

# State Building in Historical Political Economy<sup>\*</sup>

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## Abstract

Under what conditions do strong states under a centralized political authority emerge? This chapter presents a theoretical framework that summarizes and synthesizes insights from recent research in Historical Political Economy on state building. We examine the decision of a central authority who weighs the costs and benefits of state-building by taxing the population to defend against a threat. Our analysis illustrates prominent arguments in the literature, including the role of external conflict, military technology, non-tax revenue, societal wealth, the technology of taxation, and fiscal legibility in state building. We then consider how powerful local elites, whose interests may not align with the central authority, can shift a ruler's willingness and ability to centralize power, drawing a connection with the literatures on intra-elite conflict and limited government. Finally, we expand our framework to incorporate non-elite citizens, who can pressure elites and central authorities through the threat of rebellion from below, to discuss the role of elite-mass relations in state building.

*Keywords:* State building; centralization; state capacity; taxation; historical political economy

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## 1. Introduction

The consolidation of power under a strong central authority has important long-term economic and political consequences (e.g. Boone 1994; Mamdani 1996; Lange 2004; Gennaioli and Rainer 2007; Iyer 2010; Michalopoulos and Papaioannou 2013; Osafo-Kwaako and Robinson 2013; Dell, Lane, and Querubin 2018; Lee 2019; Paik and Vechbanyongratana 2019; Ahmed and Stasavage 2020; Stasavage 2020). However, strong states and centralized forms of political authority have historically been the exception rather than the rule. When, why, and how does state building occur?

In this chapter, we provide a framework for thinking about these questions, drawing on recent academic work in Historical Political Economy (HPE). This work has accumulated important theoretical insights about state building and a growing number of empirical findings from diverse contexts. This chapter synthesizes some of these disparate sets of mechanisms and empirical results in a common framework. In doing so, we highlight important themes that have emerged in this work, illustrate the connections between some of the sub-literatures that have developed in parallel to one another, and suggest new directions for future research.<sup>1</sup>

Our framework focuses on the choice of a central authority—for example, a monarch, dictator, or unified ruling coalition—to extract resources from society to bolster the strength of the central government, potentially at the expense of others in the polity. We conceive of this central authority as a coherent, rational, and self-interested actor who is motivated primarily by the desire to remain in power. This conceptualization builds on Levi’s (1988) insight that the interests and actions of a central ruler—and not of state institutions in general—represent a useful starting place for a theory of state policy; “rulers rule,” as she famously argues (p. 2). All rulers, however, are constrained in their ability to wield power and often face threats from external sources and from within. Revenue

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<sup>1</sup>Our framework is intended to complement more exhaustive reviews of the study of the state in HPE and across the social sciences, such as Dincecco and Wang (2022), Koyama and Johnson (2022), Moriguchi and Sng (2022), and Vogler (2022) in this volume. Other examples include, Levi (2002); Spruyt (2002); Brautigam (2008); Besley and Persson (2014); Hoffman (2015); Bardhan (2016); Blaydes (2017); Johnson and Koyama (2017); Berwick and Christia (2018); Dincecco and Wang (2018b).

can be used to defend against these threats, but increased extraction comes with its own political and economic costs.

We build our theory from a decision-theoretic model in which a ruler or central authority weighs the costs and benefits of taxing the population to defend against a threat. This simple model captures important arguments in the state building literature related to the technology of taxation, the availability of non-tax revenues, and wealth in society. Most directly, it highlights the importance of external conflict, the central factor in the bellicist theory of state emergence.

We then introduce local elites, the subjects of state taxation and an important political constituency, as strategic actors who can either back the state or work to undermine it from within. This second model illustrates a potential tension between the central authority's need for revenue and the risk of alienating elites through excessive extraction, especially in situations where elite and ruler preferences are not aligned and where elites hold significant independent power. It also highlights some of the competing pressures facing elites, who may want to limit state extraction but who also rely on tax-funded public goods, such as military defense against external enemies.

Our final model introduces non-elite citizens who can pressure elites and the central authority from below through the threat of rebellion. These non-elite actors may have little direct stake in national political battles between elites and the ruler, but their actions influence elite behavior and thus the incentives of the government to centralize power through extraction. This formulation illustrates several additional complexities in the relationship between domestic political conflict and state building, highlighting in particular how divisions between different domestic actors can influence state building, how even highly localized political conflicts can take on national significance in the process of state centralization, and how seemingly unrelated political shocks can cause state-building efforts to backfire.

As we build this framework, we incorporate insights from different strands of the HPE literature on state building and discuss how these insights interact. Though we adopt a formal-theoretic approach, we provide intuition for the main arguments qualitatively throughout. We conclude the chapter with

some reflections on potential future directions for research in this field that are suggested by our analysis.

## **2. The State and State Building**

We begin by outlining the conceptual definitions that underlie the framework in this chapter. Following Hoffman (2015), we adopt a broad definition of the “state” as a community that can use force and has the capacity to impose and collect taxes on a substantial and permanent basis. This broad definition omits or abstracts away from some factors that contribute to state structure or that differentiate ancient from modern states, such as well-defined territorial boundaries, the rule of law, political legitimacy, or national identity. It is also considerably less restrictive than Weber’s requirement that a state can claim a monopoly over the legitimate use of violence within a territory (Weber 1999). We use this expansive yet parsimonious definition to highlight the roles of coercion and taxation in state building, both of which are central to the HPE literature on this topic.

We further clarify our definition of “state building.” Our focus is on the the consolidation of power and revenue under the control of a central authority in an existing state, as opposed to the emergence of new states (e.g., Olson 1993; Boix 2015; Scott 2017; Allen, Bertazzini, and Heldring 2020; Dal Bo, Hernández, and Mazzuca n.d.; Mayshar, Moav, and Pascali n.d.) or the political incorporation of new regions (e.g., Spruyt 1996; Pierskalla, De Juan, and Montgomery 2017; Acharya and Lee 2018). As Mazzuca (2021) argues, the processes of state *formation* and state *building* are conceptually distinct, may be motivated by different factors, and may not work in tandem. State building under our definition encompasses political centralization and an increase in the resources and strength of the central government.

## **3. A Simple Theory of State Building**

The classic account of the formation of modern territorial states centers on early modern Europe. This was a context of intense warfare during a period when the nature of military conflict was changing. The introduction of gunpowder, the increasing use of siege warfare and artillery weapons, and an increasing reliance on a trained and disciplined infantry in combat, among other factors,

substantially raised the financial costs of war. To finance expensive conflicts, states began to increase resource extraction from the citizenry and underwent important organizational transformations in the process. France is an illustrative example. One of the first states to establish a standing army, the French state began to fund its military through domestic debt secured against future tax revenue, encouraging a steady increase in taxation starting in the 16th century. This shift was enabled by a rising tax base and the presence of domestic creditors in wealthy cities like Paris, Toulouse, and Montpellier (Tilly 1990, pp. 47–49, p. 74). Over time, this process led to important changes in the structure of the French state, including a transition from tax farming to direct taxation and investment in fiscal legibility (Tilly 1990, pp. 107–110; Johnson and Koyama 2014). By the end of the 18th century, France had not only survived as a political entity after centuries of external threat, it had also developed a strong state with a centralized bureaucracy and high levels of taxation.

Inspired by the Western European example, we begin our theoretical discussion of state building by focusing on the decision of a central authority to extract revenue from society to strengthen the state against an external threat. We develop a simple decision-theoretic model in which a ruler, who cares only about surviving in power, weighs the cost of taxation against the benefit that tax revenue provides in bolstering state strength against this threat. Because taxation is costly, the ruler's choice of how much to extract depends on the extent of expected threat, the technologies of taxation and defense, and the size of the resource base. As we discuss below, this model both captures several well-known theories about how each of these factors shapes state building in isolation and illustrates some interesting connections between them. We develop the model in the following subsection and then qualitatively discuss its implications for understanding the HPE literature on this topic.

### **3.1 Model**

A central authority  $A$  rules over a society of wealth  $\omega > 0$ . The authority chooses to extract some amount  $T$  of this wealth to invest in bolstering state strength. The cost of extracting revenue is given by  $cT$ , where  $c > 0$ . This cost ( $c$ ) might capture the immediate cost of extracting wealth from private holders, the cost of tax enforcement or processing, or a longer-term investment in fiscal capacity or

**Table 1:** Ruler Model: Summary of Predictions

Theme in literature	Parameter in model	Predicted change in centralization/taxation
External conflict	Expected threat severity ( $\sigma$ )	Increases taxation window, unless threat is overwhelming
	Uncertainty about threat ( $\delta$ )	Ambiguous (see conclusion)
Military technology	Importance of revenue in military power ( $f'(\cdot)$ )	Increases
Non-tax revenue	Non-tax revenue ( $\rho$ )	Decreases
Societal wealth/capital	Total wealth ( $\omega$ )	Increases taxation window
Taxation technology & legibility	Cost of taxation ( $c$ )	Decreases

pacification that is required to enable taxation.

The strength of the state ( $S$ ) depends on tax revenue ( $T$ ) and any exogenous non-tax revenue ( $\rho$ ). Non-tax revenue might include resource rents, external financing, or other endowments that the authority can appropriate without taxation. Specifically, let  $S = f(T + \rho)$  represent state strength, where the function  $f(\cdot)$  captures how easy or hard it is for the authority to convert revenue into strength. We assume that  $f$  is increasing ( $f'(\cdot) > 0$ ) and concave ( $f''(\cdot) < 0$ ) in total revenue, so that revenue improves defensive capability but with decreasing marginal benefits.

The state faces an exogenous threat—e.g., a foreign invasion or domestic challenge—the severity of which is stochastic, given by  $\underline{S} \sim Unif[\sigma - \delta, \sigma + \delta]$ . The parameter  $\sigma$  can be interpreted as the expected level of threat, which might capture factors like the proximity of foreign rivals or any natural defensive advantages of the state's geographic position. The parameter  $\delta$  captures uncertainty about the severity of threat, which might depend on unknown factors like the intentions of political rivals or the risk of natural disasters. The realized severity of the threat ( $\underline{S}$ ) is revealed after the ruler has made his extraction choice. We assume that the state survives only if strength  $S > \underline{S}$ . If the state survives, the central authority receives  $u_A = \alpha > 0$  as the value of maintaining power. If the state falls, the authority loses power and receives a payoff of 0 ( $\alpha$  can thus be thought of as the relative utility of maintaining to losing power).

## 3.2 Discussion

What determines how much a ruler decides to (and is able to) extract? As we show in the appendix to this chapter, the authority's preferred level of taxation in the model depends on the extent of external conflict, the availability of non-tax revenue, the amount of appropriable wealth, and features about the technologies of extraction and defense (Appendix Section ??). The central tension of this first model surrounds a direct cost-benefit analysis of taxation for the ruler. Because taxation is costly, the ruler does not always benefit from increasing extraction, even when doing so increases his probability of survival. Whether the costs of taxation are worth paying depends on how high these costs are, on whether alternative sources of revenue are available, and on the degree to which any increased revenue pays off in raising the likelihood that the state will survive.

We summarize the key predictions in Table 1. We provide some intuition for these results and discuss our analysis in light of several key literatures in HPE below.

### *External conflict*

We begin by revisiting the classic relationship between state building and external conflict, most famously associated with the works of Otto Hintze and Charles Tilly. These theories, initially formulated in the context of early modern Europe, propose that interstate war gave rise to the territorial state. Among the mechanisms proposed for this relationship is that the presence of external threat pushes states to develop capacity to mobilize resources for the war effort. As in the bellicist framework, an exogenous threat, such as external conflict, is what drives extraction in our model. Because taxation is costly and revenue is exclusively used for defense (an assumption we revisit in the next section), there is no incentive to tax without a threat, and the maximum level of extraction is increasing in the expected level of this threat.

The relationship between external conflict and state building is one of the most well-documented empirical findings in this literature, beginning with the case studies and small-n comparisons of early modern Europe that inspired the bellicist conjecture (Schumpeter 1954; Ardant 1975; Hintze 1975; Tilly 1975; 1990; Levi 1988; Brewer 1990; Ertman 1997). More recently, cross-national associations

between historic warfare and present-day fiscal outcomes (Besley and Persson 2009; 2014; Dincecco, Fenske, and Onorato 2019) and panel evidence on Europe in the early-modern period (Dincecco 2009; 2011; Dincecco, Federico, and Vindigni 2011; Karaman and Pamuk 2013), the early 20th century (Scheve and Stasavage 2010), and even the late Middle Ages (Blaydes and Paik 2016) have provided additional empirical support for this argument. Related work has examined how the emergence of a new military threat, such as the rise of the Ottoman Empire in early-modern Europe (Cantoni, Mohr, and Weigand 2021), can encourage investment in fiscal capacity. Regional differences in state development are also generally consistent with the bellicist argument. Strong, centralized states arose in Western Europe, an area of intense territorial conflict, and not in regions like Latin America or Sub-Saharan Africa, which had distinctive political histories (e.g. Herbst 2000; Centeno 1997; 2002).

### ***Military technology***

Our model highlights an important mediating factor in the relationship between external conflict and state building: military/defense technology. When a slight increase in revenue has little impact on the defensive capability of the state (i.e.,  $f'(\cdot)$  is small), there is little reason for the ruler to extract wealth. As military technology becomes more efficient, the benefit of increasing taxation to defend against external threat increases.

This result is consistent with existing scholarly work in HPE. Gennaioli and Voth (2015), for instance, focus on how the relationship between external warfare and state emergence shifted with the military revolution in Europe that began with introduction of gunpowder. Revenue, they argue, only affected coercive power following the dramatic increase in the monetary costs of war caused by this military revolution. This explains the timing of the rise of the European territorial state specifically during the early modern period (see also Hoffman (2012)). The puzzling absence of a connection between warfare and state building in other contexts—such as Latin America (e.g., Soifer 2015) or during the 19th century (e.g., Goenaga, Sabaté, and Teorell 2018)—may similarly be explained by the weak connection between revenue and military power in those settings.

### ***Non-tax revenue***

Non-tax revenue ( $\rho$ ) is a perfect substitute for revenue extracted through taxation in our model. A ruler who can count on a large resource windfall may not need to incur the costs of taxation to ensure state survival. As non-tax revenue increases, the window where taxation is attractive for the ruler therefore shrinks.

This is consistent with the prominent literature on how the availability of non-tax revenue, such as natural-resource rents, shapes state building. Non-tax revenue is often modeled as an attractive substitute to costly taxation (e.g., Besley and Persson 2009; 2014). Several empirical studies have found a negative relationship between the availability of non-tax resources and measures of fiscal capacity. For example, Cassidy (2019) shows that present-day tax revenue is lower in areas that are geologically conducive to oil extraction (see also Dunning 2008). A complementary literature on the availability of international finance has similarly found that states' ability to borrow from abroad weakened the relationship between war and domestic extraction in 19th-century Latin America (Centeno 1997; 2002; Soifer 2015). Though international finance is distinctive from resource rents in that it typically entails a promise of future payment, Queralt (2019; 2022) shows that debt-financed war during the 19th-century did not lead to a long- or even short-term increases in extractive capacity given the continual possibility of debt relief and refinancing.

### ***Societal wealth***

Extraction in our model is bounded above by the amount of available wealth ( $\omega$ ). A ruler cannot tax beyond  $\omega$ , even if he faces strong incentives to do so. In a society with a very small resource base, there may simply not be enough wealth to survive a major threat.

This simple argument has roots in classic literature. For example, Tilly describes how the accumulation of capital in European cities during the early modern period allowed rulers to better fund war efforts through increased access to domestic loans, revenue-producing state enterprises, and a larger tax base (Tilly 1990). More recently, Abramson (2017) presents evidence consistent with the idea that an increase in wealth enabled the survival of small urban states against encroachment by

larger (but more rural) neighbors during this period. A related set of arguments highlights the role of economic productivity in state formation and state building alongside defensive concerns due to resource constraints and other factors (e.g., Acharya and Lee 2018; Fernández-Villaverde et al. 2020; Dal Bo, Hernández, and Mazzuca n.d.).

### ***Taxation technology and legibility***

When the cost of taxation ( $c$ ) is very high, the authority has little incentive or ability to appropriate resources to bolster state strength. Conversely, if the cost is low, taxation remains attractive even when the marginal benefit of additional revenue is small.

The cost of taxation may be determined by many factors, including geography. It may be costly, for example, to extend political control over a large territory relative to a smaller one, especially when threats emerge from multiple directions (Stasavage 2011; Ko, Koyama, and Sng 2018; Koyama, Moriguchi, and Sng 2018; Mazzuca 2021). Terrain ruggedness can inhibit a state's ability to tax by increasing transportation costs and by providing citizens with an opportunity to escape the reach of the state in mountains or jungles (e.g., Fearon and Laitin 2003; Scott 2009; Fernández-Villaverde et al. 2020). Population density can shape both the ability and the incentive of central rulers to tax the population, as the literature on sub-Saharan Africa in particular has emphasized (Herbst 2000; Boone 2003).

The cost of taxation is also determined by fiscal legibility, a ruler's ability to monitor the economy or population (Scott 1998; Brambor et al. 2020). Features of agricultural production, such as crop characteristics or irrigation methods, can make it easier or more difficult for the central authority to observe economic activity, which in turn shapes incentives for state building (Mayshar, Moav, and Neeman 2017; Scott 2017). Technology also plays a role. Stasavage (2020), drawing on evidence from ancient states, describes how innovations like writing, geometry, and land surveying techniques facilitated the emergence of early bureaucracies. Garfias and Sellars (2022) show how a technological innovation in silver mining facilitated state centralization in colonial Mexico by making it easier for officials to monitor production and tax the population. Rulers can also invest in improving

legibility through the creation of tax offices, censuses, and land registers to lower the future costs of taxation. The positive feedback between political centralization and fiscal capacity can lead to divergent paths of state development, as Garfias and Sellars demonstrate in colonial Mexico and Johnson and Koyama (2014) in early-modern France and England.<sup>2</sup>

Because taxation entails the extraction of resources from the citizenry, there are also political costs to consider. Next, we consider these costs in greater detail, expanding our framework to examine the strategic interaction between the central ruler and economic elites who hold wealth and may stand to lose from state-building projects.

#### **4. State Building and Elites**

Societal wealth is typically held by domestic actors—elites and other taxpayers—whose interests may not align with those of the central authority. For this reason, the internal politics of state building are often contentious rather than cooperative. There are countless historical and contemporary examples of powerful elites deterring or sabotaging state-building efforts when threatened by centralization. This is why political centralization often, but not always, occurs during times of elite weakness. In ancient China, for example, the Qin state that emerged from a period of intense inter-state conflict—the Warring States era (475–221 BCE)—was able to centralize power in an unprecedented way because it faced a severely weakened aristocracy (Kiser and Cai 2003). Key reforms, such as the abolition of feudal titles and the establishment of a centrally controlled bureaucracy, would have been difficult to implement had the aristocracy been strong enough to mount an effective resistance to these policies, which they perceived as threatening (Hui 2015) .

Though domestic political conflict is often thought to inhibit state building, there are also conditions under which it may encourage rather than discourage taxation. The spectacular expansion of the British state following the Glorious Revolution, for example, was made possible because the Crown faced a powerful taxpaying elite that was able to force its policy preferences on the government

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<sup>2</sup>Related but distinct literatures examine how prior institutional development (Gerring et al. 2011) and the diffusion of technologies of legibility, taxation, and administration (e.g., Grzymala-Busse 2020; Huang and Kang n.d.) can facilitate state development.

(North and Weingast 1989; Stasavage 2003). To develop these and related ideas, we extend our model to consider the strategic interaction between the central authority and domestic elites.

#### 4.1 Model

We model the central authority's ( $A$ ) choice of how much tax revenue ( $T$ ) to extract from domestic elites ( $E$ ), modeled as a unified strategic actor. Elites are endowed with wealth ( $\omega$ ), which they either own or control indirectly. The authority is again assumed to be office-motivated, receiving  $\alpha$  if the state survives and 0 if the state falls. Rather than assuming that taxation carries a fixed cost, we directly model the political cost of alienating elite wealth holders through overzealous taxation.

After the authority determines how much wealth to extract, elites decide whether to back the central ruler in a crisis ( $e = 1$ ) or to defect ( $e = 0$ ). Elite defection weakens the central government by, for example, overtly supporting an internal or external political rival against the ruler, shirking on internal defense depriving the ruler of logistical assistance during war, or refusing to cooperate with officials. Compliance with the central authority is assumed to be costly for elites, with compliance cost given by  $\mu$ .

The strength of the central government ( $S$ ) is now modeled as a function of both state revenue and elite backing or defection. As above, the base strength of the government is  $S = f(T)$ , where the function  $f$  is increasing and concave.<sup>3</sup> If elites defect, government strength is lowered by  $\zeta$ , which represents elite coercive power (i.e., their influence in state strength). As above, the state survives a threat only if strength  $S > \underline{S}$ , where  $\underline{S} \sim Unif[\sigma - \delta, \sigma + \delta]$ . To highlight the role of elite politics, we focus on interior cases where the state cannot fully insure itself against external threat and where elite actions meaningfully influence but do not fully determine the probability of survival (i.e., where  $f(\omega) < \sigma + \delta$  and  $f(0) - \zeta > \sigma - \delta$ ).

We normalize the payoffs of government collapse to 0 for both the government and the elite. If the state survives, the ruler receives rents from office  $\alpha > 0$  and elites receive their post-tax wealth ( $\omega - T$ ) and  $\lambda$ , which represents the utility of government survival relative to a post-collapse

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<sup>3</sup>We omit non-tax revenue, though predictions are unchanged if it is included.

alternative. If elites fear state breakdown or have an affinity for the central ruler,  $\lambda$  would be very high. If elites would prefer to see the state fall—for example, if they have an acrimonious relationship with the central authority, support internal political rivals, or have attractive outside options— $\lambda$  might be negative.

If the state survives despite elite defection, defecting elites pay a punishment cost of  $\pi > 0$ . The severity of this cost could vary from a small fine to violent retribution depending on the context and form of elite defection.

## 4.2 Discussion

The extended model illustrates how domestic political bargaining structures state building. A central authority's ability and willingness to strengthen the state is driven not only by perceived threat, but also by the anticipated resistance from elites. As we discuss in this section and show in the appendix (Appendix Section 7.2), the model highlights two paths of state building, one cooperative and one coercive. In the cooperative path, the ruler limits his extraction to a level acceptable to elites in exchange for their support. In the coercive path, the ruler extracts all of the elite's wealth to counter their anticipated defection.

The optimal path for the ruler depends on elites' willingness to accept taxation ( $T$ ), which is determined by the parameters summarized in Table 2. An increase in taxation affects elite preferences through two mechanisms. Higher taxation reduces the benefit of state survival for elites, but it also increases state strength and thus the likelihood that elite defection will be punished. As elites are more aligned with the center for material ( $\omega$ ) or political/social ( $\lambda$ ) reasons and as the threat of punishment ( $\pi$ ) increases, elites become more willing to back the government at high tax levels, and the cooperative approach becomes less costly for the ruler.

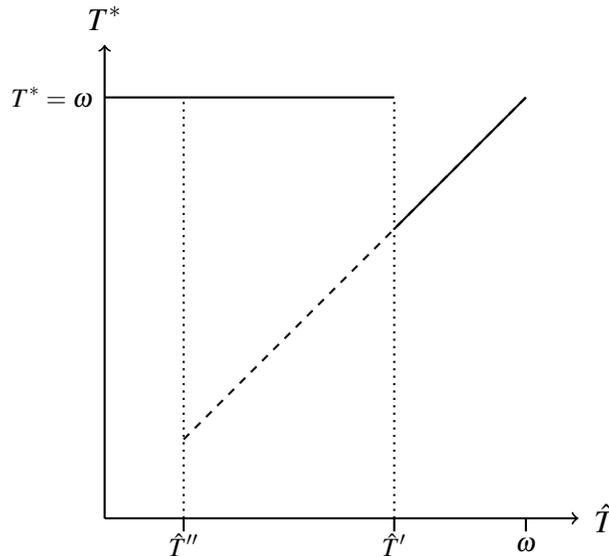
The model illustrates a non-linear relationship between the elites' willingness to back the government and the optimal tax level chosen by the ruler (Figure 1). When elites are highly aligned with the center, the ruler can increase taxation at little political cost. As elites willingness to pay taxes

**Table 2:** Elite Model: Summary of Additional Predictions

Theme in literature	Parameter in model	Predicted change in elite's willingness to accept taxation
Preference Alignment	Survival payoff ( $\lambda$ )	Increases
Economic Benefits	Residual wealth ( $\omega - T$ )	Increases
Center Coercive Threat	Punishment cost ( $\pi$ )	Increases
Elite Coercive Power	Elite power ( $\zeta$ )	Depends on balance between benefits of state survival ( $\lambda$ ) and cost of punishment ( $\pi$ )

decreases—perhaps because they possess better outside options or fear punishment less—they can successfully demand that the ruler limit extraction. However, once the maximum tax that elites are willing to pay falls below a certain threshold, the ruler will revert to a coercive strategy to maximize the probability of state survival. As shown in the figure, this threshold depends on the domestic political power of elites,  $\zeta$ . A stronger domestic elite has a greater ability to demand reduced taxation.

**Figure 1:** Central Authority Extraction as a Function of Elite Willingness to Pay



The figure presents the optimal tax level for the central ruler ( $T^*$ ) over the maximum tax that the elite is willing to pay without defecting ( $\hat{T}$ ). If elite power  $\zeta = \zeta'$ , the ruler will set  $T^* = \hat{T}$  for  $\hat{T} > \hat{T}'$ , where  $f(\hat{T}') = f(\omega) - \zeta'$ , and  $T^* = \omega$  otherwise. If elite power increases to  $\zeta'' > \zeta'$ , this expands the range of values where the ruler will set  $T^* = \hat{T}$  to  $\hat{T} > \hat{T}''$ , as represented in the dashed line. See Appendix Section 7.2 for the analysis.

The degree of political conflict or consensus between elites and the state has been central to the

HPE literature on state building. We discuss in this literature in light of our theoretical framework in the remainder of this section.

### ***Preference alignment***

The preference alignment between elites and the ruler plays an important role in this framework. Elites are more willing to accept higher taxation when they benefit more from state survival for material or social/political reasons. Conversely, when elites have less to lose from state collapse, they become less willing to tolerate state extraction.

One factor that contributes to preference alignment between elites and the center is elites' reliance on state-provided public goods, such as military defense. Besley and Persson (2009; 2014), for example, describe why incumbent and opposition political actors should be more willing to invest in fiscal capacity if revenue will be spent on common-interest goods like defense (see Arias 2013 for a related argument on colonial Mexico). As Slater's (2010) work on state development in Southeast Asia illustrates, elites and central authorities may also find common ground against shared domestic threats.

Central authorities may take steps to increase elite preference alignment to encourage support for the state under higher levels of taxation. For example, they might allow rising elites greater influence in state policy and public goods provision (Kurtz 2013; Saylor 2014; Beramendi, Dincecco, and Rogers 2019) or attempt to incorporate rival elites into the state (Chen, Wang, and Zhang 2021). Elite homogeneity—such as through concentration in a single urban core—can make it easier for the state to tailor its activities to align with elite preferences, encouraging state building (Soifer 2015; Mazzuca 2021). Greater geographic dispersion among linked elites might shift their preferences toward state building so that public goods like defense can be spread across a larger territory, as Wang (n.d.) shows in Imperial China. A common interest in state building may emerge among rival elites if greater taxation is tied to political restrictions for the masses (Mares and Queralt 2015; 2020).

Conversely, threatened, non-aligned elites may be able to exploit the political environment to sabotage state building (e.g., Migdal 1988). Suryanarayan (2021) and Suryanarayan and White (2021),

for example, describe how elites can exploit social-status cleavages to create broad coalitions in support of weakening the central government. Sánchez-Talanquer (2020) further shows how elites can co-opt state building efforts to reshape their influence and undermine their effectiveness.

### ***Elite political power***

A more powerful elite that can damage the government through defection can more effectively demand lower taxation. This can deter state building when elites and the central authority have opposing interests. In contexts where elites control considerable coercive power—such as in what North, Wallis, and Weingast (2009) characterize as “natural states” or Besley and Persson (2014) describe as “weak states”—central rulers may be outgunned by rivals in the periphery, limiting any potential for state building. At the other extreme, when elites are too weak to threaten the government through defection, the ruler has little reason to limit extraction to cater to their preferences.

Shifts in the coercive power of elites can therefore precipitate changes in state-building trajectories. Because the potential for political centralization is limited where rival elites remain strong, a sharp decline in elite power may enable state building. Garfias (2018), for example, shows how an economic shock that temporarily weakened local elites in post-Revolution Mexico provided a window for local political authorities to consolidate their advantage through investment in state capacity. A shock that bolsters the coercive power of non-aligned elites, by contrast, can curb state extraction by raising the costs and reducing the benefits of taxation for the ruler.

### ***Limited government***

This model illustrates that elites’ bargaining power, their ability to secure a lower level of taxation than would be favored by the ruler, depends both on their political power ( $\zeta$ ) and preference alignment with the central authority ( $\lambda$ ). Elites must be sufficiently powerful to pose a threat to the ruler through defection, and they must have a moderate (but not perfect) degree of preference alignment so that the central authority has an incentive to appease them through lower taxation. This illustrates a connection to the literatures on fiscal contracts and institutions of limited government. Institutions that bolster elite political power or improve the quality of elites’ outside options can place

effective limits on state extraction and can promote state building.

This connection is clearer if one considers an extension of the model where the ruler is able to divert tax revenue for personal rents at the expense of state strength. In the baseline model, an increase in taxation represents a double-edged sword. Greater taxation lowers elites' benefit of backing the ruler, but it also bolsters state strength and thus increases the chance that elite defection is punished. If the ruler were to spend this extra revenue on rents, the increase in taxation would reduce elites' utility without the corresponding increase in the threat of punishment, unequivocally reducing elites' willingness to back the state. If elite power ( $\zeta$ ) is high enough (provided outside option  $\lambda$  is moderate), the threat of defection places a natural limit on rent-seeking. "Limited government" in our model thus arises endogenously from specific domestic political coalitions, which must be sustained for credibility to endure (Stasavage 2003; 2007), rather than as exogenous features of the institutional environment (e.g., Besley and Persson 2009; 2014).<sup>4</sup>

The prospects for state building are therefore greater when rulers are constrained to spend in ways that align with the preferences of tax-paying or debt-granting elites (Bates and Lien 1985; Levi 1988; North and Weingast 1989; Hoffman and Rosenthal 1997; Gehlbach 2008; Cox 2016) or where institutions limit a ruler's ability to increase extraction (Garfias 2019). These ideas have found empirical support in studies that examine institutional changes along these lines cross-nationally (Dincecco 2009; 2011; Cox 2016) and subnationally (Garfias 2019).<sup>5</sup>

## 5. Elites and Commoners in State Building

The model of the previous section illustrates how a particular form of domestic political conflict, tensions between elites and the central authority, can shape the trajectory of state building. We now expand our discussion of domestic politics to consider the actions and interests of another social group. Commoners—such as peasants, workers, or the urban poor—can also alter the political costs and benefits of centralization, both directly and indirectly via their relationship with local elites. As

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<sup>4</sup>Though distinctive, this argument is also somewhat reminiscent of Acemoglu and Robinson's (2017; 2020) path to an "inclusive state."

<sup>5</sup>See also Cox (2022) in this volume.

the literatures on state collapse and revolution illustrate, the complex interplay between commoner, elite, and ruler incentives during an unforeseen crisis can lead even a seemingly stable political system to unravel (e.g., Skocpol 1979).

The outbreak of Mexico's War of Independence provides one example. Spanish colonial authorities depended on local elites to control the threat of commoner rebellion in the periphery. During the 18th century, the colonial state implemented a series of centralizing reforms at the expense of these intermediaries, aimed at increasing tax revenue. Though largely effective, the true political costs of these reforms only became apparent decades later when a large-scale drought affected the peasant economy during a period of state weakness. Faced with an upsurge of commoner rebellion, the disaffected elites became unwilling to bear the costs of maintaining order, allowing the localized peasant crisis to grow out of control and eventually threaten the survival of the central government (Garfias and Sellars n.d.).

We extend our framework to incorporate commoners, focusing in particular on the role of elites as intermediaries between commoners and the central authority. We model commoners as a separate political class that are not directly taxed (an assumption we revisit below) and whose primary motivations are unrelated to national politics, elite conflict, or external threat. As our model illustrates, even when commoners have no direct stake in state building, their political actions may have important consequences on centralization, both directly and via shifting incentives for elite intermediaries to back the central authority during times of crisis.

## 5.1 Model

The central authority ( $A$ ) again chooses how much tax revenue ( $T$ ) to extract from the economic elite ( $E$ ), who control wealth ( $\omega$ ), some of which may originate from the broader population. As above, tax revenue bolsters state strength, and the level of taxation may influence the willingness of elites to back the state, now by restoring local political order ( $e = 1$ ) or to defecting ( $e = 0$ ) when faced with local rebellion by commoners ( $C$ ).

The commoners' choice to rebel depends on "local conditions"  $\eta$ , the benefits of rebellion  $\beta$ , and the perceived threat of repression by elites. We model  $\eta$ —which might capture commoners' economic opportunities or the current quality of their social or political situation—as stochastic and unrelated to political centralization or taxation (however, see below). Specifically,  $\eta \sim Unif[\bar{\eta} - v, \bar{\eta} + v]$ . If commoners rebel, they forgo  $\eta$  and instead receive the material and social benefits of rebellion ( $\beta$ ), which could encompass both social (e.g., feelings of collective belonging) and material (e.g., goods seized during rioting) components. If the elite represses the rebellion, commoners suffer a cost  $\psi$  from repression. We assume that  $\beta - \psi < \bar{\eta} - v < \beta < \bar{\eta} + v$ , so that the possibility of repression remains a meaningful deterrent to mobilization even when conditions are poor. We further assume that commoner payoffs do not directly depend on whether or not the state survives.

If commoners do not rebel, elites take no action. If they do rebel, elites choose whether to back the authority and repress the uprising or to defect. The cost of repression is  $\mu > 0$ . Because commoner uprisings might affect elites, this parameter can be alternatively interpreted as the immediate cost of backing the government relative to inaction (i.e.,  $\mu$  would be low if elites directly absorbed the costs of allowing rebellion to continue). As above, we assume that elite defection lowers the strength of the central government by  $\zeta$ , which might capture the need to divert resources to reestablish order or a decrease in defensive capability against external threat due to ongoing political upheaval. If the government survives despite commoner rebellion and elite defection, elites pay a punishment cost of  $\pi > \mu$ . As above, this implies that elites are better off complying if they expect the state to survive.

The model otherwise proceeds as above. The strength of the government is given by  $S = f(T)$ , or  $S = f(T) - \zeta$  if elites defect. A stochastic shock,  $\underline{S} \sim Unif[\sigma - \delta, \sigma + \delta]$ , determines the extent of the threat after the elites' decision. The state survives if  $S \geq \underline{S}$  and falls otherwise. We provide a summary and analysis of this model in Appendix Section 7.3.

## 5.2 Discussion

Incorporating the threat of rebellion from below allows us to draw connections to other prominent arguments about state building and state collapse, as summarized in Table 3. This formulation draws

**Table 3:** Commoner Model: Summary of Additional Predictions

<b>Theme in literature</b>	<b>Parameter in model</b>	<b>Predicted change in the central authority's dependence on elites</b>
Elite cost of compliance	Repression cost ( $\mu$ )	Increases
Commoner conditions	Avg. material/social benefits of status quo ( $\bar{\eta}$ )	Decreases
Attractiveness of rebellion	Material/social benefits of rebellion ( $\beta$ )	Increases

attention to an alternative view of elite bargaining power, the role of elite-mass relations, and the connection between local and national political conflict in state building.

### ***Elite bargaining power revisited***

As in Section 4, elite bargaining power in this extended model depends jointly on elites' political strength and their preference alignment with the center. Now, however, elite coercive power is linked to the threat of rebellion from below. When the threat of rebellion is high (when commoner conditions are poor or the attractiveness of rebellion is high), rulers are more dependent on elite cooperation for state survival, which increases elites' ability to demand lower taxation. When there is little risk of rebellion, by contrast, the ruler has less to lose from alienating elites through increased extraction.

Factors that decrease the willingness and ability of commoners to rebel should therefore also decrease the bargaining power of elites to demand lower taxation. HPE research has found some empirical support for this assertion. Garfias and Sellars (2021) show that a sudden decline in the potential for commoner rebellion facilitated state centralization in early colonial Mexico. Bai and Jia (2016) conversely illustrate how alienating elites was especially dangerous for a central authorities facing a high risk of commoner rebellion in late Imperial China, in part because the center relied on local elites for backing when rebellions broke out (Bai, Jia, and Yang 2021).

As in the previous model, preference alignment is an important mediator in the relationship between elites' coercive and bargaining power. As elites themselves stand to lose more from allowing commoner rebellion to grow out of control (i.e., when  $\mu$  is lower), they become more willing to back

the state even when taxation is high. As Dincecco and Wang (2018a) document, elites threatened by rebellion in Imperial China benefited from bolstering the state as a way of enhancing their own security and therefore accepted increased taxation. However, when the state became weaker following China's defeat in the Opium War, elites turned to the private substitute of family clans for security, contributing to eventual state collapse. This highlights the importance of state stability in encouraging elite compliance. There is little reason for elites to invest in bolstering a state that cannot survive, as our model demonstrates.

### ***Local and national interdependence***

Commoners' behavior in this framework influences the path of state building, even though commoner preferences do not directly depend on elite taxation or state survival. Because the political negotiation between elites and the central authority depends on the threat of rebellion from below (which determines elite bargaining power), local conditions affecting commoners influence decisions about political centralization and taxation made at the national level. Similarly, while commoners in the model are assumed to care only about localized conditions, their choice to rebel depends on elite taxation because this influences elites' willingness to repress revolt. This illustrates an interdependence between local and national political concerns, a central feature of the classic literature on rebellion (Moore 1966; Wolf 1969; Tilly 1978).

A natural extension of this model might allow commoners' local conditions to differ based on the level of elite taxation. For example, elites may be able to shift the burden of taxation to commoners through, for example, extracting wealth from local individuals or villages. This would lower commoner welfare, increasing their willingness to rebel. Slantchev and Kravitz (2019) build on this idea to develop how tax revolts can provide information to rulers about the burdens of taxation that are being passed to the poor in areas of low information. In our model, a shift in the burdens of taxation from elites to commoners would have an ambiguous effect on state building. It would increase the relative benefits of rebellion for commoners, increasing the bargaining power of elites to demand lower taxation from the central authority. However, the ability to pass on the burdens of taxation to

commoners would also insulate elites from the consequences of increased extraction, which would increase their willingness to remain loyal to the government under high tax levels. Elites would therefore bear lower direct but higher indirect costs of increased taxation.

### ***How state building backfires***

This extended model again illustrates how the strength of the central government depends on both the size of the state (i.e., tax revenue) and the political support that it enjoys from taxpayers. By incorporating commoners, this model provides a more complex view of how political stability or instability can shape state building. In the model, as commoners become less willing to rebel, either because their status quo conditions are better or because rebellion becomes less attractive, authorities become more willing to risk elite defection through high taxation. In other words, state building should accelerate where political control over commoners is most secure.

However, when authorities decide to tax beyond a level that elite intermediaries will accept, they are implicitly gambling that commoner local conditions will be favorable. If  $\eta$  is realized much lower than expected—for example, if there is a drought or other shock affecting the commoner economy—authorities will not be able to count on elite support to contain rebellion. This illustrates how efforts to strengthen the government through high taxation can backfire, reducing the strength of the state during crisis and facilitating state collapse. This idea is developed further in Garfias and Sellars (n.d.), who show how unrelated political shocks converged to bring about the collapse of colonial rule in Mexico through a similar mechanism. Skocpol (1979) develops a related argument on peasant rebellion and international pressures often coalesced to bring about revolutionary political change.

## **6. Conclusions and Future Directions**

We conclude with some general observations about the literature on state building in HPE and some potential directions for future work. As our chapter illustrates, this literature has grown considerably beyond the classic works of Tilly, Hintze, and others on Western Europe to examine the scope conditions of the bellicist argument, the interplay between internal and external conflict, the

role of non-tax revenue, and the shifting influence of military technology and fiscal legibility, among other factors. In the process, HPE scholars have broadened the substantive focus of this research area beyond early modern Europe to examine contexts as diverse as 20th-century Southeast Asia, colonial Latin America, 11th-century China, or the United States following Reconstruction. This work has produced a large and growing “library of mechanisms” (Gailmard 2021) to explain when and why political centralization takes place, the process through which state building and state collapse occur, and the contextual factors that may enable or foreclose specific paths of state consolidation.

An important next step in moving this research area forward is to move toward summarizing and synthesizing the insights that have been generated through this work. The framework we develop here begins this effort and provides an organizational structure for thinking about some of the different ways in which HPE scholars have expanded this literature, some general lessons that might be drawn from their work, some interesting connections between sub-literatures that are often discussed in isolation from one another, and some of the unanswered questions that remain. Scholarship has approached this topic from a variety of angles, both in terms of substantive focus and methodological approach. There are, however, important commonalities in how HPE scholars have thought about state building across time and space that might be missed when taking a narrower view of the specific contexts or causal processes highlighted by any given contribution. The variables that capture external security considerations, the balance of power between the center and the periphery, the structure of the international political or economic system, or preexisting technological and environmental conditions differ considerably by context, but many of the lessons for how these factors structure state building are plausibly general.

Our theoretical framework also suggests several avenues for future research. One might be to explore some of the new or less examined predictions of the framework developed here. For example, the model suggests that the *variance*—not just the level—of external threat may shape rulers’ incentives to strengthen the state. When there is substantial uncertainty about the severity of a threat, this simultaneously expands the range of situations where state building could occur while

also reducing the expected benefit of marginally increasing state strength. This hypothesis has not, to our knowledge, been explored empirically.

Another path forward might be to expand on some of the connections between different strands of the literature. For example, elite bargaining power in state building—the extent to which elites are willing and able to demand a lower extraction from the center—should depend not just on elites’ political strength, but also on their preference alignment with the ruler and the elasticity of state coercive power with respect to revenue. This prediction could be investigated empirically or further analyzed theoretically.

Finally, the stylized setting that we examine in this chapter could be complicated in several ways to generate new insights. Some “black boxes” that might be worth opening include thinking about different ways that central authorities might use tax revenue to shore up political strength or further unpacking the coarse set of social actors that we examine here—a unified center, a unified elite, and a unified set of commoners—to think about how divisions within these categories or identity cleavages (e.g., class, nationality, or ethnicity) might alter the path of state building.

## 7. Appendix

### 7.1 Analysis of Ruler Model

We solve for the ruler’s optimal level of taxation as a function of the parameters of the model. Using the distribution of  $\underline{S}$ , his maximization problem is:

$$\max_T \left( \frac{f(T + \rho) - (\sigma - \delta)}{2\delta} \right) \alpha - cT \quad (7.1)$$

subject to  $0 \leq T \leq \omega$ . The first order conditions are given by:

$$\frac{f'(T + \rho)\alpha}{2\delta} = c \quad (7.2)$$

Note that  $f'(T + \rho)$  is positive and decreasing in  $T$  by the concavity assumption. When this expression holds, optimal tax revenue is increasing in the rents from office ( $\alpha$ ) and decreasing in non-tax revenue ( $\rho$ ), in the uncertainty about the threat ( $\delta$ ), and in the cost of taxation ( $c$ ).

We additionally consider potential corner solutions. If  $f'(\rho) < \frac{2\delta c}{\alpha}$ , the ruler’s optimal choice will be to collect no taxes. This is more likely to hold when the expected threat ( $\sigma$ ) is very low, non-tax revenue ( $\rho$ ) is very high, the technology  $f(\cdot)$  is very inefficient (i.e.,  $f'(T)$  is very small), the

cost of taxation ( $c$ ) is very high, and the benefits of maintaining power ( $\alpha$ ) are very small. Because taxation is costly, the ruler will also never tax beyond what is necessary to ensure state survival (i.e.,  $f(T + \rho) = \sigma + \delta$ ). At the opposite extreme, there are no benefits to taxation when state failure is inevitable (if  $f(\omega + \rho) < \sigma - \delta$ ).

If  $f'(\omega + \rho) > \frac{2\delta c}{\alpha}$ , the ruler will extract all wealth. This is more likely when societal wealth ( $\omega$ ) and non-tax revenue ( $\rho$ ) are small, when the benefits of maintaining power ( $\alpha$ ) are very high, and when the technologies of defense ( $f(\cdot)$ ) and taxation ( $c$ ) are highly efficient.

## 7.2 Analysis of Elite Model

To summarize, the game timing and payoffs are:

1. The authority chooses tax revenue ( $T$ ) to extract from the elite.
2. Elite chooses whether to side with the government ( $e = 1$ ) or to defect ( $e = 0$ ).
3. A stochastic shock drawn by Nature ( $\underline{S}$ ) determines the extent of the threat and the survival of the government.
  - **State survives:** The authority receives  $u_A = \alpha$ . If elites back the authority, they receive  $u_E = \omega - T + \lambda - \mu$ . If they defect, they receive  $u_E = \omega - T + \lambda - \pi$
  - **State collapses:** The authority receives  $u_A = 0$ . If elites back the authority, they receive  $u_E = -\mu$ . If they defect, they receive  $u_E = 0$

We solve for the subgame-perfect Nash equilibrium (SPNE) of this game by backwards induction, beginning with the elite's choice to back the government or defect after observing the tax level. Elites back the government if the expected benefit of doing so exceeds the expected cost, or if:

$$\left( \frac{f(T) - (\sigma - \delta)}{2\delta} \right) (\omega - T + \lambda) - \mu \geq \left( \frac{f(T) - \zeta - (\sigma - \delta)}{2\delta} \right) (\omega - T + \lambda - \pi) \quad (7.3)$$

or if  $\zeta T - \pi f(T) \leq \zeta(\omega + \lambda) + \pi(\delta - \sigma - \zeta) - 2\delta\mu$ . Elites are more likely to back the government when their utility under state survival (wealth  $\omega$  and benefit  $\lambda$ ) and the cost of punishment ( $\pi$ ) are higher and when the cost of compliance ( $\mu$ ) and expected level of external threat ( $\sigma$ ) are lower. If  $\omega - T + \lambda > \pi$ , elites are more likely to back the government as  $\zeta$  increases. Otherwise, an increase in  $\zeta$  will encourage defection (see Section 4.2 for a discussion).

We are interested in how an increase in taxation influences the willingness of elites to back the government. For some parameter values, elites' best response does not depend on the level of taxation. We concentrate on cases where the elite backs the government under some tax levels but not others.

Taking the derivative of expression 7.3 with respect to  $T$ , we see that whether compliance is increasing or decreasing in  $T$  depends on the sign of  $\zeta - \pi f'(T)$ .

We turn to the rulers' problem. Let  $\hat{T}$  represent the maximum feasible (i.e., between 0 and  $\omega$ ) level of taxation under which the elite would back the government. When the elite's best response does not depend on the tax level or when  $\hat{T} = \omega$ , the ruler sets  $T = \omega$  to maximize the probability of remaining in power, with or without elite support. When  $\hat{T} < \omega$ , the authority's optimal choice is to either maximize extraction subject to retaining elite support ( $T = \hat{T}$ ) to maximize extraction in general  $T = \omega$ . The authority chooses the lower tax level  $T^* = \hat{T} < \omega$  when:

$$\zeta > f(\omega) - f(\hat{T}) \quad (7.4)$$

See Figure 1 and Section 4.2.

### 7.3 Analysis of Commoners Model

The timing of the game is:

1. The authority chooses amount  $T$  of tax revenue to extract from the elite's wealth ( $\omega$ ).
2. A stochastic shock drawn by Nature reveals  $\eta$ , and commoners decide to rebel ( $c = 1$ ) or not ( $c = 0$ ).
3. If commoners rebel, the elite choose whether to restore order ( $e = 1$ ) or to defect ( $e = 0$ ). They otherwise take no action.
4. A stochastic shock drawn by Nature ( $\underline{S}$ ) determines the magnitude of the threat to the state; it survives if  $S \geq \underline{S}$  and falls otherwise.

Payoffs are given by:

- Central authorities: They receive  $u_A = \alpha$  if the state survives,  $u_A = 0$  if it collapses.
- Elites: If commoners do not rebel, they receive  $u_E = \omega - T + \lambda$  if the state survives and  $u_E = 0$  if it falls. If the elite represses rebellion, they receive  $u_E = \omega - T + \lambda - \mu$  if the state survives and  $u_E = -\mu$  if it falls. If elites defect when facing rebellion, they  $u_E = \omega - T + \lambda - \pi$  if the state survives and  $u_E = 0$  if it falls.
- Commoners: They receive  $u_C = \eta$  if they do not rebel,  $u_C = \beta$  if they rebel and the elite does not repress, and  $u_c = \beta - \psi$  if they rebel and the elite represses.

We solve for the SPNE by backwards induction, beginning with the elite's decision to repress if rebellion occurs. Note that if elites are faced with this choice, their problem is identical to the one in the previous model (see equation 7.3). We focus our discussion on situations where the elite backs the authority under some but not all levels of taxation (i.e., when  $\hat{T} < \omega$ , where  $\hat{T}$  is the maximum taxation that the elite is willing to accept without defecting, as above).

Turning to the commoners stage, note that commoners face no relevant uncertainty because opportunity cost ( $\eta$ ) and taxation ( $T$ , which determines elite compliance) have been set at the time of their action and because payoffs do not depend on state survival. By the assumption that  $\bar{\eta} + \nu < \beta - \psi$ , commoners will only rebel when two conditions are met: local conditions are sufficiently poor ( $\eta < \beta$ ) and elites who face rebellion defect ( $T > \hat{T}$ ).

The ruler's problem is analogous to the above: he decides whether to set  $T = \hat{T}$  (to count on elite backing) or  $T = \omega$  (to maximize the state's ability to withstand elite defection). Using the distribution of local conditions ( $\eta$ ) and the assumption that  $\bar{\eta} - \nu < \beta < \bar{\eta} + \nu$ , the probability of commoner rebellion if  $T > \hat{T}$  is  $\frac{\beta - \bar{\eta} + \nu}{2\nu}$ . Using this expression and rearranging, the authority sets the lower tax level  $\hat{T}$  when:

$$\zeta \left( \frac{\beta - \bar{\eta} + \nu}{2\nu} \right) > f(\omega) - f(\hat{T}) \quad (7.5)$$

As commoners become more likely to rebel (as  $\beta$  increases or  $\bar{\eta}$  declines) or as uncontrolled rebellion becomes more dangerous (as  $\zeta$  rises), authorities face more pressure to appease domestic elites to maintain control.

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