

Warfare, State Capacity and the Ruler's Credible Threat: A Dynamic Model

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Increases in early modern state capacity are usually associated with the intensified financial pressure of external wars, but the precise causal mechanisms behind this relationship are still disputed. A popular hypothesis, first formulated by North and Weingast (1989), leans on constitutional solutions to the rulers' credible commitment problem, encouraging the elite to accept higher tax rates for greater control over public spending. Though reasonable, this account arguably fails to explain how absolutist monarchies such as France and Russia were able to increase their fiscal income significantly, whereas the Ottoman Empire faced stagnant revenues. Instead, I argue that increases in the pressure of military conflict might lead to greater state capacity even without enhanced cooperation between the ruler and the elite. To that end, I offer a two-player bargaining game where a ruler and a provincial officer (or notable) share a preset fiscal surplus. The ruler can fire the officer at some positive cost, which increases with the officer's possession of armed forces. I show that; a) in equilibrium, the provincial officer chooses non-zero investment in arms, b) under ordinary assumptions, intensified war pressure can expand the ruler's fiscal share, c) allocations where the provincial officer's investment in arms is positive are Pareto-inferior, but improvements are unlikely unless the government's credible commitment problem is solved. I apply this model to the eighteenth-century Ottoman Empire.