Ec 365, spring 2026
Christophe Chamley
chamley@bu.edu
270 Bay State Road, room 401

Topics in the history of state finances

Requirements

Some issues in the course will require knowledge of intermediate level macroeconomic public finances and monetary theory and policy. While this is not an absolute requirement, if you do not have this knowledge, I would like to know and you should come and to talk to me. The main requirement is a strong interest in history and how economics can be used as a tool to improve the way to think about it..

Teaching Assistant

Artem Vyshinkiy (artemv@bu.edu) is the assistant for this course. He will hold office hours and grade the home assignments. I will share marking of the exams with him.

Website

The course website is an essential communication tool and should be checked regularly.
http://www.chamley.net/statefinances
The course does not have a Blackboard page.

Classes

Class attendance is required. As announced in the fall, no use of electronic devices (phone, laptop, tablet) are allowed in the classroom. (If you absolutely need to use one, please talk to me). For each class, the slides will be posted in advance. You should bring a paper copy on which you can take notes.

Assignments

are due on Monday (not every Monday), and must be handed in class, in a format that will be specified later. The assignments are tools for learning. Each assignment will have a grade of 0 (no answer), 1 (satisfactory), or 2 (equivalent to an A). The web search policy will be specified for each assignment. Given the size of the class, no extensions will be given for the home assignments. The lowest grade will be omitted.

AI

You are encouraged to get more information about topics of special interest and to develop you own view of history. For this purpose, use AI as a tool to gather information, except for some home assignments. However, when interpretating historical facts, it often reflects common opinion, which may be at variance with the orientation of this course. It can also hallucinate. In any case, the main objective of the course is to develop your ability to think like an independent historian and use economics to make judgements independently. You cannot outsource this to ChatGPT.

As an option, for each of the 18 sections of the course, there will be a short list of professional publications which are used in the course, each with a link. You are welcome to upload these items into NotebookLM or similar providers to get your own synthesis of the contents.

Grade

The final grade is an average of :

- home assignment (15%);
- first and second mid-term (20 % and 30 %, respectively), on February 18 and April 6;
- third "mid-term" in the last day of class (35%).

Participants in the course are expected to adhere to the university's code of honor.

DESCRIPTION

Introduction

The program provides an overview of the development of state finances and institutions since the beginning of civilization using case studies up to the 19th century. After antiquity, Europe plays a central part in this program, but the "Great Divergence" with the rest of the world-- China, the Muslim world and India--will be discussed extensively. The case studies will give an opportunity to discuss contemporary economic issues such as new monies, financial crises, public debt, debt ceilings, AI, mercantilism.

This description of the course topics is complemented by a separate document Ewhich lists the professional publications that form the basis for this course. These publications show the significant interest of economists to these issues. Many of the publications are very recent and appear in top journals. Don't worry, you will not be asked to read them, except for some excepts. Many professional publications are highly technical, but in history, the main ideas are not technical, and the purpose of the course is to make these ideas available to you.

The required readings will be posted on the website of the course.

1. **The invention of the state in the Fertile Crescent**

   The “state” started in the region which is now Irak (Mesopotamia) and, a little later, in Egypt. A state can be defined by its ability extract tax revenues. The *fertile crescent* region provided an ideal setting for these *hydraulic civilizations*.

   - **Assignment 1 (2/2).**

2. **The invention of coins in the Greek world and the first account of war financing in Athens**

   We now live in a time where new types of money are created and used (e.g., Bitcoin). This course is not a course in monetary economics, but the historical perspective provides an opportunity to reflect on the introduction of money. The first paper presents an argument for reflection. (The algebra is not for this course), and is complemented by the third paper. The second paper presents the historical facts in the invention of money with coins in the Eastern Mediterranean Sea in the 6th century BCE.

   The last text is part of the famous history by the first great historian, Thucydides, of the Peloponnesian War (second half of the 5th century). It emphasizes, in very precise terms, that wars depend on finances. It has been argued in fact that state finances provide a framework on which the entire book is constructed.

3. **Rome**

   The most important and longest living state (except for China). An introduction is provided to its finances, is army spending, and the extraordinary evidence on trade and money creation.

   - **Assignment 2 (2/9).**

4. **After the Roman Empire**

   The Roman Empire collapsed, in the West (but not the East), in the middle of the 5th century CE. The Mediterranean Sea, which was its spine, was divided between the Islamic south and the Christian north. For Western Europe, the period between 500 and 1000 can perhaps be viewed as one of the "intermediary periods" in ancient Egypt. This period is important because it establishes the basis for the various forms of feudalism that emerged in Europe after the year 1000, and the subsequent development of state institutions. For the south, this period is the beginning of the divergence of the Muslim world.

5. The invention of parliaments Western Europe

Representative democracy, the main feature of today's Western political systems, originated in 12th-century Spain and then England. It was not present in Athens or Rome. This was due to the economics of public finance. Initially promoted by rulers, taxation led to representation. The replacement of feudal dues in kind with monetary taxes evolved differently in England and France. Ultimately, this led to the dramatic events at Crécy and Agincourt during the Hundred Years' War around 1400.

- **Assignment 3 (2/17).**

6. The invention of the public financial debt in Venice and Genoa

Italian cities formed mini-states in one of the richest regions of Europe. They invented the public financial debt. The cause was the need to finance wars against each other, the invention of modern financial instruments in the context of flourishing trade, and, most importantly element, the alignment between the interests of debt holders and city council members who controlled the taxes that serviced the debt.

FIRST MID-TERM (February 18)

7. The "invention" of the printing press in the Rhine valley

The invention of the printing press (around 1450) had an impact comparable to that of the internet or IA today. The word "invention" is in quotation marks in the section heading because the printing press was actually invented in China centuries earlier. Why did it not have the same impact there? This is another issue in the "Great Divergence."

8. The application of modern tax smoothing in the wars of 18th century England

We take a detour to consider the case of England in the 18th century. The wars between England and France during this period have been termed the 'Second Hundred Years' War'. England pursued a policy that mirrored the principles of modern public finance (which were formalized in the late 20th century). This was because Parliament controlled both expenditure and revenue. This textbook historical case will be used as a point of reference when discussing cases that departed from this policy, particularly that of 16th century Spain.

9. First financial crisis between a king and parliament in 16th century Spain

Today, the US public debt is subject to a ceiling that Congress must periodically raise because of the growth of the economy. In 2012, Republicans threatened to block this increase in an attempt to force a reduction of government spending. This issue was resolved without triggering a financial crisis (following the devastating crisis of 2009-2010). In 1575, a similar tug-of-war between King Philip II of Spain and his parliament (the Cortes) escalated into a severe financial crisis, which lasted more than two years and had permanent effects. The subject will contribute to a discussion of the politics of the public debt. I have just finished writing a book with Carlos Àlvarez-Nogal (University Carlos III of Madrid) about the finances of Philip II, who ruled over the superpower of his time. These public finance events show that the monarchy was not an autocracy, as often alleged.

10. First central bank in the Netherlands

Following independence from Spain around 1600, the Netherlands entered its Golden Age, sparked by a boom in maritime trade. The country improved the Italian system of public debt and introduced central banking and fiat currency with the establishment of the Bank of Amsterdam.

- **Assignment 4 (3/2).**

11. First parliament in control "Glorious Revolution" (1688)

The 1688 Revolution was a pivotal moment in British and global history. For the first time, a representative parliament effectively controlled public expenditure. This development did not happen spontaneously. This section focuses on the causes rooted in business interests, ideology, and great power competition.

12. First bubble: the experiment of John Law

One of the most spectacular events in the history of public finance and financial markets took place in France in the early 18th century. John Law, a visionary and daring Scotsman, engineered this revolutionary attempt to solve the problem of public debt accumulated during the wars of Louis XIV. The market value multiplied by 20 within six months. Basic questions about financial bubbles will be discussed.

13. First modern debt financing: England during "the second Hundred Years' War" (1688-1815)

This section is a continuation of Section 8. Here the focus is on the financial markets for the public debt in England and France, and on the role of the Bank of England, which was a private institution. (It was only nationalized after WWII.) When the government, representing the taxpayers attempted to refinance the public debt at a lower interest, institutional constraints created a coordination game between debt holders with two Nash equilibria. The BoE, representing the bond holders, succeeded at first in supporting the equilibrium with no interest reduction, but failed in the second government attempt.

- **Assignment 5 (3/23).**

14. First paper money and war financing through the printing press in the French Revolution

The French Revolution was triggered by the public debt crisis that followed France's indirect war against England in supporting the American Revolution. In this sense, the latter caused the former. The Revolution introduced the financing of public expenditure (war) through the creation of the first paper money in Europe. (China had invented paper money centuries before, but it had never played a "modern" role). Excessive printing of money saved the Revolution in its wars, but caused high inflation, as in some recent episodes in Latin America, which will be examined in comparison.

- **Assignment 6 (3/30).**

SECOND MID-TERM (April 6)

15. Extension of voting rights in the 19th century

Until the beginning of the 19th century, voting rights were restricted to a wealthy minority. These rights were gradually extended in England. France and Germany, however, took different approaches. Why?

16. Trade, tariffs, mercantilism

"The study of mercantilism may contribute in various ways, either positively or negatively, both as a foundation and as an historical parallel, to render more profound our insight into the economic problems of the present and future." (B.F. Haley in the review of Heckscher). One question is why the western elites pushed for the opening of the east and why the eastern elites resisted.

17. Why Europe: the military explanation

Why did Europe end up dominating the world at the end of the 19th centuryThe military explanation lies in the rapid technological advancement of firearms, as well as geographical and political factors.

18. Great Divergences: China, India, Islam

The discussion in the previous sections is expanded upon here.