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Comparative European institutions and the 'Little Divergence', 1385–1800

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The decline of countries such as Castile and Portugal, which first benefited from access to the New World, relative to their followers, especially England and the Netherlands, is often attributed to the quality of the Iberian countries' institutions at the time Atlantic trade opened. This column questions this narrative by comparing Iberian and English institutional quality over time, considering the frequency and nature of parliamentary meetings, the frequency and intensity of extraordinary taxation and coin debasement, and real interest spreads for public debt. It finds no evidence that the political institutions of Iberia were worse until at least 1650.

A venerable historical tradition places political institutions at the root of the European divergence. For this tradition, diverging paths within Europe were already being trodden as far back as the Middle Ages and continued to be so during the early modern period, before accelerating in the 19th century. According to Douglas North, "we can learn as much from the dead-end path pursued by Spain and Portugal, with respect to institutional evolution, as we can from the successful paths to evolving more efficient institutions pursued by the Netherlands and England" (North 1990: 36).

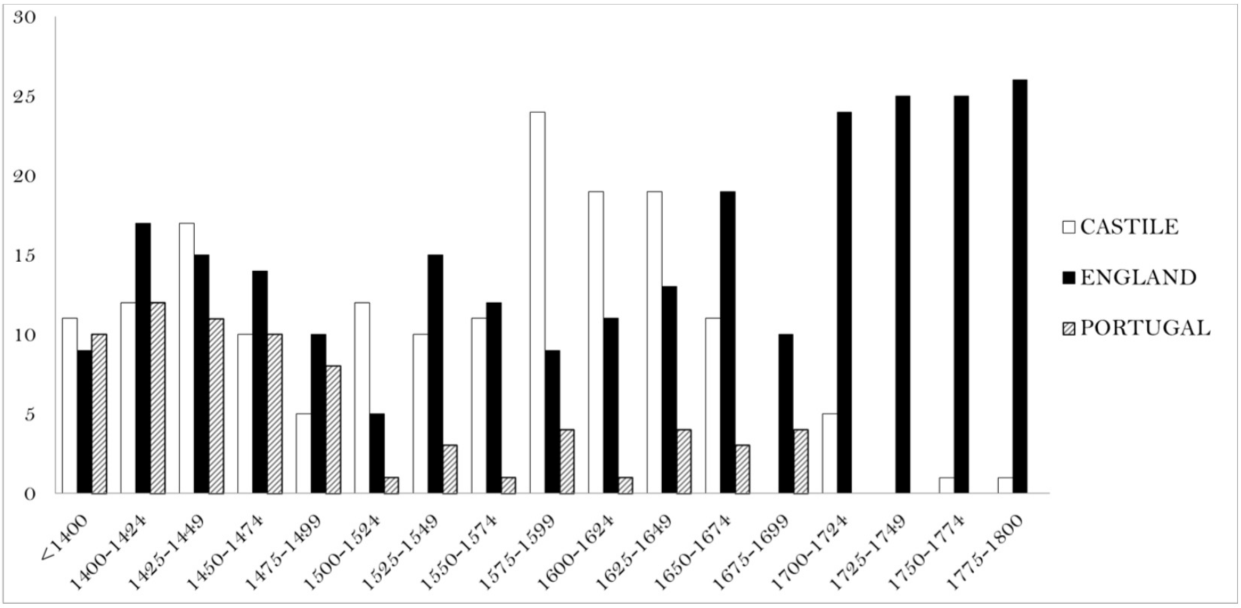
In this spirit, Acemoglu et al. (2005: 563, 568-9) classify Portugal and Spain around 1500 as absolutist monarchies, which they contrast with the much more constrained institutions of England and the Netherlands. These authors argue that the latter countries' initial institutions (around 1500) were beyond a critical threshold that allowed a virtuous circle of economic growth and positive institutional change to take place in interaction with the Atlantic trade. By contrast, the economic and institutional development of Portugal and Spain were supposedly held back by extractive institutions already in place before 1500. Other authors even argue that the political divergence can be traced as far back as the century of the Magna Carta (Hough and Grier 2015).

In our new paper (Henriques and Palma 2019), we provide a new dataset to show that English institutional divergence relative to the Iberian kingdoms started in the mid-17th century but not before. Iberian rulers were not more despotic than others, at least until halfway into the 17th century. We offer a number of measures to support this finding.

First, we track the number of years during which parliament met. In this, we follow van Zanden et al. (2011), but while they count the number of parliaments and only display the total number of meetings by century, we count the years with at least one parliamentary meeting. Figure 1 shows the results for each quarter of a century.

In the 18th century, parliament clearly met much more often in England than in Castile or in Portugal, which indicates that the constraints on the executive branch were stricter in the former. However, the picture is very different in the 17th century: Castile had many more parliamentary meetings in the first half of the 17th century than England did. The centuries before that also do not support the claim that England had a more constrained executive.

Figure 1 Years with parliamentary meetings, 1385–1800



Sources: For England, National Archives E179, History of Parliament. For Spain (Castile), Ladero Quesada (1973); Artola (1982); Colmeiro (1866); Oliveira Serrano (1986); Sánchez (2017). For Portugal, Sousa (1990) and Serrão (1975).

While the number of parliamentary meetings is a good first approximation of checks on the executive, what matters more is whether the rulers could get parliament to pass their demands. In order to compare across countries in this domain, we compiled the number of times that parliament refused to grant tax increases to rulers (Table 1).

Table 1 Extraordinary taxes and reductions, 1385–1700

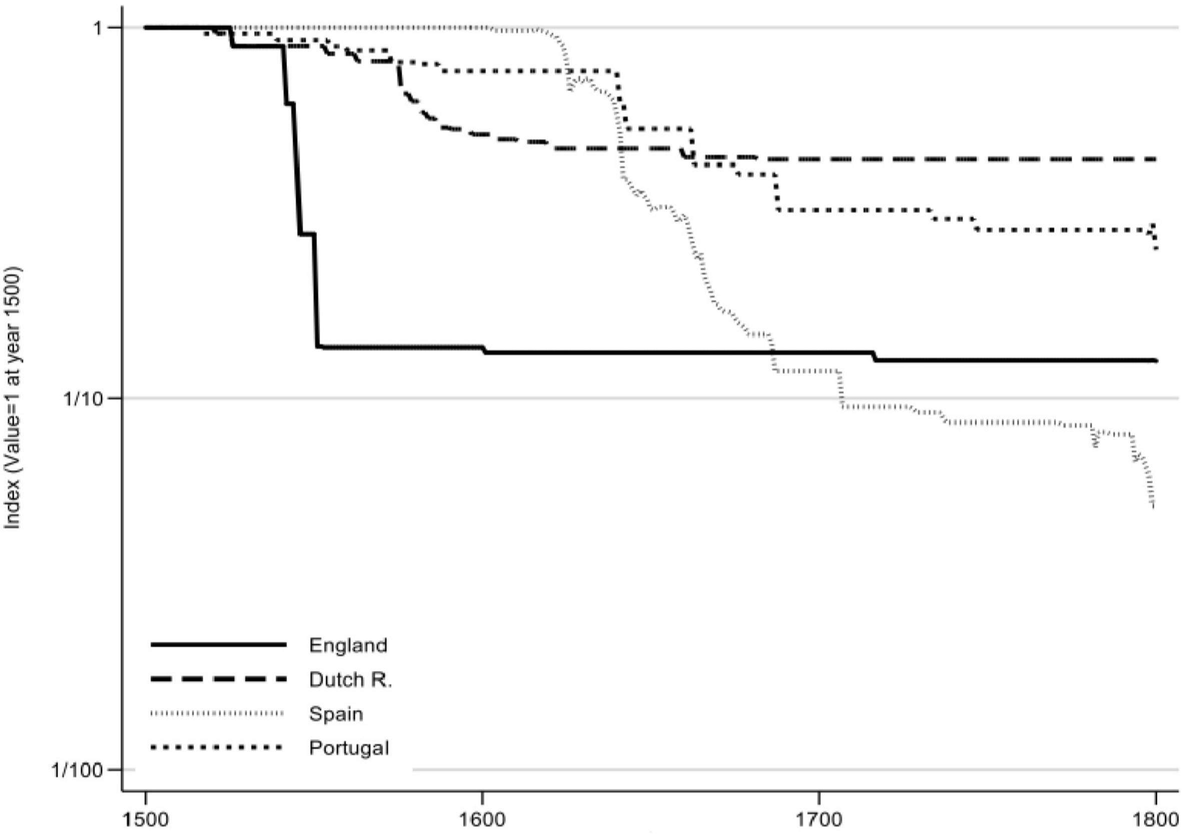
	Extraordinary taxes approved in Parliament	Extraordinary taxes in which a reduction is documented	Extraordinary taxes in which a reduction is quantifiable	Average reduction
England	139	4	4	41%
Castile	91	3	3	32%
Portugal	44	5	2	37%

Sources: For England, the documented years in which parliament secured the reductions correspond to 1512, 1523, 1606 and 1690; see Schofield (2008) and History of Parliament; For Castile, they correspond to 1406/7, 1408 and 1451; see Oliveira Serrano (1986). For Portugal, they correspond to 1460, 1468, 1475, 1490 and 1674; see Sousa (1990) and Serrão (1975). Note: from about 1700 this comparison is no longer relevant as the two Cortes no longer met for granting taxes to the rulers, and in England it was the parliament, not the monarchy, that held the power to tax.

We see that before 1700, the English parliament approved many more extraordinary taxes than the other two countries. Moreover, there is little difference across the countries in the amount and intensity of reductions that parliaments approved. Hence, compared to Iberia, England approved more extraordinary taxes without bargaining substantially more reductions. In this time period, rather than being a check on the executive, the English parliament gave out checks to the executive.

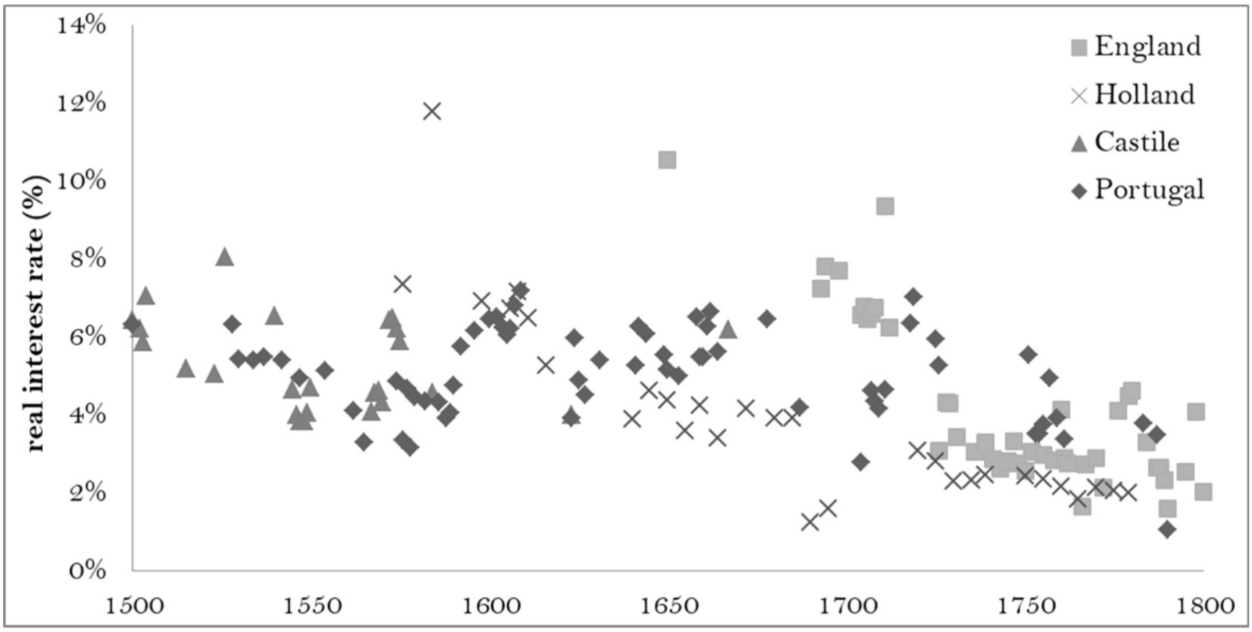
A similar story is told when looking at two alternative ways of approximating institutional quality – the frequency and severity of debasements (Figure 2) or the interest rate on government debt (Figure 3) – both of which can be interpreted as changes in the trustworthiness of a ruler.

Figure 2 Silver content of the monetary unit of account



For England, after 1717, the index tracks the value of the monetary unit in terms of gold. Source: Karaman et al. (2019).

Figure 3 Real interest rates of new issues of long-term public debt

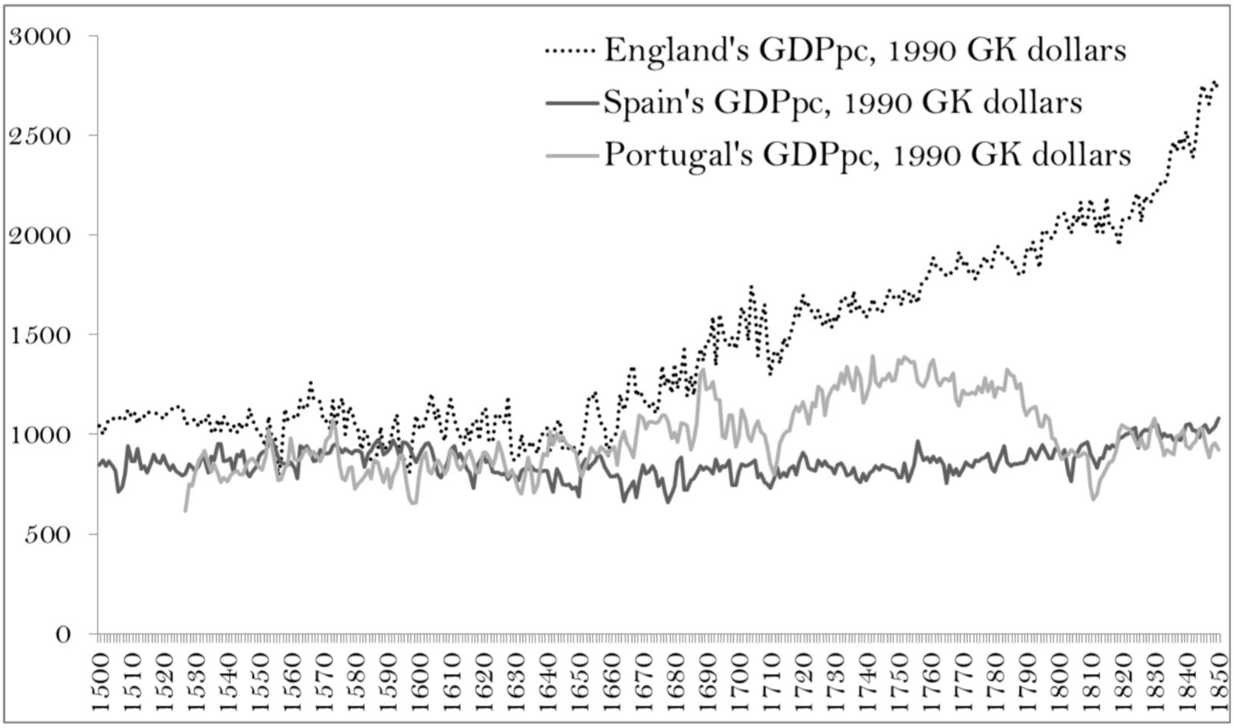


Maturities are infinite (perpetuities, perpetual annuities, consols, or equivalent), unless noted. Debt was redeemable, but the extent and liquidity of secondary markets varied across countries and time periods (see text). In years of multiple issues, we use the average interest rate. Holland's interest rate for 1574 (20% nominal) not shown. Sources for nominal interest rates: For Castile, Álvarez-Nogal (1997, 2009), Gálvez (2015), Toboso (1987), Andrés and Lanza. For Portugal, Costa (1885), for Holland, Van Der Ent et al. (1999), for England, Dickson (1993, tables 2, 3, 6, 22) and Clark (1996, p.566). The data for England refers to perpetuities, except for 1693 (99-year maturity), and 1711 (32-year maturity). For 1650, we used the estimated yield for a perpetuity paid on crown lands (Clark, 1996, p.566). Sources for inflation rates (21-year average around each issue): for Spain, the CPI of Álvarez-Nogal and Prados de la Escosura (2013); for Portugal, the CPI of Palma and Reis (2019), for England, the GDP deflator of Broadberry et al. (2015), and for Holland, van Zanden and Van Leeuwen (2012).

Across all these measures, we can see that there was nothing special about English institutions before 1650. In many cases, England fared worse than the Iberian countries. For instance, the debasements of Henry VIII were unmatched by Spain or Portugal. In Figure 3, there are no observations for England before 1650 – because nobody was willing to lend money long-term to the English monarchs!

The situation however changed by 1650. After that time, parliament was summoned far more often in England (see Figure 1), debasements became rare (Figure 2), and the interest rate on debt became in line, or even lower, than in Castile and Portugal (Figure 3). The timing of these changes coincides closely with the rise in GDP growth in England relative to Iberia (Figure 4).

Figure 4 GDP per capita in constant, 1990 'international' Geary-Khamis dollars



Sources: Broadberry et al (2015); Álvarez-Nogal and Prados de la Escosura (2013); Palma and Reis (2019)

In conclusion, England did eventually acquire distinctive institutions relative to those of Portugal, Spain, and their colonies. But before the mid-17th century, there was nothing special in England as compared to the other Western European countries. This difference in the timing of institutional divergence matters a great deal for the identification of what caused the 'little divergence' between England and Iberia. If both institutions and measures of growth only started to differ around 1650 then, contrary to what is suggested by much of the literature, the causes of England's later success are unlikely to lie in the distant past.

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