reduce defection by its constituents. Furthermore, internal hierarchy would reduce the number of legal codes, standardize judicial procedure, and provide for an appeals process. In the economic sphere, an organization's success might be measured by the centralization of coinage and the standardization of weights and measures. Consequently, if one accepts that standardizations of laws, weights and measures, and coinage are at least some of the prerequisites for a modern economy, then we have a priori indicators of success. Furthermore, given that European trade would be transboundary trade, a successful institution could a priori be specified as an institution that could credibly commit to international agreements. Of the new institutional types that emerged in the late Middle Ages, which performed these functions most successfully in the course of the next centuries?

Rivalry and selection among the new institutional possibilities

Sovereign territorial rule

The possibility of unified political control over the primary area of economic interactions (the imperial solution) had failed by the early fourteenth century. The expanding level of trade, therefore, occurred across political boundaries. Consequently, traders had to work out arrangements of their own, such as the development of merchant law,⁴⁹ and had to negotiate with a variety of political authorities over whose borders they crossed.

Rulers, however, realized that rationalizing the economies of their kingdoms and facilitating trade were in their own interests. Consequently, they became involved in both domestic and international tasks. Internally, political authorities gradually became involved in creating an efficient domestic economy by combating feudal particularism. Externally, they began to create conditions that made long-term iterative behavior predictable and relatively stable. In fact, as P. H. Sawyer wrote, "One of the prerogatives claimed by English kings in the thirteenth and fourteenth centuries was the right to regulate merchants and commerce."⁵⁰

One aspect of such regulation was the attempt to centralize and regulate coinage. The dissemination of mints (for example, the small duchy of Berry

49. Merchant law is discussed by Berman, *Law and Revolution*, chap. 11. For a new institutionalist view of merchant law, see Paul Milgrom, Douglass North, and Barry Weingast, "The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges, and the Champagne Fairs," *Economics and Politics* 2 (March 1990), pp. 1–23; Avner Greif, "Institutions and International Trade: Lessons from the Commercial Revolution," *American Economic Review* 82 (May 1992), pp. 128–33; and Bruce Benson, "The Spontaneous Evolution of Commercial Law," *Southern Economic Journal* 55 (January 1989), pp. 644–61.

50. The quotation is drawn from p. 139 of P. H. Sawyer, "Kings and Merchants," in P. H. Sawyer and I. Wood, eds., *Early Medieval Kingship* (Leeds: University of Leeds, 1977), pp. 139–58.

alone had twelve different mints) correlated with frequent depreciation by many of the minting lords.⁵¹ To combat such fragmentation, the early Capetian kings declared royal currency to be the only currency of the French realm.⁵² Although feudal lords continued to mint coins, their area of usage increasingly was limited to that area immediately under each's control. The number of mints declined from roughly three hundred to thirty by the beginning of the fourteenth century, the end of the Capetian reign.⁵³

Although English minting already was much more centralized, the English king tried to decrease further the number of baronial mints. Moreover, English traders benefited from a regular currency that was debased only rarely.⁵⁴

Monarchs also tried to standardize weights and measures. Here the French king initially was less successful. It was clear to the bourgeois, however, that only a hierarchical form of government could ultimately make inroads in that direction. Philip V (1316–22) was one of the first French monarchs to regulate weights and measures, but others continued the policy. Louis XI in the fifteenth century, Louis XII in the reform of 1508, and Francis I and Henry II in a variety of edicts in 1540, 1557, 1575, and 1579 all tried to reduce the mind-boggling variety of measures then used throughout the kingdom.⁵⁵ In England, central authority made greater inroads into standardizing weights and measures. Some progress already had been made beginning in the twelfth century. In 1317, the crown had ordered that the standards of London be used. Other orders, such as the statute of 1389 and the parliamentary legislation of 1413, further declared standards and specified penalties for offenders. But the movement toward standardization received particular impetus during the Tudor government. In the words of Ronald Zupko, "Before the imperial weights and measures era began in the third decade of the nineteenth century, no period in English history was as important from the standpoint of physical standards as the Tudor."⁵⁶

Particularism and customary procedures in the legal field also were tackled. By the middle of the thirteenth century, kings had forbade trial by combat and

51. Duby, *The Early Growth of the European Economy*, p. 249.

52. For French royal efforts in this regard, see Robert Fawtier, *The Capetian Kings of France* (New York: St. Martin's Press, 1960), pp. 188–91. In general, all royal authorities tried to standardize and rationalize the legal process and bring more certitude to economic transactions. See Berman, *Law and Revolution*, pp. 466–77; Peter Spufford, "Coinage and Currency," *The Cambridge Economic History of Europe*, vol. 2 (Cambridge: Cambridge University Press, 1987), p. 812; and Henry Myers, *Medieval Kingship* (Chicago: Nelson-Hall, 1982), p. 319.

53. See Heaton, *Economic History of Europe*, pp. 174–75; and William Jordan, *Louis IX and the Challenge of the Crusade* (Princeton, N.J.: Princeton University Press, 1979), p. 209.

54. Carlo Cipolla, "Currency Depreciation in Medieval Europe," *Economic History Review*, vol. 15, no. 3, 1963, pp. 413–22. For the stability of English coinage, see Duby, *The Early Growth of the European Economy*, p. 251.

55. See particularly Kula, *Measures and Men*, chap. 22. Also see Elizabeth Hallam, *Capetian France 987–1328* (New York: Longman, 1980), p. 284; and Myers, *Medieval Kingship*, p. 319.

56. Ronald Zupko, *British Weights and Measures* (Madison: University of Wisconsin Press, 1977), p. 74. For another discussion of English success at centralization, see Rórig, *Medieval Town*, pp. 65ff.

ordeal.⁵⁷ Rulers tried to decrease local particularism by insisting on hierarchical appeal procedures and by turning to Roman (that is, written) law for greater certitude. Roman law not only justified sovereign rule, and hence was desirable from the king's position for that reason alone, but it also contained developed theories of property. While English law did not take the same route, there too kings began to rationalize judicial procedure. As early as the twelfth century, Henry II had started to revolutionize "the system of law in England primarily by imposing royal jurisdiction, and royal law, upon criminal and civil matters that had previously been under local and feudal jurisdiction," in the words of Harold Berman.⁵⁸ One of the dimensions of this royal jurisdiction was greater protection for those who were illegitimately dispossessed. This occurred even prior to the development of such principles in Roman law on the Continent.⁵⁹

Externally, kings started to act as representatives of their domestic constituencies.⁶⁰ For example, the French king claimed during the Hundred Years War that only he was allowed to negotiate with the English.⁶¹ Government also became involved in regulating trade. According to Jacques Bernard, "They strictly controlled all 'letters of mark' and reprisals against foreign merchants, and in their place substituted due process of law. . . . they also tried to guarantee the authenticity, validity and execution of trading agreements."⁶² Gradually, merchant law, the system of law that the merchants had administered themselves in an ingenious self-help construction, was replaced by royal law.⁶³ To use Nettl's term, sovereign rulers became the gatekeepers separating their domestic realms from the international arena.⁶⁴

The process of rationalizing the economy and centralizing the judicial system was a lengthy one. England was initially much more successful than France. Still, the latter had also made considerable inroads into centralization even before Jean-Baptiste Colbert's mercantilist policies of the early seventeenth century. In short, from the very beginning of sovereign territorial rule, which was formally claimed by kings in the late thirteenth century and throughout the

57. See Fawtier, *The Capetian Kings of France*, p. 188; and Berman, *Law and Revolution*, p. 467.

58. Berman, *Law and Revolution*, p. 445.

59. R. C. Van Caenegem, *The Birth of the English Common Law* (New York: Cambridge University Press, 1988), 2d ed., pp. 44 and 91.

60. For an argument that the Capetian kings had formed the basis for sovereign authority by 1300, see Hallam, *Capetian France 987-1328*, pp. 262, 266, and 308; and Fawtier, *The Capetian Kings of France*, pp. 47 and 189.

61. Aline Vallee, "État et Sécurité Publique au XIVe Siècle: Une Nouvelle Lecture des Archives Royales Françaises" (State and public security in the fourteenth century: A new reading of French royal archives), *Histoire, Économie et Société* 1 (Spring 1987), pp. 3-15. Similarly the king claimed jurisdiction in translocal affairs such as piracy. See Frederic Cheyette, "The Sovereign and the Pirates," *Speculum*, vol. 45, no. 1, 1970, pp. 40-68.

62. Jacques Bernard, "Trade and Finance in the Middle Ages 900-1500," in Carlo Cipolla, ed., *The Fontana Economic History of Europe*, vol. 1 (Glasgow: Collins, 1972), p. 314.

63. Benson, "The Spontaneous Evolution of Commercial Law," p. 651.

64. Nettl, "The State as a Conceptual Variable," p. 564.

preindustrial era, monarchs worked toward eliminating the remnants of feudal particularism.

Of course, kings and queens had reasons of their own to do so. By providing such goods, they obtained the support of the towns and thereby capital. Moreover, by enhancing the economic well-being of the realm, they increased their own ability to raise more revenue.⁶⁵

*The city-league: fragmented
sovereignty and nonterritoriality*

The city-league lies in starkest contrast to the state. The most powerful of such leagues was the Hanseatic League, or Hansa, which consisted of 160–200 towns and monopolized most of the northern trade.⁶⁶ This league did not adopt the principle of sovereign territoriality. It had no clear internal hierarchy and no territorial borders to mark its jurisdiction. Because of its importance, and because its organization was typical of many other city-leagues (such as the Rhenish League, the Saxon League, the Swabian League, and others), I will take the case of the Hansa as representative of city-leagues in general.

Unlike the situation in England and France, where the interests of the monarch in an efficient economy corresponded with those of the burghers, no central authority could legitimately claim to be a provider of internal collective goods in the Hansa. Each town mistrusted the objectives of the others. In such an arena of mutual distrust, economic transactions remained unstable. Efforts by Lübeck, Hamburg, or Bremen, say, to standardize weights and measures met with noncooperation. Consequently, city-league members continued to use a variety of weights and measures to their own advantage.⁶⁷ Moreover, to complicate matters even further, measures might vary with the distance from the point of origin. That is to say, traders manipulated measures to hide illicit profit margins from ecclesiastical scrutiny.

One way of attempting to overcome this lack of collective action and create greater standardization was the demand of the Hansetag (the Hanseatic

65. On the affinity between king and burghers, see Gianfranco Poggi, *The Development of the Modern State* (Stanford, Calif.: Stanford University Press, 1978), p. 63; Edward Miller, “Government Economic Policies and Public Finance 1000–1500,” in Cipolla, *The Fontana Economic History of Europe*, vol. 1, pp. 356 and 369; and Rörig, *The Medieval Town*, pp. 58–64.

66. The seminal work on the Hansa is by Philippe Dollinger, *The German Hansa* (Stanford, Calif.: Stanford University Press, 1970). Wernicke gives a good description of the Hansa’s formative period and its regional and local subassemblies. See Horst Wernicke, *Die Städtehanse 1280–1418* (The Hanseatic cities 1280–1418) (Weimar: Hermann Böhlhaus Nachfolger, 1983). A good introduction to the history of the Hansa can be found in G. V. Scammel, *The World Encompassed: The First European Maritime Empires Circa 800–1650* (Berkeley: University of California Press, 1981), chap. 2.

67. On the lack of success in standardizing measures and weights, see Otto Held, “Hansische Einheitsbestrebungen im Mass und Gewichtswesen bis zum Jahre 1500” (Hanseatic attempts at unity in measures and weights until the year 1500), *Hansische Geschichtsblätter* 45 (1918), pp. 127–67.

Parliament) that its regional associations adopt the standards of one of the dominant towns of that region. The Dutch towns, for example, were expected to follow the lead of Cologne. But the Dutch, of course, benefited from using and manipulating their own measures and hence had little reason to comply.⁶⁸

Nor could the many Hanseatic towns agree on which currency to use and who should mint it. The Hansa saw the use of Brandenburg talers, Lübeck and Prussian marks, Rhenish guilders, Flemish pounds, and other currencies. The various attempts to standardize coinage, for example through the Wendish union on coinage, failed miserably. Relative to England and France, Hanseatic currencies remained in disarray.⁶⁹

Legal codes also remained diverse throughout the Hansa. Daughter cities adopted the codes of mother cities in an ad hoc manner. Some cities adopted the legal code of Lübeck, others accepted codes from Magdeburg, Hamburg, or other towns.⁷⁰ Furthermore, enforcement and implementation of the decisions of the Hanseatic parliament were left to the individual towns. Although the Hansa provided for punishment, such as exclusion, for towns that defected, in general the sanctioning process left a great deal of leeway for individual shirking.

Given the lack of effective control of each town over the others, even the major towns tended to pursue their own objectives rather than provide for collective goods as a hegemonic power might. Thus, despite the political organization of the Hansa, members continued to rely on mechanisms usually associated with self-help systems to organize trade. One such mechanism was the implementation of ordinances to ensure the maintenance of strong family ties. Marrying non-Hanseatics was forbidden and business partnerships with them could be penalized by the loss of two fingers.⁷¹

The distrust among Hanseatic members not only obstructed efforts for greater centralization but at the same led to free riding when external collective activity was called for. While the Hansa was sometimes quite successful in waging war, there was always the danger of individual cities refusing to fulfill their obligations. Thus, the Saxon members were slow to support the Wendish towns in the war with Denmark.⁷² Some of the Dutch member towns were reluctant to support the league against nonmember Dutch towns in Holland

68. Leo Lensen and Willy Heitling, *De Geschiedenis van de Hanze* (The history of the Hansa), (Deventer, Holland: Arko, 1990), pp. 24 and 36.

69. Dollinger, *The German Hansa*, p. 207. Wilhelm Jesse, "Die Münzpolitik der Hansestädte" (The coinage policy of the Hanseatic cities), *Hansische Geschichtsblätter* 53 (1928), pp. 78–96, contrasts the lack of success in standardizing coinage and minting in the Hansa with the relative success of France. See also Rörig, *The Medieval Town*, p. 65. Holborn comments on the lack of centralization and the chaotic currency conditions in Germany as compared with England. See Hajo Holborn, *A History of Modern Germany: The Reformation* (Princeton, N.J.: Princeton University Press, 1959), p. 68.

70. Berman, *Law and Revolution*, p. 376.

71. Lensen and Heitling, *De Geschiedenis van de Hanze*, p. 41.

72. Matthias Puhle, "Der Sächsische Städtebund und die Hanse im Späten Mittelalter" (The

and Zeeland.⁷³ Even Lübeck and Hamburg, which as the Hansa's dominant towns were most likely to prevent free riding, were at one time briefly expelled from the league for defecting from the league themselves.

Sovereign actors deliberately profited from this lack of unity. For example, the Danish king claimed that certain privileges were due to the Wendish but not the Prussian towns, although privileges had in fact been agreed upon for the Hansa as a whole. The Prussians drew the incorrect conclusion that the Wendish towns had defected and had negotiated private benefits of their own.⁷⁴

The lack of clear sovereign authority also made it difficult for the league to credibly commit itself to international agreements. Treaties were negotiated by the league as a whole, but individual towns were able to choose whether to ratify the treaty or not. Thus, although Prussian towns refused to sign the peace treaty with England in 1437, the Hansa nevertheless insisted that English concessions were due to the Prussians.⁷⁵ When English negotiators in the sixteenth century demanded a list of all Hanseatic towns so that they could know which ships could legitimately claim the specific privileges that the Hansa had negotiated, the league refused.⁷⁶ It feared that the crown would seek to negotiate with individual towns at the expense of the league as a whole, a not illusory danger, since England stood to gain by enticing towns to defect.⁷⁷

From its side, the league would occasionally welcome free riding to exonerate itself from any responsibility for infractions of international agreements. For example, when England claimed that members of the Hansa engaged in piracy and violated agreements thereon, the Hanseatic League argued that it had no control over individual towns. In other words, it had no clear means to deal with free riding.⁷⁸

The Hansa thus could not credibly commit itself to long-term iterative relationships with other governments since it could not control individual towns' incentives to free ride. Benefits of defection would accrue to the individual town, whereas the costs would be borne by all. Moreover, the Hansa itself benefited from obfuscating which members were part of the league, and hence non-Hanseatics often distrusted their negotiating partners.

Saxon city-league and the Hansa in the late Middle Ages), *Hansische Geschichtsblätter* 104 (1986), pp. 21–34.

73. Lensen and Heitling, *Geschiedenis van de Hanze*, p. 155.

74. Dietrich Schäfer, "Zur Frage nach der Einführung des Sundzolls" (On the question of the introduction of customs duties in the sound), *Hansische Geschichtsblätter* 5 (1875), pp. 33–43.

75. T. H. Lloyd, *England and the German Hanse 1157–1611* (New York: Cambridge University Press, 1991), p. 370.

76. Georg Fink, "Die Rechtliche Stellung der Deutschen Hanse in der Zeit ihres Niedergangs" (The juridical position of the German Hansa in the time of its decline), *Hansische Geschichtsblätter* (1936), pp. 122–37. See also Lloyd, *England and the German Hanse*, pp. 294–304, 319, and 378.

77. On English expansion into the Baltic, see Ralph Davis, *English Overseas Trade 1500–1700* (London: Macmillan, 1973), pp. 16–19.

78. John Conybeare, *Trade Wars* (New York: Columbia University Press, 1987).

Finally, the Hansa did not follow the principle of territorial delimitation of its authority.⁷⁹ It had no recognized borders. Consequently, its attempts to bring new members into the league ran directly counter to the interests of sovereign state actors, posing to them the same danger as imperial logics of organization. Indeed, the Hansa acquired privileges in England that exempted it from parliamentary statutes.⁸⁰

In short, the city-league had problems with establishing internal hierarchy, and consequently it was less successful than states in standardizing coinage and centralizing jurisdiction. Externally, it was not able to credibly commit to international treaties. Moreover, given its lack of clearly defined territorial jurisdiction, it was less compatible with the territorial units in the international system. In the Peace of Westphalia, for example, the princes refused to recognize the league.⁸¹ However, individual cities such as Bremen, Hamburg, and Lübeck were considered imperial cities (hence, *de facto* independent) and as city-states were allowed to participate.⁸² The league therefore was refused not on the basis of the total material resources at its disposal but on the basis of its particular organizational logic. The structure of the league was such that it did not fit that of an international state system: it was not a like type.

I do not suggest that the material resources of the organization are irrelevant altogether. It would be difficult to exclude the Hansa in its prime. However, a material explanation alone cannot clarify why so many small actors continued as legitimate actors in international relations. Bremen, Hamburg, and many others were considered independent actors for many centuries after Westphalia. While their limited resources might have made them second- or third-order players in international politics, they were considered as *legitimate* players.⁸³

The demise of the Hansa, therefore, had several causes. First, it was due to the competitive nature of the international system in which it was confronted by rival forms of organization. Sovereign states proved better at mobilizing their societies and enhancing their domestic economies. Territorial units gradually encroached on the independence of the cities that were members of the league. Parallel with this “Darwinian” selective process were the choices of

79. See Werner Link, “Reflections on Paradigmatic Complementarity in the Study of International Relations,” in Ernst Czempel and James Rosenau, eds., *Global Changes and Theoretical Challenges* (Lexington, Mass.: D. C. Heath, 1989), p. 101.

80. Lloyd, *England and the German Hanse*, p. 375.

81. Krasner is right in pointing out that Westphalia is not a dramatic break with the past. I see it as a codification of practices already under way centuries before that. Nevertheless, it does serve a useful purpose as a benchmark signifying that the formation of a state system was coming to fruition. See Stephen Krasner, “Westphalia and All That,” in Judith Goldstein and Robert Keohane, eds., *Ideas and Foreign Policy* (Ithaca, N.Y.: Cornell University Press, 1993), pp. 235–64.

82. Hans-Bernd Spies, “Lübeck, die Hanse und der Westfälische Frieden” (Lübeck, the Hansa, and the Peace of Westphalia), *Hansische Geschichtsblätter* 100 (1932), pp. 110–24.

83. Structuration theorists might frame this in terms of the system empowering only like actors. See, for example, Giddens, *The Nation State and Violence*, p. 282. Rephrased this implies that actors recognize other units only on their terms—they admit only other states as legitimate actors in international relations.

individuals to form or join units they perceived as superior modes of organization.⁸⁴ The German princes thus started to mimic the administrative processes and legal framework of territorial states.⁸⁵ Towns, no longer convinced of the benefits of membership in the league, defected to the protection of territorial rulers or styled themselves as independent states in their own right—however small they might be. But the demise of the Hansa also proceeded along another dimension of mutual empowerment and mutual recognition. The Hansa—nonterritorial in nature, with only a weakly established hierarchy, and fraught with free riding—did not fit a system of territorially demarcated states where sovereigns could credibly negotiate on behalf of the members of their societies.

City-states and fragmented sovereignty

City-states shared characteristics of both sovereign territorial states and city-leagues. Internally, city-states looked somewhat like leagues in that they lacked the clear internal hierarchy of sovereign territorial states. Indeed, Charles Tilly describes both such urban organizations as fragmented sovereignties.⁸⁶ When the two hundred to three hundred independent communes of northern Italy gradually were incorporated into about a dozen larger city-states, they were given inferior status, roughly similar to that of colonies.⁸⁷ Such subjugated towns, however, retained much autonomy. According to Giorgio Chittolini, “Large responsibilities were left to cities—a distribution of power that some historians have called a diarchy.”⁸⁸

Conversely, the inhabitants of the subjugated cities did not enjoy the benefits that derived from being a citizen of such dominant cities as Venice and Florence.⁸⁹ When threatened by foreign powers, the subjugated towns often

84. In other words, they exercised exit rather than loyalty. See Albert Hirschman, *Exit, Voice, and Loyalty* (Cambridge, Mass.: Harvard University Press, 1970).

85. For this institutional mimicry, see Barraclough, *Origins of Modern Germany*, pp. 279 and 342–52; and Holborn, *A History of Modern Germany*, pp. 34–36 and 57.

86. Charles Tilly, *Coercion, Capital, and European States, AD 990–1990* (Cambridge: Basil Blackwell, 1990), p. 21.

87. For the early history of these communes, see Daniel Waley, *The Italian City-Republics* (New York: McGraw-Hill, 1969).

88. The quotation is drawn from p. 699 of Giorgio Chittolini, “Cities, City-States, and Regional States in North-Central Italy,” *Theory and Society* 18 (September 1989), pp. 689–706. Also see Anderson, *Lineages of the Absolutist State*, p. 152; Brian Pullan, ed., *Crisis and Change in the Venetian Economy in the Sixteenth and Seventeenth Centuries* (London: Methuen, 1968), p. 15; and Jean-Claude Hocquet, “Venise, Les Villes et les Campagnes de la Terreferme XVe–XVIIe siècles” (Venice, and the towns and countryside of the mainland in the fifteenth and sixteenth centuries” in Neithard Bulst and Jean-Philippe Genet, eds., *La Ville, La Bourgeoisie et la Genèse de L’État Moderne* (The city, the bourgeoisie, and the creation of the modern state) (Paris: CNRS, 1988), pp. 211–28.

89. For an exposition of this internal fragmentation, see Eric Cochrane, *Florence in the Forgotten Centuries 1527–1800* (Chicago: University of Chicago Press, 1973), p. 65; Eric Cochrane, *Italy 1530–1630* (London: Longman, 1988), pp. 46–47; Stuart Woolf, *A History of Italy 1700–1860* (London: Methuen, 1979), pp. 57 and 63; and Frederic Lane, *Venice: A Maritime Republic* (Baltimore, Md.: Johns Hopkins University Press, 1973), p. 424.

would favor foreign powers over their own dominant city. The subject cities perceived Venice as “the city of three thousand tyrants.”⁹⁰ Consequently they were usually garrisoned by troops of the dominant town.

This lack of internal unity can be seen in the lack of rationalization of internal economies. Although much research needs still to be done, particularly on city-states after the Renaissance, the evidence suggests that—not unexpectedly, given these divisions and lack of centralization—weights and measures were standardized relatively late. Most standardization did not occur until the eighteenth century.⁹¹ The lack of unity also was visible in the tensions between capital and subject cities on economic matters. For example, evidence suggests that Venice deliberately kept some industries on its mainland from developing so as to prevent competition with Venice itself.⁹²

On currency issues, less diversity was seen, with the currency of the dominant city being the one usually accepted throughout the city-state. Particularly, Venice seems to have established a relatively stable currency system.⁹³

Legal codes in the city-states, however, remained diverse. Guilds, aristocracy, clergy, and the subject towns retained their own legal authority. Jean-Claude Hocquet wrote that Venice “did not dream of issuing an ordinance that might have applied to the entire state.”⁹⁴

In general, while in the course of the sixteenth and seventeenth centuries sovereign territorial states were on their way to rationalizing their economies, the opposite tendency seemed at work in Italy. Although the various ruling elites of the city-states had attempted to transform themselves into territorial states, they were largely unsuccessful. As Michael Knapton describes, Venice took “no planned action to create a more economically integrated region with deliberate policies to favour freer patterns of internal flow of goods.”⁹⁵ Italy thus remained plagued by “the survival of innumerable transit duties” and suffered from the continued existence of “protectionist duties and internal in barriers to trade,” in Stuart Woolf’s words.⁹⁶

Indeed, according to many historians, the Italian city-states refeudalized. Their internal fragmentation blocked their transformation into more integrated and rationalized economies. To again quote Woolf, feudal forms of

90. Denys Hay and John Law, *Italy in the Age of the Renaissance* (London: Longman, 1989), p. 261.

91. See Braudel, *The Perspective of the World*, p. 289; Cochrane, *Italy 1530–1630*, p. 183; and Woolf, *A History of Italy 1700–1860*, p. 208.

92. Richard Rapp, *Industry and Economic Decline in Seventeenth-Century Venice* (Cambridge, Mass.: Harvard University Press, 1976), p. 160.

93. Lane, *Venice: A Maritime Republic*, p. 427.

94. See Hocquet, “Venise, Les Villes et les Campagnes de la Terreferme,” p. 210; and Woolf, *A History of Italy 1700–1860*, p. 64.

95. Michael Knapton, “City Wealth and State Wealth in Northeast Italy, Fourteenth through Seventeenth Centuries,” in Bulst and Genet, *La Ville, La Bourgeoisie et la Genèse de L’État Moderne*, p. 189. For a similar evaluation of Florentine efforts, see Cochrane, *Italy 1530–1630*, p. 9.

96. Woolf, *A History of Italy 1700–1860*, pp. 52 and 59. See also Cochrane, *Italy 1530–1630*, p. 183.

tenure became “obstacles to the possession of full property rights.”⁹⁷ Indeed, territorial demarcation between such city-states once again became amorphous, since feudatories held contiguous domains across borders.⁹⁸

Externally, however, city-states behaved much like sovereign territorial states. They recognized formal territorial limits to their jurisdiction—that is, they accepted borders—and routinized their diplomatic representation.⁹⁹ While the subjugated towns retained much local autonomy, as far as external affairs were concerned the dominant cities represented the entire city-state.¹⁰⁰ In other words, city-states had the means of establishing credible commitments.¹⁰¹

Unlike the city-leagues, the city-states died a slow death. While city-leagues were unacceptable to the other actors in the system, city-states were considered legitimate members of the international community, given that they were territorially defined and provided clear focal points for negotiation. Unlike the city-league, the system of rule of the city-state was not inherently at odds with the principle of territorially circumscribed authority.

Competitively, however, the city-states suffered from some of the same problems as the leagues, in that they lacked internal unity and consequently were slow in rationalizing their economies. While they formally did not come to an end until their incorporation by Napoleon, their decline had begun much earlier.

Because sovereign territorial states were competitively more successful, individuals turned to those institutional models for inspiration. When political elites recognized the consequences of localism and the lack of economic integration in their city-states, they turned to the territorial rules of Frederick and Catherine the Great as models worthy of emulation.¹⁰²

In sum, some political and social actors will prefer institutions that can reduce uncertainty in their internal and external environments. Specifically in commerce, actors will prefer organizations that reduce transaction and information costs and can prevent *ex post* renegeing. Sovereign authority did just that. Sovereign rulers centralized fragmented political systems and thus reduced legal uncertainty and domestic transaction costs. As a consequence, by

97. Woolf, *A History of Italy 1700–1860*, p. 51.

98. Cochrane, *Italy 1530–1630*, p. 14. For similar assessments of the return of feudalism, see Woolf, *A History of Italy 1700–1860*, pp. 17–18; Knapton, “City Wealth and State Wealth,” p. 195; and Ruggiero Romano, “Italy in the Crisis of the Seventeenth Century,” in Peter Earle, ed., *Essays in European Economic History 1500–1800* (Oxford: Clarendon Press, 1984), p. 193.

99. See the discussion in Garrett Mattingly, *Renaissance Diplomacy* (New York: Dover, 1988), first published in 1955.

100. Eugene Rice, *The Foundation of Early Modern Europe 1460–1559* (New York: W. W. Norton, 1970), p. 115.

101. For the long-run diplomatic successes of some of the Italian city-states, see F. H. Hinsley, *Sovereignty*, 2d ed. (New York: Cambridge University Press, 1986); and William McNeill, *Venice: The Hinge of Europe 1081–1797* (Chicago: University of Chicago Press, 1974).

102. Woolf, *A History of Italy 1700–1860*, p. 85.

preventing free riding and by rationalizing their economies, such systems of rule were able gradually to expand the level of resources they could bring to bear against opponents. Unity and integrated economies were prerequisites for success in war.

But sovereign authorities also reduced the problems facing transboundary trade by providing for clear focal points through which to negotiate. Such rulers, moreover, could more credibly commit their subjects to long-term agreements. Hence states had good reasons to prefer like units, that is, other sovereign territorial states, in their environment.

Consequently, individuals had reasons to mimic those successful institutions and to shift loyalties. Individuals emulated what they perceived to be successful arrangements in order to reduce uncertainty and gain legitimacy.¹⁰³

A brief comparison with alternative accounts

No doubt behind the decline of the Italian city-states and the Hansa lay many causes. Changing trade routes, technological breakthroughs in oceanic shipping, even migrating herring (in the case of the Hansa) have been suggested as causal variables. This essay does not disavow the importance of those variables. Instead, it draws attention to the internal and external consequences of particular types of rule. Thus, while it specifically examines the Hansa and the Italian city-states, it means to suggest why they as institutional types were less successful—why their characteristics made them less successful—than sovereign territorial states.

Are there alternative independent variables that explain equally well the general nature of unit change in the European system between roughly 1300 and 1650? Given the anarchical nature of the international system and considering the frequent occurrence of conflict in preindustrial Europe, we do well to ask how the above account squares with the prevalent view that changes in warfare lay at the heart of state formation.

Much of the discussion of the causes of the feudal–state transformation is at cross-purposes. The question of whether war made states centers around the growth in extractive capacities of government. Changes in warfare favored larger and more expensive armies, which necessitated more taxation and rational government. That issue largely has been settled. Warfare indeed has had a profound effect on the growth of government and the influence of government on society.¹⁰⁴ That is to say, when “state” denotes “formal

103. On the notion of institutional mimicry, see Paul DiMaggio and Walter Powell, “The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields,” *American Sociological Review* 48 (April 1983), pp. 147–60. My thanks to Guy Peters and Stephen Krasner for bringing this argument to my attention.

104. See, for example, Karen Rasler and William Thomson, “War Making and State Making: Governmental Expenditures, Tax Revenue, and Global War,” *American Political Science Review* 79

government” there is little doubt that protracted conflict has influenced the size and functions of public authority.

The question examined by this essay, though, is why did this particular form of state prevail. What precisely about a public authority that was hierarchical and spatially defined caused it to survive when the other two types of authority, city-leagues and city-states, seemed also quite viable? One might argue that because states were superior in waging war, defeated city-leagues and city-states were absorbed into them. But such an account needs elaboration and specification. For instance, the ability to wage war itself must first be explained. To argue that a particular institutional form, that is, the sovereign territorial form, was superior at war begs the question. Why was it superior? Most accounts imply that military superiority was largely a function of size, and in so doing, they neglect the consequences of institutional characteristics.¹⁰⁵

Some researchers have compared the institutional efficiency of different territorial states, by analyzing the relative efficiency of similar types of units. Barry Weingast and Douglass North, for example, have taken a public choice approach to investigate why England was able to raise capital at low rates, and hence wage war at considerably less cost than France.¹⁰⁶ But the present article is one of the first studies of the institutional efficacy of different types of units, comparing territorial states to their contemporary alternatives.

Second, since city-states were at one time as powerful and resourceful as sovereign states or even more so, one might ask why states survived that initial period. Indeed, in many cases the revenue of the Italian city-states outstripped that of the emerging sovereign territorial states. And if money is the sinew of power, then during this period of mercenary armies the answer to that question is not straightforward.¹⁰⁷ Furthermore, it is said that many Italian towns were able to bring large armies to bear, even compared with France: by some

(June 1985), pp. 491–507; John Brewer, *The Sinews of Power* (New York: Alfred Knopf, 1989); Michael Mann, *States, War, and Capitalism* (Cambridge: Blackwell, 1988); William McNeill, *The Pursuit of Power* (Chicago: University of Chicago Press, 1982); Tilly, *Coercion, Capital, and European States*; and Brian Downing, *The Military Revolution and Political Change* (Princeton, N.J.: Princeton University Press, 1992).

105. Often these arguments allude to military and economic efficiencies of scale. See Leonard Dudley, “Structural Change in Interdependent Bureaucracies: Was Rome’s Failure Economic or Military?” *Explorations in Economic History* 27 (April 1990), pp. 232–48; Bean, “War and the Birth of the Nation State”; and Ames and Rapp, “The Birth and Death of Taxes.”

106. See Douglass North and Barry Weingast, “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England,” *Journal of Economic History* 49 (December 1989), pp. 803–32; North and Thomas, *Rise of the Western World*; and North, *Structure and Change in Economic History*.

107. For example, the Della Scala *signoria*, comprising Parma, Lucca, and Modena, had a yearly revenue of about 700,000 florins in the beginning of the fourteenth century. This was double that of England at the time. See Reinhold Schumann, *Italy in the Last Fifteen Hundred Years* (Lanham, Md.: University Press of America, 1986), p. 116. The revenue of Venice and its Terra Ferma around the middle of the fifteenth century was 60 percent higher than that of France—more than double that of England or Spain. See Braudel, *The Perspective of the World*, p. 120. See also the estimates in Knapton, “City Wealth and State Wealth.”

estimates Genoa could raise an army of forty thousand in 1295.¹⁰⁸ The Rhenish–Swabian League united about eighty-nine towns to oppose their feudal overlords in 1385. In 1377 a league of southern German cities defeated not only the Count of Württemberg, against whom they had allied, but also the forces of Emperor Charles IV when he chose to back the count. The Hansa frequently waged war with Denmark, England, Holland, and Sweden. In Fernand Braudel’s estimate, initially the balance swung against territorial states.¹⁰⁹ Size was an imperfect predictor of how the Darwinian process would work and suggests, therefore, that institutional efficiency might matter considerably.

Moreover, the ability to wage war cannot explain why so many small territorial states survived. If the possession of considerable military force is the only explanation of which units survive, why did Germany—as well as Italy—see the survival of independent cities and miniature principalities until well into the nineteenth century? While city-leagues and city-states were occasionally defeated militarily, such setbacks did not lead to their ends as institutional types. The Hansa’s decline was slow and not premised on any particular military defeat. Likewise, confrontations with territorial states did not end the phenomenon of the city-state.

Admittedly, the aggregate size of political organization is not irrelevant—small towns can hardly wield as much force as great empires no matter their institutional efficacy—but it is an imperfect predictor of success. For example, the decline of the Italian city-state is sometimes explained by reference to the size of France and Spain, which invaded the Italian peninsula in the sixteenth century. Sovereign states were larger and hence could mobilize larger armies and raise more revenue. However, those wishing to pursue that explanation should recall that the Republic of the Netherlands, a leading power if not the hegemon of the seventeenth century, had as many citizens as Venice (1.5 million). Similarly, England, with only 40 percent of France’s population and much less territorial area under its control, was able to match France and Spain quite well. The Republic of the Netherlands and England were able to fight empires and larger states successfully before acquiring empires themselves. In short, while acknowledging that success has multiple explanations, my particular emphasis is the effectiveness and efficiency of particular institutional arrangements in mobilizing and rationalizing their domestic economies. That in turn is an important factor in determining military success.

Consequently, the approach here suggests answers to some of the puzzles mentioned above. First, continued internal particularism might partially

108. On the number of Genovese troops, see Scammel, *The World Encompassed*, p. 161. Florence fielded about twenty-four thousand men in 1550; see Cochrane, *Florence in the Forgotten Centuries*, p. 91. On the Rhenish–Swabian league, see Rhiman Rotz, “German Towns,” in Joseph Strayer, ed., *Dictionary of the Middle Ages*, vol. 5 (New York: Charles Scribner, 1985), p. 464. By contrast, the French standing army after the end of the Hundred Years War in the middle of the fifteenth century numbered about fourteen thousand.

109. Braudel, *The Perspective of the World*, p. 91.

explain the decline of Florence, Genoa, and other city-states. Second, in suggesting that selection also depends on whether or not a unit is recognized as legitimate by other actors, we have an explanation of why small states survived. Unlike the Hansa, they were not logically contradictory to sovereign territorial rule.¹¹⁰

The approach taken here has, therefore, much in common with the work pioneered by North and Robert Thomas, by Margaret Levi, and by others. Nevertheless, there are significant differences. First, NIH is susceptible to particular methodological flaws. This article has tried to avoid some of those pitfalls by looking at competition between simultaneously existing alternative institutions, without suggesting that any of those competing institutions was an optimal outcome.¹¹¹ A variety of factors intervenes between preferences and the creation of institutions. For example, second-order collective action problems may prevent the creation of such an institution. Moreover, dominant social and political elites also need not have overall efficiency as their primary preference. A complete account of institutional emergence requires retracing the old institutions and the changes in relative power among social actors that enable them to pursue new institutional choices, and analysis of the overall bargain struck to create coalitions in favor of institutional change. That cannot be done within the scope of this essay. I have looked only at the relative efficiency of simultaneously competing institutions during a specific period.

Second, this article draws attention to aspects of institutional selection other than Darwinian struggles. Competitive success also depends on what actors themselves find to be acceptable as a unit. They enforce their choices through recognition of which types of units can more credibly commit and hence form preferable partners in international deals.

Third, in trying to avoid a tautological use of transaction costs, this article has tried to operationalize such costs and credible commitments in a plausible way. I have defined transaction costs as the general costs of concluding any type of contract in a given economy, rather than as the costs between ruler and ruled.¹¹²

Fourth, I have extended transaction costs and property rights analysis by the suggestion that these are heavily influenced by whether or not a political unit has a clear sovereign authority who has an incentive to reduce such costs and provide for protection of such rights. That is, I have suggested a specific independent variable to account for the variation between different units.

110. This notion of international empowerment also explains why African states have persisted despite tribal and irredentist movements. For that argument, see Robert Jackson, "Quasi-States, Dual Regimes, and Neo-classical Theory: International Jurisprudence and the Third World," *International Organization* 41 (Autumn 1987), pp. 519–49.

111. North argues that the flaw of suggesting optimality in outcomes existed particularly in his earlier work. See Douglass North, *Institutions, Institutional Change, and Economic Performance* (New York: Cambridge University Press, 1990), p. 7. For a discussion of this problem, also see Moe, "New Economics of Organization."

112. For the latter use of transaction costs, see Dudley, "Structural Change in Interdependent Bureaucracies"; and Levi, *Of Rule and Revenue*.

Before concluding, I must note that I have not examined the question of why states ultimately extended across the globe.¹¹³ The focus has been narrow, looking only at why states displaced other European institutions. I do not claim to have accounted for the ultimate decline of Ming China, Tokugawa Japan, or other imperial organizations. However, the logic herein might be used to extend the argument in that direction. For example, one could argue first, that because of the plurality of discrete jurisdictions, no political actor could exploit his or her subjects to the same extent as imperial rulers could. That is to say, within a state system, predation is limited because social actors have more opportunity to exit that political system and to seek refuge and better environments elsewhere. The flight of the Huguenots and the migration of Jews from Antwerp to Amsterdam are but two such examples; while the reasons behind each reason are complex, clearly both movements had large economic repercussions. Even French absolutism was limited in scope.¹¹⁴

Second, the development of the individual states was driven by the very fact that states interacted frequently and competitively. An isolationist policy such as that pursued by Tokugawa Japan simply was impossible. Competition drove internal development and institutional innovation.¹¹⁵

Third, one might examine to what extent such empires were compatible with a system of *de jure* equivalent actors. Since empires deny others such equivalence, state actors would have an incentive to prefer similar institutional arrangements elsewhere.

Conclusion and implications

Why then did sovereign territorial states “win out” over rival institutional forms? The answer advanced here lies along three dimensions. One causal variable was competitive institutional efficiency. Sovereign territorial authority proved superior to its contemporary rivals due to its internal structure. While rival forms of organization initially might have controlled more resources, in the long run sovereign authority proved to be better at combating the fragmentation of feudal authority. Such rule could take the form of absolutist government as in France or of a king-in-parliament as in England, but in all cases authority was centralized. Politics such as the Republic of the Netherlands, which lacked a formal sovereign, made up for that lack by the *de facto*

113. For a comparison between the competitive state system and non-European autarkic empires, see Hall, *Powers and Liberties*; and John Hall, ed., *States in History* (Oxford: Basil Blackwell, 1986).

114. See David Parker, *The Making of French Absolutism* (New York: St. Martin's Press, 1983), for the argument that French absolutism was paradoxically quite weak vis-à-vis the multitude of social actors. Robin Briggs notes how monarchs were constrained in the level of debasement, as this would weaken their “international position.” See Robin Briggs, *Early Modern France 1560–1715* (New York: Oxford University Press, 1977), p. 44.

115. As John Hall points out, that argument already had been made by Gibbon. Hall, *Powers and Liberties*, p. 14.

hegemony of one city, Amsterdam, which produced much of Dutch revenue and effectively ran the country. In the long run, however, the lack of formal institutionalized central government hurt even the Dutch.¹¹⁶

In addition, territorial demarcation of jurisdiction with internal hierarchy proved to be an effective way of structuring international relations. By monopolizing external interactions with other units, sovereign rulers provided focal points through which to regularize international relations. This second aspect of institutional efficiency goes hand in hand with the first. The less the political fragmentation, the greater the ability to mobilize society and prevent defection and free riding. This in turn yielded a greater ability to commit credibly. Hence sovereign territorial states could achieve long-term gains.

Third, sovereign territorial states proved mutually compatible. Indeed, borders are explicit agreements on respective spheres of jurisdiction. States are *de jure* equivalent, although *de facto*, of course, they are not.¹¹⁷ By their spatial delimitation, they recognize that there is no logical necessity why such authorities should encroach upon one another. Nonterritorial forms of organization such as the city-league then or pan-Arabism today are logically at odds with sovereign statehood.¹¹⁸

Fourth, once the benefits of internal centralization and the ability of sovereign territorial states to engage in longer-term commitments to one another became clear, actors began to imitate such institutions or defect to them.

This account of how and why sovereign territorial states displaced other institutional types might shed some light on the question of why the sovereign territorial state continues to exist given the apparent tension between spatially defined authority and the increasingly nonspatial nature of the international economy.¹¹⁹ Put another way, why have states become, and why do they continue to be, the constitutive units of the international system despite the fact that the level of economic interaction has increased so much?¹²⁰

116. For a discussion of the Dutch case, see C. R. Boxer, *The Dutch Seaborne Empire 1600–1800* (London: Penguin, 1965), pp. 119 and 328; and R. J. Holton, *Cities, Capitalism, and Civilization* (London: Allen and Unwin, 1986), p. 108.

117. For the difference, see David Held, *Political Theory and the Modern State* (Stanford, Calif.: Stanford University Press, 1989), chap. 8.

118. For different views about the compatibility of Islam and statehood, see James Piscatori, *Islam in a World of Nation-States* (New York: Cambridge University Press, 1986).

119. The early independence literature in emphasizing transnational relations below the state level can be read as describing the tension between sovereign territorial rule and the nonspatial character of the global economy. See Robert Keohane and Joseph Nye, *Power and Interdependence* (Boston: Little Brown and Company, 1977). See also Robert Reich, *The Work of Nations* (New York: Alfred Knopf, 1991). Porter argues that the state is still relevant, but only in terms of an aggregation of sectors. See Michael Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990). For the development toward truly transnational organization, see Christopher Bartlett and Sumantra Ghoshal, *Managing Across Borders* (Boston: Harvard University Press, 1989).

120. This issue is raised explicitly in John Ruggie, "Territoriality and Beyond: Problematizing Modernity in International Relations," *International Organization* 47 (Winter 1993), pp. 139–74.

This article suggests a partial answer to that question. Political entrepreneurs and social groups had good reasons to prefer a system of sovereign states: such units created some measure of regularity and predictability in both their domestic economies and in international relations. The principle of territorially delimited authority, which was sovereign within those borders, delineated what was to be “domestic” and what “international.”¹²¹ Only those forms of political organization that were based on such distinctions were recognized by other actors. Despite the much-lamented existence of sovereign territoriality,¹²² it is in fact a method of structuring international relations that makes interactions more predictable and regularized. In game theoretic terms, sovereign territorial states could play iterative games, at which other units were less adept, precisely because others’ governments could not credibly commit themselves; the confederated nature of city-leagues made them particularly suspect.

The previous argument thus differs from the Grotian position advanced by Hedley Bull and others.¹²³ That is to say, I do not contend that territorial states create a particular international society but that the particular internal makeup of a unit, specifically of the sovereign territorial state, had external consequences. In the Grotian argument the particular characteristics of the unit largely are irrelevant. The Grotian argument is a sociological one in that it explains how units act within a given set of intersubjective rules.

Although the lack of government clearly is a fundamental problem of international relations, I disagree with the structural realist position that certain patterns of order are imposed only by hierarchy and the distribution of power.¹²⁴ Just as the distribution of power in the system imposes certain behaviors on actors, so the dominant types of unit have consequences for cooperation and conflict. Indeed, which type of unit gains dominance in a given era itself determines who is to count as an international actor in the first place. Thus, whichever type of unit becomes the constitutive unit of the international system at a given time determines whom we understand to be an international actor operating under anarchy and whom we consider a domestic

121. This issue has been well-described by Kratochwil, “Of Systems, Boundaries, and Territoriality”; J. L. Holzgrefe, “The Origins of Modern International Relations Theory,” *Review of International Studies* 15 (January 1989), pp. 11–26; and John Ruggie, “Continuity and Transformation in the World Polity,” in Robert Keohane, ed., *Neorealism and Its Critics* (New York: Columbia University Press, 1986), pp. 131–157.

122. For example, Wright cites Arnold Brecht’s view that the anarchy of the state system is the primary cause of armed conflict: “There is a cause of wars between sovereign states that stands above all others—the fact that there are sovereign states, and a very great many of them.” See Quincy Wright, *A Study of War*, vol. 2 (Chicago: University of Chicago Press, 1942), p. 896.

123. Hedley Bull, *The Anarchical Society* (New York: Columbia University Press, 1977).

124. Realists such as Robert Gilpin have suggested that the most fundamental type of system change is change in the type of units, but there has been little research on what the effects of such change are. See Gilpin, *War and Change in World Politics*, pp. 41–42; and Peter Katzenstein, “International Relations Theory and the Analysis of Change,” in Czempiel and Rosenau, *Global Changes and Theoretical Challenges*, pp. 291–304.

actor operating under hierarchy.¹²⁵ Sovereign government works as a gate-keeper.

This essay, therefore, provides an empirical and material explanation of a facet that structuration theory has highlighted but not explained. Given that the nature of a system needs to be accounted for by the actions of its agents (i.e., states), we need to explain why states empowered only like units—other states. Alexander Wendt argues that since individual discrete units are taken as given, “the most important weakness of neorealism’s individualist approach . . . is that it fails to provide a basis for developing an explicit theory of the state.”¹²⁶ This essay contends that there were material reasons for agents to empower only similar types of units, thus creating a structure that severely limited subsequent possibilities for other types of units.

The notion that every international actor had to have some form of internal hierarchy and external demarcation also led to a determination of what was “private” and what “public.” As Janice Thomson has shown, actors classified as private were disallowed into the international system. For example, piracy was for a long time a perfectly legitimate policy for sovereign states, but it gradually was disallowed because it did not fit the mold of internal hierarchy and external demarcation. Were pirates subjects of territorial states and hence private actors subject to the public authority of their sovereign? Or were they actors who worked interstitially in the state system and hence had to be weeded out?¹²⁷ The same held true for mercenaries. Sovereign territorial states gradually phased out their use.¹²⁸ The use of force by nonstate actors did not fit the territorial mode of authority whereby international relations were conducted by sovereign governments.

The specification of internal and external realms continues as a constitutive rule of international affairs. It is exactly because a state system is an ordering device that one state is reluctant to interfere in another state’s affairs. That is, we have equated sovereignty with autonomy. Since states have been one way of ordering international relations, ethnic and irredentist movements define themselves as statist in their intent. With the possible exception of Islamic fundamentalism, movements define themselves in the terms of the international state system in order to be recognized by the other members. They claim international legitimacy based on their adherence to the constitutive rule of the system—sovereign territoriality.

125. This corresponds with what Ruggie describes as the mode of individuation between units. See Ruggie, “Territoriality and Beyond.”

126. Alexander E. Wendt, “The Agent–Structure Problem in International Relations Theory,” *International Organization* 41 (Summer 1987), pp. 335–70 and p. 342 in particular. Ashley makes a similar point from a poststructural perspective. See Richard Ashley, “The Poverty of Neorealism,” in Keohane, *Neorealism and Its Critics*, pp. 255–300.

127. See Janice Thomson, “Sovereignty in Historical Perspective: The Evolution of State Control over Extraterritorial Violence,” in James Caporaso, ed., *The Elusive State* (Newbury Park, Calif.: Sage, 1989), pp. 227–54. See also Ritchie’s account of Captain Kidd in Robert Ritchie, *Captain Kidd and the War Against the Pirates* (Cambridge, Mass.: Harvard University Press, 1986).

128. Janice Thomson, “State Practices, International Norms, and the Decline of Mercenarism,” *International Studies Quarterly* 34 (March 1990), pp. 23–48.