Adam Smith and the Role of the Towns in Feudal Europe

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Abstract

Adam Smith's account of medieval towns in Book III of *The Wealth of Nations* remains one of the most influential analyses of how commerce transformed feudal Europe. This paper formalizes Smith's argument as a game between kings, lords, and towns. The king-town alliance emphasized by Adam Smith emerges when towns are wealthy enough to offer fiscal and military support but lords remain a serious threat. However, when kings become excessively predatory, towns may ally with lords (as in the Magna Carta crisis); when towns are too weak to offer substantial support, kings ally with lords instead (as in Eastern Europe). A dynamic extension shows that the king-town equilibrium is self-undermining: commercial growth erodes lordly military power through Smith's "diamond buckles" mechanism, eventually enabling royal absolutism. In contrast, the king-lords equilibrium is self-reinforcing, suppressing urban development and preserving feudal institutions. The framework highlights how small differences in initial urban development could generate dramatically different long-run trajectories and illuminates both the brilliance and the limitations of Smith's conjectural history.

How did the towns drive political and economic development in medieval Europe? This is one of the questions that Adam Smith sought to answer in his celebrated and influential account of how the towns contributed to the development of Europe in Book III of *The Wealth of Nations*.

The feudal period saw the revival of Europe's cities and towns. City life had almost disappeared in Western Europe following the Fall of the Roman Empire. But it revived dramatically after around 1000 AD. Many of these cities were commercial hubs rather than the capitals of powerful rulers. As Jones (1997, 211) observes: "To an extent unknown or unimaginable in Roman antiquity urban development obeyed the dictates of trade".

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Book III of the Wealth of Nations is a conjectural history of the kind made famous by Scottish Enlightenment thinkers including Smith's contemporaries David Hume and Adam Ferguson. Smith saw towns as "islands of commerce" in a feudal "sea". In particular, Smith identified a three-way relationship between kings, lords, and towns that he saw as driving political development throughout medieval Europe, leading to the rise of increasingly powerful monarchies.

This paper restates Smith's analysis of how the towns allied with the king to reduce the power of the lords in the language of game theory. I show that his equilibrium—king allied with towns against lords—is one of several possible outcomes. Turning to the actual history of medieval Europe, a review of salient case studies reveals that all three possible alliances occurred: towns sometimes allied with lords against tyrannical kings, and kings sometimes allied with lords against overly independent towns. That is, this paper demonstrates how it is possible to embed Smith's account in a richer theoretical framework. I go on to examine what determines which equilibrium emerges, with detailed case studies of the Barons' Wars in England and the War of the Public Weal in France.

Beyond the Smith literature, this paper contributes to a revival of interest in feudal institutions among scholars in both economic history and political science interested in the origins of constitutionally limited governments.

Building on Smith, many scholars saw the feudal period as containing the seeds of eventual economic growth in Europe including Max Weber and Otto Hintze. Indeed, as Møller (2016, 20) notes, "this was a major scholarly endeavor in the first-half of the twentieth century" and that the 'theme of this classical literature is that these developments in general and the advent of institutions of constraints more particularly owe much to the prior existence of European feudalism'. In the mainstream economic history literature interest in the Middle Ages as the point of divergence between Europe and the rest of the world receded as scholarship focused on the Industrial Revolution.

Nonetheless, an important strand of scholarship followed Weber (1922, 1968) and Pirenne (1925) in focusing on the role played by the cities and hubs of trade and incubators of bourgeois

values (examples include Cipolla, 1976; Jones, 1981; Greif, 2006). Other scholars have examined the medieval city-states as precursors of democracy (e.g. Van Zanden and Prak, 2006; Prak, 2018), their role in credit and finance (e.g. Epstein, 2000; Stasavage, 2014) or their role in the rise of representative government (Angelucci et al., 2022).

Important empirical work was made possible by the work of Bairoch (1988) who put together the first comprehensive estimate of historical city populations. The seminal early paper was Delong and Shleifer (1993) who compared city-growth under what they called princely rule versus representative institutions. And subsequent scholars have extended and updated Bairoch's city population estimates (see Bosker et al., 2013) and Buringh (2021).[1]

Smith's conjectural history is particularly relevant for the literature on the institutions and city growth. Puga and Trefler (2014) look at the rise and fall of inclusive institutions in medieval Venice. Cantoni and Yuchtman (2014) studied the contributions of medieval universities to market establishment and trade in German towns.[2] Blaydes and Paik (2016) find evidence that participation in the Crusades was associated with subsequent city growth. Guiso et al. (2016) focus on the long-run persistent effects of representative institutions in Italian city-states. Belloc et al. (2016) take up the question of differential institutional change. They find that the occurrence of an earthquake reduces the probability of transition from feudal to representative institutions in cities where political and religious powers were in the hands of the same individual such as a bishop, but not in cities where political and religious power were separated.

Once almost a synonym for bad governance and irrationality, recent scholarship has reconsidered many aspects of European feudalism. Looking at data on ruler duration, Blaydes and Chaney (2013) find that European feudalism was associated with longer and more stable reigns, reflecting the durable bargains made between rulers and the armed nobility. From a different perspective, Salter and Young (2023) similarly argue that medieval institutions played a crucial role

[1]Bosker et al. (2013) extend the data to consider the Middle East. Blaydes and Paik (2021) build on earlier data to look at city growth across central Asia.

[2]Human capital is thus a complementary explanation for city-growth in the European Middle ages as cities with better quality institutions could attract elite human capital. Johnson and Koyama (2017) provide an example of the complementarity between human capital and institutions in the context of Early Modern Europe.

in constraining arbitrary state power by aligning political rights with residual claimancy. Salter and Young (2023, 206) also highlight the role of the self-governing medieval city as "a product of the Medieval Constitution of Liberty" which "also furthered that constitution, creating political environments that themselves, collectively, became sovereign political players".

Feudalism is also associated with political fragmentation and decentralization and recent research highlights some of the benefits associated with these features of Europe in contrast to other parts of Eurasia (Hoffman, 2015; Ko et al., 2018; Fernández-Villaverde et al., 2023). Two wide-ranging and ambitious books, Acemoglu and Robinson (2019) and Stasavage (2020), both pay serious attention to the medieval antecedents of liberalism and democracy.

A key aspect of feudalism was the absence of a monopoly over legitimate violence. Desierto and Koyama (2025) formally model this aspect of feudalism. Specifically they analyze a feudal ruler as heading a coalition of armed elites, each of whom has the ability to defect with his own resources and military capability intact. Desierto et al. (2023) build on this model to study the formation of a rebel coalition in opposition to King John during the Magna Carta crisis of 1215. In another related study, Leon (2020) formalize the dynamics of the king's coalition over the course of the Anglo-Norman period.

Other features of European feudalism have also attracted attention. Hall (2025) analyzes the practice of itinerant kingship that was ubiquitous in medieval Europe. He argues that itinerant kingship was a means of feudal monarchs to build and maintain their coalitions. Empirically, he finds that kings were more likely to visit barons who were more central to the overall baronial network. Desierto and Koyama (2026) study the role that castles played under feudalism. They argue that because castles allowed barons to protect their own lands from the king, they made the promises that kings made to their barons more credible in equilibrium.

This paper also contributes to a small but growing literature among Smith scholars interested in his account of feudal Europe in Chapters III and IV of the Wealth of Nations. Hall and Klein (2026) focus their attention on the implications of a famous argument that Smith makes in Chapter IV about why medieval lords were willing to exchange their armed retinues for "baubles". I discuss

the role of luxuries in the development out of feudalism in Section 4. In particular, this paper is related to Weingast's work reconstructing Smith's conjectural history armed with the insights of modern political science and rational choice theory (especially Weingast (2017, 2023a,b, 2026, 2025)).[3]

The paper proceeds as follows. Section 1 presents Smith's argument and characterizes the three players. Section 2 develops the model, defining payoffs as explicit functions of the underlying parameters and deriving the equilibrium conditions. Section 3 examines historical evidence, presenting case studies that illustrate each equilibrium: the rise of the French monarchy under Philip Augustus (king-towns), the Magna Carta crisis and War of the Public Weal (lords-towns), and Frederick II's concessions to the German princes (king-lords). Section 4 extends the analysis in a dynamical setting, formalizing Smith's "diamond buckles" argument and deriving the conditions for regime switching and critical junctures. Section 5 discusses complications and nuances. Section 6 concludes.

1 Smith's Story: The King and the Towns versus the Barons

The key characteristic then of feudalism was military decentralization (Desierto and Koyama, 2025). The king did not possess a monopoly of legitimate violence. Rather he relied for military power on the armed retinues of his vassals. As Smith put it: "in those days the sovereign of perhaps no country in Europe was able to protect, through the whole extent of his dominions, the weaker part of his subjects from the oppression of the great lords."[4]

The king's reliance on the lords meant that a feudal polity had in-built mechanisms to check the king's power. Feudal monarchy is distinct from more autocratic systems of government. The dependence of the king on his lords and their men for economic and military support enabled those lords to exert independent power, and in turn allowed the king to make credible commitments to

[3]Among political theorists, Smith's role in the "luxury debates" and his argument that it was commerce that undid feudalism has also received considerable attention, for example in Hont (2005).

[4]Unless otherwise specified all quotations from Smith are from Chapters 3 and 4 of Book III of Smith (1776).

them.

Feudalism was a stable set of institutions that were a response to the pervasive problem of violence in the early medieval world (North et al., 2009; Cox et al., 2015). But there was a way out of the feudal equilibrium, according to Smith and this was the central element of Smith's account of the rise of the cities: a three-way relationship between the feudal lords, the towns, and the king.

Smith envisioned the relationship between the towns and the lords as conflictual. But he saw potential for an alliance between the king and towns against the lords:

> "The burghers naturally hated and feared the lords. The king hated and feared them too; but though, perhaps, he might despise, he had no reason to either hate or fear the burghers. Mutual interest, therefore, disposed them to support the king, and the king to support them against the lords'.'

This alliance brought about a measure of peace. It was through this development that "order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours". This peace was, for Smith, the crucial precondition for prosperity.

Weingast in his reconstruction of Smith's argument makes still more explicit why the towns and the lords were antagonistic. As he puts it, "the constant threat of predation from the lords hindered the town's ability to capture the gains from long-distance trade" and it was "the political exchange between town and king" that "allowed the towns to initiate the transformation out of the old feudal equilibrium" (Weingast, 2026, 20). Weingast's analysis highlights a crucial feature of the violence trap: escaping it requires *non-incremental* change. Modest improvements—a small increase in investment or a limited expansion of trade—are insufficient because they do not address the underlying political problem. Violence remains the dominant strategy for powerful actors as long as predation pays. What made the king-town alliance transformative, on Weingast's account, was that it simultaneously satisfied three conditions that Smith identified as necessary for urban

prosperity: security from predation, the freedom to engage in commerce, and liberty in the sense of self-governance and the rule of law. The political exchange between king and towns bundled these conditions together, allowing towns to escape the violence trap in a way that incremental economic change could not.

Weingast's framework helps us understand *why* Smith's king-town equilibrium was so consequential when it did emerge. But it also raises an important question that Weingast does not directly address: was this equilibrium inevitable? If the political exchange between king and towns was so beneficial, why did it not emerge everywhere? The framework developed here suggests an answer: the king-town alliance required specific conditions, which the model makes precise.

The characteristics of the main players in this three-way relationship merit further discussion.

The distinctive feature of the medieval king was the combination of *legitimacy without overwhelming material power*. As we have noted, unlike modern states, medieval rulers never possessed a monopoly of legitimate violence. This had important consequences. The authority and power of the king in medieval Europe, in both theory and practice, was never absolute. It was limited by the competing claims of the Church and of great feudal magnates.

The scope of royalty varied greatly over time. The early Capetian kings of France, for example, had very limited scope for independent action. Even if constrained by resources, however, the king was an important focal point. This was buttressed by the claims of religion. The French monarchy had an important sacral character and this meant that it was difficult for rebellious barons to displace an anointed king (see Petit-Dutaillis, 1936, 23-26). Beyond this religious source of legitimacy, what mattered for a successful king was the ability to command economic and military resources.

This required bargaining. Feudal rule was inherently a matter of bargaining. A feudal king ruled not by bureaucratic fiat but through a coalition—a network of agreements, alliances, and compromises with the powerful lords of his realm and with the important towns, as these could provide him with fiscal resources. This dependence is central to the framework developed below: the king needed allies, and the question of *whom* he allied with is precisely what the model

addresses.

The key characteristic of the feudal lords was their independent military capability. These were large landowners who controlled their own bodies of armed men. The origins of many noble families in medieval Europe can be found in the period following Charlemagne's establishment of brief Carolingian rule over Western and Central Europe. What made the lords a distinctive player in the three-way game was their *de facto* military autonomy: each lord controlled his own armed retainers, fortified castles, and local judicial authority. If a lord chose to defect from the royal coalition, he could do so while keeping some resources intact—a feature that Desierto and Koyama (2025) formalize in their model of feudal political economy. In England and France, all lords nominally owed feudal service to the crown, but what mattered was not formal dependence but the practical ability to raise troops, fortify positions, and resist royal authority when it suited their interests. The degree of this autonomy varied across time and place, but it was this independent military power that made the lords a credible coalition partner—or a credible threat—in the three-player game.

Finally, the towns were, as Smith makes clear, a distinctive feature of the European landscape. Over time these cities became "opulent". First in Italy, then elsewhere in Western Europe, the revival of long-distance trade produced a class of wealthy merchants and artisans concentrated in urban centers. Their defining characteristics were commercial wealth, defensive (but not offensive) military capability, and a desire for self-governance and protection from predation. Over time towns invested in city-walls, could raise urban militias, and as their commerce developed they could provide kings with loans and tax revenue. But they could not project military power over large distances or threaten a king's hold on his throne. Smith emphasized that the king "had no reason to either hate or fear the burghers"—they were a source of revenue and political support without being a military threat. This asymmetry is what made the king-town alliance mutually attractive in circumstances where the lords posed a threat to both.

2 The Model

In this section, I define the payoffs for each player as explicit functions of the underlying parameters, derive the conditions under which each coalition emerges in equilibrium, and develop comparative statics. The goal is to identify the parameter ranges that correspond to each of Smith's historical configurations.

2.1 Players and Payoffs

There are three players: $i \in \{K, L, T\}$ which refers to the King (K), Lords (L), and Towns (T) respectively. Any two players can form an alliance or coalition against the third.

The payoffs of each player depend on a set of parameters that capture the key features of the feudal political economy: urban wealth (commercial income, population, economic capacity) is denoted by W; κ measures royal fiscal and administrative capacity; λ is lordly military power (armed retinues, castle garrisons, feudal levies); and τ is the royal tax rate on towns.

Given this, I now define the payoffs under each coalition.

Under the KT coalition (King + Towns vs. Lords). The king and towns ally to contain the lords. The king grants charters and trading privileges; towns provide tax revenue and political support. The king bears the cost of protecting towns from lordly predation and of subduing the lords.

$$\begin{aligned} \pi_K^{KT} &= \tau W + m(W) + \kappa - c(\lambda, \kappa) \\ \pi_T^{KT} &= (1-\tau)W + s(\kappa, \lambda) \\ \pi_L^{KT} &= \bar{\pi}_L - \ell(\kappa) \end{aligned} \tag{1}$$

The king receives tax revenue τW, political and military support from the towns $m(W)$—which captures urban militia, supply, loans, and intelligence—and the returns to his administrative capacity κ. He bears a cost $c(\lambda, \kappa)$ of subduing the lords, which increases in lordly military power ($\partial c/\partial \lambda > 0$) but decreases in royal capacity ($\partial c/\partial \kappa < 0$): a stronger king finds it cheaper to

subdue the lords. The term $m(W)$ is increasing in urban wealth: $m'(W) > 0$. Richer towns can provide more support.

The towns receive after-tax commercial income $(1-\tau)W$ and a security benefit $s(\kappa, \lambda)$ from royal protection. The security benefit is increasing in both royal power and lordly threat: $\partial s/\partial \kappa > 0$ (a stronger king provides more effective protection) and $\partial s/\partial \lambda > 0$ (stronger lords make protection more valuable).

The lords receive a baseline payoff $\bar{\pi}_L$ from their landed estates minus a loss $\ell(\kappa)$ from being the target of the coalition, where $\ell'(\kappa) > 0$: a more powerful king inflicts greater losses on opposing lords.

Under the KL coalition (King + Lords vs. Towns). The king and lords ally, suppressing urban autonomy. Towns are taxed but receive no protection and are subject to lordly predation.

$$\begin{aligned} \pi_K^{KL} &= \alpha\tau W + m_L(\lambda) + \kappa \\ \pi_T^{KL} &= (1-\tau)W - p(\lambda) \\ \pi_L^{KL} &= \bar{\pi}_L + r \end{aligned} \tag{2}$$

The king receives reduced tax revenue $\alpha\tau W$ where $\alpha \in (0,1)$. The discount α captures the fact that hostile towns resist taxation: they hide wealth, evade levies, and provide no voluntary cooperation. The king also receives military support $m_L(\lambda)$ from the lords, with $m_L'(\lambda) > 0$, and no longer bears the cost of subduing them. The lords receive their baseline plus rents $r > 0$ from predation on the now-unprotected towns. The towns lose their security benefit and instead suffer predation costs $p(\lambda)$, increasing in lordly power: $p'(\lambda) > 0$.

Under the LT coalition (Lords + Towns vs. King). Lords and towns find common cause against the king—typically when the king becomes excessively predatory or violates established rights.

$$\begin{aligned}\pi_K^{LT} &= \kappa - d(\lambda, W) \\ \pi_T^{LT} &= (1-\phi)W + s_L(\lambda) \\ \pi_L^{LT} &= \bar{\pi}_L + h - c_K(\kappa)\end{aligned} \tag{3}$$

The king retains only his administrative capacity κ, reduced by damage $d(\lambda, W)$ inflicted by the opposing coalition, which increases in both lordly military power and urban wealth: a richer and better-armed opposition causes more damage. The towns avoid royal taxation entirely but pay lordly exactions at rate ϕ, where ϕ captures tallage, corvée, market tolls, and other seigneurial dues. They receive lordly protection $s_L(\lambda)$, with $s_L'(\lambda) > 0$. The lords gain h from their alliance with the towns (access to commercial resources, urban support) but bear a cost $c_K(\kappa)$ of opposing the king, increasing in royal power: $c_K'(\kappa) > 0$.

If there is no coalition, the status quo (SQ) obtains, representing continued feudal disorder with payoffs $(\pi_K^{SQ}, \pi_L^{SQ}, \pi_T^{SQ})$. Throughout, we assume that all three coalitions Pareto-dominate the status quo and focus on equilibria in which some coalition forms.

2.2 The Extensive Form Game

The timing of events is as follows.

1. The King proposes an alliance to either Towns or Lords.
2. The proposed partner accepts or rejects.
3. If rejected, the excluded party may propose an alternative coalition.
4. This alternative coalition is either accepted or rejected.

The game is solved by backward induction and the equilibrium concept is Subgame Perfect Nash Equilibrium (SPNE). Throughout we assume that the status quo (SQ) configuration is Pareto-dominated by all three coalitions; we therefore focus on equilibria in which some coalition forms.

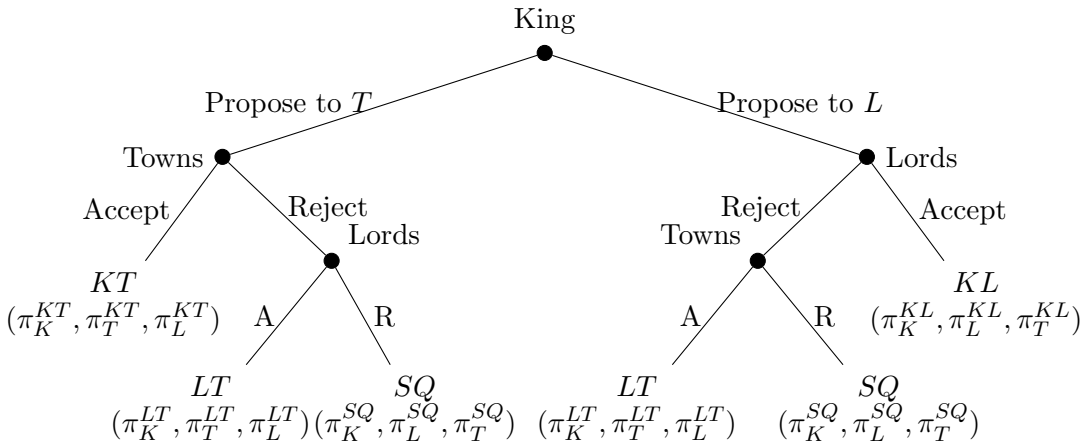


Figure 1: The extensive-form game. The King moves first, proposing an alliance to Towns or Lords. If rejected, the excluded party may form an alternative coalition. Payoffs are as defined in equations (1)–(3).

2.3 Equilibrium Conditions

The following conditions, derived from the payoffs in Section 2.1 and the timing in Section 2.2, characterize which coalition emerges in equilibrium.

Condition for KT (Smith's equilibrium). The king proposes to the towns, and the towns accept, when two conditions hold simultaneously:

The king prefers towns over lords: $\pi_K^{KT} > \pi_K^{KL}$, which requires:

$$\underbrace{(1-\alpha)\tau W + m(W)}_{\text{net gain from town alliance}} > \underbrace{c(\lambda,\kappa) + m_L(\lambda)}_{\text{cost of fighting lords + forgone lord support}} \tag{4}$$

The left-hand side increases in W: richer towns generate more tax revenue and provide more support. The right-hand side increases in λ: stronger lords are more costly to subdue and more valuable as allies. It also decreases in κ: a stronger king faces lower costs of subduing the lords. Define $W^*(\lambda,\kappa)$ as the threshold urban wealth that makes the king indifferent:

$$W^*(\lambda,\kappa): \quad (1-\alpha)\tau W^* + m(W^*) = c(\lambda,\kappa) + m_L(\lambda) \tag{5}$$

The king prefers the town alliance when $W > W^*(\lambda,\kappa)$. Since the right-hand side of (5) is increasing in λ, we have $\partial W^*/\partial\lambda > 0$: when lords are more powerful, towns must be richer to

justify the KT coalition. Conversely, $\partial W^*/\partial\kappa < 0$: a stronger king requires less urban wealth to justify fighting the lords, because his costs of subduing them are lower.

Towns prefer the king over the lords: $\pi_T^{KT} > \pi_T^{LT}$, which requires:

$$s(\kappa, \lambda) - s_L(\lambda) > (\tau - \phi)W \tag{6}$$

Towns prefer the king when the advantage of royal protection over lordly protection ($s - s_L$) exceeds the net tax burden of the royal alliance ($(\tau - \phi)W$). If the king taxes more heavily than the lords ($\tau > \phi$), towns need correspondingly greater royal protection to stay loyal—which is exactly the dynamic that drove London to support the barons in 1215.

Condition for LT. If the king proposes to the towns and they reject (because $\pi_T^{LT} > \pi_T^{KT}$), the lords can form a coalition with the towns. This requires $\pi_L^{LT} > \pi_L^{KL}$:

$$h - c_K(\kappa) > r \tag{7}$$

Lords prefer alliance with towns when the gains from that alliance (h) exceed the sum of the cost of opposing the king ($c_K(\kappa)$) and the forgone predation rents (r). This is more likely when the king is weak (κ low, so c_K is low) and when the gains from the urban alliance are large.

Condition for KL. The king proposes to the lords when $\pi_K^{KL} > \pi_K^{KT}$—i.e., when $W < W^*(\lambda, \kappa)$. Towns are too poor to justify fighting the lords, or the lords are so strong that the cost of subduing them exceeds what the towns can offer. Towns cannot offer sufficient tax revenue or military support to outweigh the cost of fighting the lords. This describes Eastern Europe, where weak urban development coincided with the persistence of serfdom and lordly power, and the Holy Roman Empire under Frederick II, where the emperor's priorities lay in Italy rather than in cultivating urban alliances north of the Alps.

Table 1 summarizes these conditions.

Table 1: Equilibrium Conditions and Historical Examples

Coalition	King's condition	Partner's condition	Historical context
KT	$W > W^*(\lambda, \kappa)$ (towns worth fighting for)	$s - s_L > (\tau - \phi)W$ (towns prefer king)	Philip Augustus; Smith's conjectural history
LT	—	$h > r + c_K(\kappa)$ (lords prefer towns)	Magna Carta (1215); War of Public Weal (1465)
KL	$W < W^*(\lambda, \kappa)$ (towns not worth it)	$r > h - c_K(\kappa)$ (lords prefer king)	Frederick II; Eastern Europe

2.4 Comparative Statics

The payoff structure developed above allows us to identify which factors shift the equilibrium from one coalition to another.

Under what conditions does the KT equilibrium emerge? From the switching condition (4), the king-town alliance is more likely when urban wealth W is high, since richer towns generate more tax revenue and provide more military support. It is also favored when tax compliance under the alternative (α) is low, so that the gap between willing and unwilling taxation is large, making hostile towns costly to govern. On the lords' side, the KT coalition is more attractive when the cost of subduing the lords $c(\lambda, \kappa)$ is moderate and when lordly military support $m_L(\lambda)$ is low—that is, when lords offer little that the king cannot obtain from the towns. Higher royal capacity κ also favours KT by reducing the cost of subduing the lords ($\partial c/\partial \kappa < 0$). From the town's condition (6), towns are more willing to ally with the king when royal protection $s(\kappa, \lambda)$ is valuable—which requires both a strong king and threatening lords—and when royal taxation τW is not too burdensome relative to the alternatives.

Under what conditions does the LT equilibrium emerge? The lord-town alliance against the king becomes more likely when the king is weak (κ low), since this reduces $c_K(\kappa)$ and lowers the cost of opposing him. Another factor that makes it more likely is if the king is excessively extractive (high τ), which reduces π_T^{KT} relative to π_T^{LT}, and when the gains from the lord-town alliance h

are large because lords can offer credible alternatives to royal governance. Low extraction rents r under the KL alternative also make the LT coalition more attractive, since lords have less to lose from switching to the town alliance. Historically, the LT equilibrium emerged during succession crises (low κ), after military defeats that weakened the crown, or when kings violated established privileges (raising effective τ).

What favors the KL equilibrium? As derived above, the KL equilibrium emerges when $W < W^*(\lambda, \kappa)$. This is favored when W is low, λ is high and κ is low. The KL equilibrium can be self-reinforcing: suppressing urban commerce reduces W, which makes the KL coalition even more attractive in subsequent periods. This dynamic is explored in Section 4.

3 Historical Evidence

3.1 The King-Town Equilibrium

First let us discuss some important examples that fit Smith's schema. Consider the rise of the French monarchy in the twelfth and thirteenth centuries. Indeed Smith chooses the example of the Capetian monarchs of France as motivation. He first notes that "Philip the First of France lost all authority over his barons" and that it was in the reign of his son Louis VI (Smith's "Lewis the Fat") that royal power began to be rebuilt. The council he received involved granting law and order to the towns "establishing magistrates and a town council in every considerable town of his demesne" and allowing the towns to better defend themselves: "making the inhabitants of those towns, under the command of their own magistrates, march out upon proper occasions to the assistance of the king".

Smith's account accords with both the traditional account of Louis VI's reign by his contemporary Abbot Suger and more recent accounts by historians. Baldwin (1986, 59), for example, writes: "Recognizing the importance of the growing urban communities produced by the upswing of commercial activity in the early twelfth century, these kings issued charters to towns throughout the northern half of France". During the 12th century, the French monarchy was able to

subdue nearby feudal lords such as Ebbes de Roucy, Enguerrand de Coucy, and Thomas de Marle with the aid and assistance of the towns. The great rivals of the French kings, the Angevins also cultivated the support of the towns and supported municipal self-government in order to maintain their loyalty (see Wolfe, 2009, 22).

Further evidence for this dynamic is offered from the reign of Philip Augustus (r. 1180–1223). Philip systematically cultivated urban support as part of his strategy to consolidate royal power against the great feudal magnates, and the results were transformative: he more than tripled the royal domain and made the French crown more powerful than any feudal lord.

Philip's urban policy had several distinct elements. First, he confirmed the charters of existing communes and extended their privileges, securing the loyalty of established urban centers. Second, he created *new* communes, strategically located along the northern frontiers of the expanding royal domain. In particular, Philip took an interest in the urban centers outside of the royal domain. He issued charters that gave them rights of self-government and limited the abuses of royal agents. This was a key element in his conquest of Normandy. Between 1204 and 1214, Philip "issued another twenty-eight charters, distributed among the major Norman towns, those in Poitou where the English had been expelled, and, finally, among northeastern towns in preparation of the showdown with the English, German, and Flemish coalition" (Baldwin, 1986, 63).

These charters are an instance of specific institutions affecting the payoffs. Town charters were a means by which the promises of either the king or a lord to protect the independence of the town were made more credible. The terms of a typical charter make the mechanism concrete. Consider the grant by Louis VI to Lorris, which established privileges later extended to scores of communities throughout the royal demesne (Stephenson, 1933, 29). The charter specified that residents would pay only fixed rents, be quit of all *taille* and forced exactions, owe only one day of local military service, and be protected from purveyance. Fines and punishments were strictly limited, and no one could be molested while travelling to or from the market. As Stephenson (1933, 30) observes, the "chief concern was clearly the encouragement of a trading population"—the normal holding was a building plot, not a field, and the privileges were "essentially such as

were everywhere demanded as a minimum by commercial settlers." In the language of the model, a charter like this raised $s(\kappa, \lambda)$ by replacing arbitrary exaction with predictable obligations, making royal protection credible.[5] A charter established a legal space in which the grantor's authority overrode competing claims and this form of institutional commitment could help make the alliance more reliable. In return, the chartered town provided fiscal revenue and military support. As Berman (1983, 360) observes, across medieval Europe "emperors, kings, dukes, and lesser (seignorial) rulers, as well as popes and bishops, were often able to increase both their military protection and their wealth by chartering towns." Chartering thus raised both $m(W)$ and τW. This is what made the KT coalition attractive to the king.

The reasons that historians like Baldwin give for this royal-urban alliance also accord with Smith. "The advantages that he derived from the towns," Baldwin (1986, 64) notes, "were essentially threefold: revenues, defense, and the extension of royal influence". In particular, the growth of commerce and trade allowed these towns to commute their farm income into fixed payments that were greatly appreciated by the royal treasury as military costs rose. The towns provided not only taxes and fees but also military contingents—urban militias that could be deployed against rebellious lords. The towns, for their part, gained protection from baronial predation and institutional protection for long-distance trade.

Philip did not always favor the autonomy of the towns. For example, he intervened at Noyon to protect the bishop against the commune, and in 1199 he suppressed the Commune of Étampes entirely. The KT equilibrium, in other words, did not mean unconditional royal support for urban autonomy. It meant a strategic alliance in which both parties gained, but in which the king retained ultimate authority.

Along the lines suggested by Smith, urban support aided Philip in his struggles against both his own barons and the rival Angevin dynasty that ruled England and he was able to recover

[5] As Stephenson emphasizes, what a charter created was a *territorial immunity*: "a settlement living under a special law guaranteed by some holder of regalian powers," within which "all seignorial rights were subordinated to the will of the grantor" (Stephenson, 1933, 44).

Normandy, Anjou, Maine, and Touraine for the French crown.[6] By the time of his death in 1223, the French monarchy had been transformed from one of the weakest in Europe to one of the strongest. This example exemplifies Smith's argument.

3.2 The Lords-Towns Equilibrium

Nonetheless, there are also plenty of examples that run counter to Smith's thesis. I examine two detailed case studies: England in the 13th century and France in 1465.

London, Magna Carta, and the Barons Smith notes that John was " a most munificent benefactor to his towns". There were indeed a large number of town grants in his reign. John licensed numerous markets and numerous boroughs were granted the right to tax themselves.[7] These charters prohibited royal officials from levying extraordinary fees and in some cases granted merchants exemptions from tolls throughout the realm (see Ballard, 1899). But in practice, however, John often undermined urban liberties. This was particularly true in the case of the most important and prosperous city in his realm: London (Maddicott, 2011, 310).[8]

Consider the baronial rebellion 1215 that would culminate in the Magna Carta.[9] Here is an example of a major town allying with the feudal lords *against* the king.

Magna Carta was secured with the support of the city. Robert fitz Walter as lord of Baynard Castle was "Procurator and banneret of London and commander of the city host".[10] Moreover, the mayor of London was named as one of the 25 barons responsible for enforcing the charter. And it was the barons' capture of London in May 1215 that played a critical role in persuading John to negotiate at Runnymede. Why was this?

[6] Another critical factor, unmentioned by Smith, was the support of the Church. See Johnson and Koyama (2019).

[7] The right to farm the borough is seen as crucial building block on the road to self-government both by Smith and by modern researchers such as Angelucci et al. (2022).

[8] John also imposed heavy fines on other towns such as Norwich and Ipswich for falling to attend his summons in 1209. He also imposed draconian fines on individual townsmen and burgesses (Maddicott, 2011, 300).

[9] See Desierto et al. (2023) for a theoretical and empirical analysis of the baronial coalition that made Magna Carta possible.

[10] Holt (2015, 73).

In terms of the framework, King John's heavy taxation had reduced π_T^{KT} (the towns' payoff from alliance with the king), while the barons' program of reform raised π_T^{LT} (the towns' payoff from alliance with the lords). The result was $\pi_T^{LT} > \pi_T^{KT}$, and the LT equilibrium emerged.

From Section 2, substituting the payoffs, towns prefer the lords when:

$$(\tau - \phi)W + s_L(\lambda) > s(\kappa, \lambda) \tag{8}$$

Towns switch to the lordly alliance when the net tax savings from escaping royal taxation ($(\tau - \phi)W$) plus lordly protection (s_L) exceeds royal protection (s). For the specific case of Magna Carta, it is useful to decompose the lordly protection term further.

Let $s_L(\lambda) = \theta(\lambda) \cdot R$, where $\theta(\lambda) \in [0, 1]$ represents the credibility of the lords' commitment to institutional reform, and R is the value of the rights and protections promised. Since lords with greater military capacity can more credibly enforce their commitments, we have $\theta'(\lambda) > 0$, which preserves the property $s_L'(\lambda) > 0$ from the general model. This decomposition captures the fact that the *content* of the lords' offer (the value of the charter, R) matters only insofar as that offer is *credible* or enforceable (θ). The switching condition (8) then becomes:

$$\theta(\lambda)R > s(\kappa, \lambda) - (\tau - \phi)W \tag{9}$$

Define θ^* as the threshold level of baronial credibility required to induce the towns to switch coalitions:

$$\theta^* \equiv \frac{s(\kappa, \lambda) - (\tau - \phi)W}{R} \tag{10}$$

The threshold θ^* is higher when royal protection $s(\kappa, \lambda)$ is valuable—that is, when the king is strong and the lords are threatening—and when royal taxation τW is low, leaving less to gain from escaping it. A higher effective royal tax rate lowers the threshold ($\partial\theta^*/\partial\tau = -W/R < 0$), making the LT equilibrium more likely. A stronger king raises the threshold ($\partial\theta^*/\partial\kappa > 0$) by making royal protection more valuable. And more valuable reform promises lower the credibility required ($\partial\theta^*/\partial R < 0$), since the prize from switching is larger.

This sheds additional light on the role London played in the Magna Carta crisis. John had agreed to a charter for the city in 1199. However, he repeatedly extracted large amounts of revenue

in the years after 1204 in his failed attempt to reconquer Normandy. London was no exception to this and was frequently taxed (Reynolds, 1975). The city had good reason to join the coalition against the king. But as discussed in Desierto et al. (2023), the repressive and extractive policies of King John in the decade prior to 1215 generated real discontent but little outright opposition. The reason for this was that the king remained powerful and open rebellion would have been extremely costly. In terms of equation (10), John imposed a high effective tax rate (τ high), but he also provided security: his military campaigns maintained order at home and kept the barons in check (κ and hence $s(\kappa, \lambda)$ moderately high). The threshold θ^* was therefore high, and towns remained in the KT coalition despite John's predations.

The outcome of the Battle of Bouvines in July 1214 was an exogenous shock. John's coalition was catastrophically defeated at the Battle of Bouvines; κ, the king's effective military capability fell sharply. By equation (10), the decline in κ reduced $s(\kappa, \lambda)$, which *lowered* the threshold θ^*. Moreover, the barons did something with little precedent: they formulated a written charter specifying rights and protections. This was not merely a list of grievances but a detailed constitutional document with enforcement mechanisms (the committee of 25 barons).

This program appears to have drawn on the ideas of self-government that had been brewing in the movement for urban self-government. Holt in fact argues that Magna Carta may have been inspired by the urban charters of self-government, including that of London that had spread in the 12th century. The barons owed a "general debt to the doctrines underlying municipal self-government" (Holt, 2015, 74). The baronial program of reform did not impinge upon the rights or interests of the city of London; on the contrary, it was closely aligned with them. Magna Carta stated that:

> The City of London shall enjoy all its ancient liberties and free customs, both by land and by water. We also will and grant that all other cities, boroughs, towns, and ports shall enjoy all their liberties and free customs.

This *raised* θ—the credibility of the baronial commitment to reform. The written charter, drawing

on ideas from urban self-government, was the mechanism through which the barons made their promises credible.

In the language of the model, the combination of these two changes—$\kappa \downarrow$ lowering $s(\kappa, \lambda)$ and hence θ^*, and the charter raising θ—pushed $\theta > \theta^*$. The largest town in England switched to the LT alliance, and London's support proved decisive in forcing John to negotiate at Runnymede.

King John died in 1216, and following the civil war the regency government for the young Henry III could credibly commit to better behavior. In the model's terminology: the effective tax rate τ fell. Moreover, the minority government reissued Magna Carta, appropriating the reform agenda. Both changes raised θ^*, and England appears to have fallen back toward the KT equilibrium—until Henry III's own misrule in the 1250s and 1260s triggered another LT episode in the Second Barons' War.

During the Second Barons' War, London again sided against the King. In particular, Henry's queen Eleanor of Provence was particularly unpopular with Londoners. She had been given considerable autonomy and authority by Henry, acting as his regent when he was away and as Lord Chancellor. But she had also gained a reputation for covetousness. Controversies over Londoners' payment of queens-gold contributed to the unpopularity of the government in the 1250s (Howell, 1987).

London again sided with the barons against the king in the Second Barons' War. Within London itself, there were many divisions and the inclination of the city's leadership and aldermen was actually royalist. But the larger citizenry strongly supported the reform movement. Like the barons, they were partly motivated by xenophobic resentment against foreigners who the king was seen as favoring. Simon de Montfort moreover personally approached the leadership of the city seeking their support (Jobson, 2012, 190).

Indeed Thomas fitz Thomas, the mayor of London, fought alongside de Montfort at the rebel victory at Lewes in May 1264. Here the Londoners fought bravely on the left flank of the rebel army, but bore the full brunt of Prince Edward's charge of heavy cavalry and suffered tremendous casualties (Jobson, 2012, 180). Their military contribution and the oath of mutual aid that they

swore reflects the support of the commune of London itself and an alignment of interests between the rebel lords and the city (see Stone, 2014).

What about other towns? In general, it seems they also favored the baronial cause. The Cinque Ports—the towns and ports along the southern coast of Kent and Sussex that were responsible for providing the King with his navy in times of war—also tended to side with the barons against the king in the civil wars of the 13th century (Jobson, 2012, 151 and 171).

3.3 The War of the Public Weal (1465)

A second important example of the LT equilibrium comes from fifteenth-century France. The War of the Public Weal (1465) was a conflict between Louis XI (r. 1461–1483) and a coalition of his leading magnates, including Philip the Good, Duke of Burgundy, and the king's own brother Charles, Duke of Berry.

The traditional view of French towns in the fifteenth century, associated with the historian Bernard Chevalier, holds that they allied with the Crown against the princes—an "*entente cordiale*" that fits Smith's KT equilibrium perfectly. On this account, Paris and other leading cities supported the royal cause against the feudal lords. The thrust of the argument is that there was an alignment between a nascent urban bourgeoisie and the ambitious centralizing Louis XI.[11]

However, recent scholarship by Murphy (2024) has significantly revised this narrative. Armed with this new research, it is worth examining this conflict through the lens of the framework.

Murphy points out that both the king and his opponents sought the support of the towns. The feudal magnates or "princes" who opposed Louis "promised that they would eliminate corruption in the royal government and abolish unjust taxes" (Murphy, 2024, 1028). They offered to restore traditional urban freedoms which the kings had violated. In response the king also sought to gain the loyalty of the towns. Louis, Murphy (2024, 1032) argues "fabricated a royalist history of France in which urban loyalty to the Valois monarchy was central".

[11]Louis XI's biographer writes that "the weakness of the feodality ... had attached the middle classes to the royal power" (Kendall, 1971, 374). Though note this argument is subtly different than Smith's. Similarly, he notes that "The moneyed oligarchy of his townsmen, Louis treated with flattering familiarity, labored to promote their prosperity, and exercise control, in one way or another over their municipal governments" (Kendall, 1971, 343).

And indeed, during the War of the Public Weal, many French towns actually supported the princes against Louis XI. Specifically, many Norman towns actively worked to create an independent duchy under Charles of France. Burgundian towns followed Philip the Good into rebellion. Towns in the Bourbonnais supported their duke. Even Paris was deeply divided, with factions that wanted to join the princes. Murphy observes that "[r]ather than towns joining forces with the king to create a centralised royal state, urban populations continued to put themselves in opposition to the Crown when they felt that their particular interests were threatened."

Why did towns support the princes? The mechanism works through exactly the payoff shifts the model predicts.

Louis XI taxed towns heavily in the early years of his reign, reducing π_T^{KT}. At the same time, the princes' manifestos promised tax abolition and reform, raising π_T^{LT}. Regional identity also mattered: Normandy sought restoration of its duchy and the protections of the *Charte aux Normands*.

As Murphy notes: "Late medieval French princes espoused an ideology which was grounded in the maintenance of traditional regional liberties and resistance to oppressive manifestations of monarchical power, especially the imposition of unfair taxes." When π_T^{KT} falls and π_T^{LT} rises, the condition $\pi_T^{LT} > \pi_T^{KT}$ becomes satisfied, and the LT equilibrium emerges.

A striking feature of the War of the Public Weal is that different regions of France saw different equilibria emerge *simultaneously*. In the core royal domain—Tours, Poitiers, Orléans—the KT equilibrium held and towns stayed loyal to Louis XI. But in Normandy, towns supported Charles of France in hopes of restoring an independent duchy (LT). In the Burgundian territories, towns followed Philip the Good into rebellion (LT), while towns in the Bourbonnais similarly supported their duke. Paris itself was contested, with both royalist and princely factions present within the city.

This geographic variation illustrates a broader point: the three-player game operates not only at the level of the king but also at the level of territorial princes. The magnates who opposed Louis XI—Philip the Good of Burgundy, the dukes of Bourbon and Berry—were themselves

patrons who had cultivated urban alliances within their own territories, using the same tools of charters, commercial patronage, and tax relief that the king deployed in his domain. The result was simultaneous KT-type equilibria at different levels: towns allied with whichever patron—king or prince—offered the most reliable protection and the strongest institutional ties. As Figure 2 shows, loyalty tracked princely territories rather than simple distance from Paris.[12]

3.4 The King-Lords Equilibrium

The third possible coalition—king allied with lords against towns—also occurred historically. This equilibrium suppresses urban autonomy and maintains the traditional feudal order.

An important example of this comes from the Holy Roman Empire. In the early thirteenth century, the Holy Roman Emperor Frederick II faced a strategic dilemma. His primary ambitions lay in Italy, where he sought to consolidate Hohenstaufen power against the Lombard cities and the papacy, and in the Holy Land, where he had taken the cross. To pursue these goals, he needed the military support and political acquiescence of the German territorial princes. German towns, while growing in wealth and importance, could not provide what Frederick most needed: armed knights for Italian campaigns and princely consensus to secure his dynasty. The question was: at what price would the princes provide their support?

The answer came in two landmark pieces of legislation. The *Confoederatio cum principibus ecclesiasticis* (1220) granted extensive privileges to the ecclesiastical princes, including rights to build castles, hold markets, mint coins, levy tolls, and dispense justice in their territories. Toch (1999, 387) simply describes it as "anti-town legislation" which limited the development of imperial towns. The emperor agreed not to construct new fortifications or establish new markets that would compete with episcopal interests. Towns that had encroached on ecclesiastical rights found their gains reversed.

Frederick's own son Henry, serving as King of Germany during his father's absence in Italy,

[12]This case reveals a limitation of the unitary-actor assumption for lords: the model produces a single equilibrium for a given parameter configuration, but France in 1465 exhibited different equilibria simultaneously across regions. A multi-lord extension with spatially differentiated parameters would be needed to capture this variation fully within the formal framework.

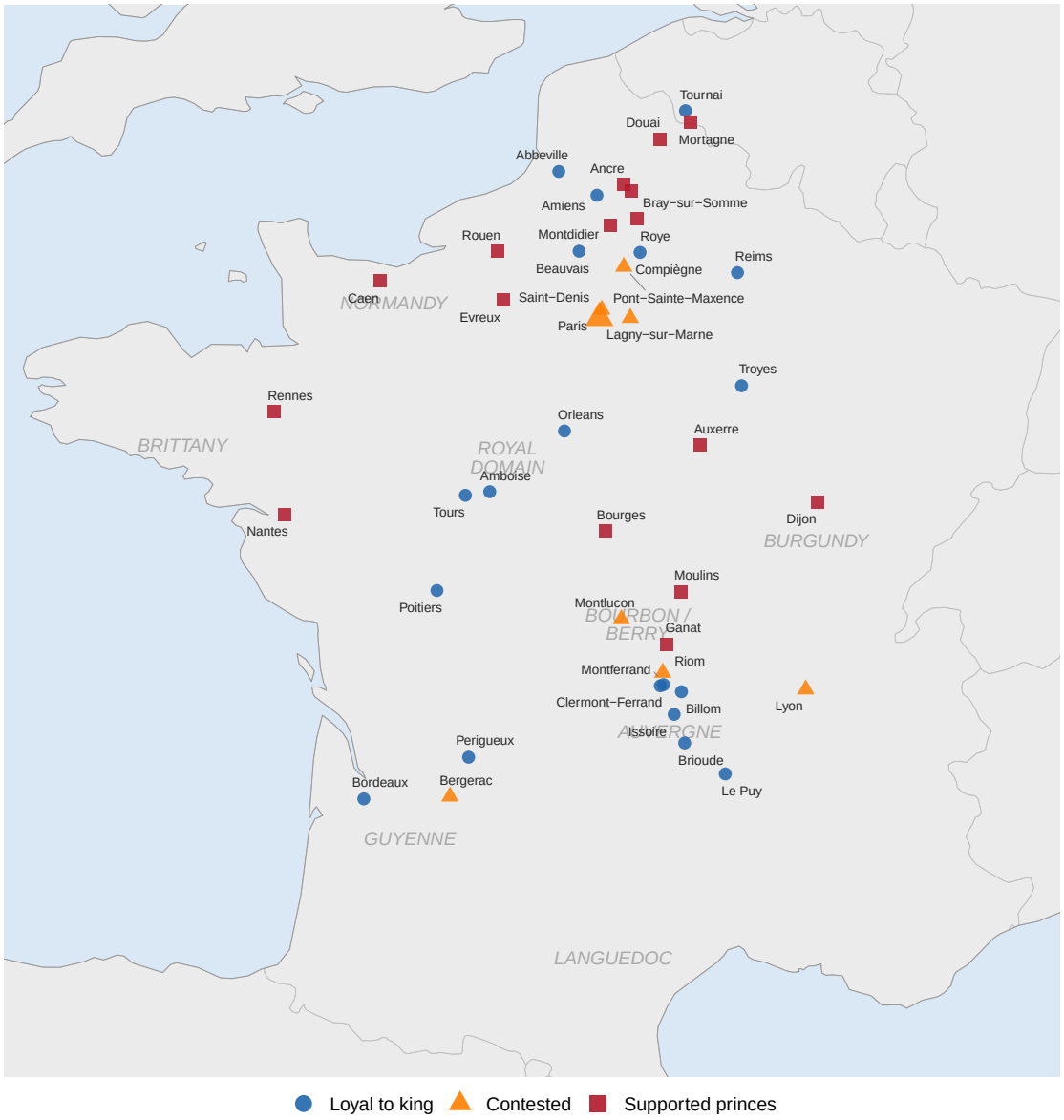


Figure 2: Urban loyalty during the War of the Public Weal (1465). Blue circles: towns loyal to Louis XI; red squares: towns supporting the princes; orange triangles: contested towns. The pattern tracks princely territories rather than simple distance from Paris. Town loyalty coded from Murphy (2024); coordinates from Buringh and van Zanden (2021).

had pursued markedly different policies. Henry "favored the privileges of the towns over those of the princes," authorizing intermarriage between urban patricians and imperial *ministeriales*, and recognizing town leagues directed against episcopal lords. Some historians have credited Henry with "a consistent policy, or at least a tendency in favour of these emergent forces"—the towns and the rising class of *ministeriales*.[13]

In response, the *Statutum in favorem principum* (1231–1232) extended similar privileges to the secular princes. Frederick promised not to erect new towns, castles, or mints in princely territories. He agreed to exclude from imperial cities any serfs who fled from princely lands. The princes were now formally recognized as *domini terrae*—lords of their lands—for the first time in imperial law. As Toch (1999, 387) summarizes: "King and emperor renounced the right to erect new towns, castles and mints in princely territories."

Why did Frederick favor the princes over the towns? David Abulafia observes that Frederick "placed his trust in regional princes, and never dreamed of usurping their power" in Germany (Abulafia, 1988). His aim was "to leave the Empire north of the Alps secure under the direct rule of the princes, allowing him to concentrate his efforts on the southern part of the Empire." The towns of Germany, while growing, could not offer Frederick what he needed most: reliable military support for his Italian campaigns. The princes could. In terms of the framework, $\pi_K^{KL} > \pi_K^{KT}$: the emperor's payoff from alliance with the princes exceeded what the towns could provide.

The KL equilibrium, once established, proved remarkably durable. The *Confoederatio* and *Statutum* were reconfirmed repeatedly—at the Diet of Ravenna (1231), at Cividale (1232), and in subsequent reigns. The princes had obtained imperial sanction for their territorial ambitions, and they would not willingly surrender it. Towns continued to grow, but within constraints set by princely power.

There are other clearcut examples of the KL equilibrium. Often the alliance of the king and the nobility emerges most clearly in the event of a rebellion or revolt. One important example of this is the response to the Jacquerie and the revolt of Paris led by Étienne Marcel in 1358.

[13]Toch notes that others interpret Henry as simply "favouring the enemies of his enemies."

The crisis began after the catastrophic French defeat at Poitiers (1356), which left King John II a prisoner in England and the kingdom under the regency of the young Dauphin Charles (the future Charles V). The martial reputation of both the king and of the nobility was damaged by this defeat and the towns became emboldened in their resistance to royal taxation (Firnhaber-Baker, 2021, 25). In the power vacuum, Étienne Marcel, the provost of the merchants of Paris, led a radical urban movement demanding constitutional reforms. The Estates General of 1356–1357 sought to impose oversight on royal finances and administration—in effect, an attempt to constrain monarchical power through representative institutions.

Marcel, for example, opposed the policy of royal debasements that had severely reduced confidence in the currency (Firnhaber-Baker, 2021, 34) and the overall direction of his policies were towards reform and improving governance. For this reason, Marcel's movement initially attracted support from some nobles, including Charles the Bad, King of Navarre. But the dynamics shifted dramatically in May 1358 when the Jacquerie—a massive peasant uprising—erupted in northern France. The peasants attacked noble castles, killed nobles, and threatened the entire social order. Marcel chose to ally with the peasant rebels; he sent Parisian forces to support them and hoped to use the rural uprising to break the Dauphin's blockade of the capital.

There are several important points to note here. First, the urban leadership of the city of Paris were opposed to royal policies and royal mismanagement. In other words, like the citizens of London in 1215, they were more threatened by the king than by the nobility and in the early stages of the rebellion they were closely allied with the pro-noble and anti-royal policies of Charles of Navarre (see discussion in Bessen, 1985).[14] Relatedly, the main target of the revolt were the royal counselors (rather than the nobility).

However, once Marcel decided to join with the peasants, this undermined the support he had from elements of the nobility. Charles of Navarre switched sides and led the brutal suppression of the peasants at Mello in June 1358. The nobility and the Dauphin found common cause: both

[14]Bessen (1985, 45) describes a scholarly consensus that sees it as "sustained, organized and planned revolt against the Crown: seeking to enact certain reforms in the royal government and to protect the Parisian economy".

faced an existential threat from the alliance of urban reformers and rural rebels.

The military power of the nobility and the crown were too much for the rebels. Marcel was assassinated on July 31, 1358. The Dauphin re-entered Paris two days later. The consequences for urban autonomy were severe: the powers of the Parisian municipal government were "considerably reduced," and the constitutional ambitions of the Estates General were ended. The KL equilibrium had emerged because towns—through their alliance with the peasants—had become threatening to *both* the crown and the nobility.[15] When the payoffs shifted such that nobles preferred alliance with the crown ($\pi_L^{KL} > \pi_L^{LT}$) and the crown preferred alliance with nobles over the now-dangerous towns ($\pi_K^{KL} > \pi_K^{KT}$), the result was the coordinated suppression of both the urban movement and the peasants.

A final example illustrates a variant of the KL equilibrium that lies beyond the formal model's scope but is historically important: the case where towns become politically threatening. This is the Comuneros Revolt in Castile at the very end of the Middle Ages, which saw Castilian towns rebel against Charles V. The revolt was triggered by Charles's departure for the Holy Roman Empire, leaving foreign administrators in charge and imposing heavy new taxation to fund his imperial ambitions. The leading Castilian towns—Toledo, Segovia, Salamanca—formed a *Junta* and raised an army (see Haliczer, 1981). Some nobles initially sympathized with the urban grievances, but when the movement took a radical turn—attacking noble property and demanding broader social reforms—the Castilian nobility rallied to the crown. The combined royal-noble forces crushed the revolt at the Battle of Villalar in April 1521. In terms of the model, the radicalization of the urban movement raised the perceived threat to the nobility, shifting their calculation from potential LT alliance to firm KL—a dynamic similar to the Jacquerie a century and a half earlier. Urban autonomy was significantly reduced thereafter.

[15]The peasant uprising acts as an exogenous shock from outside the three-player framework, raising the perceived threat that towns posed to both king and lords. A full account of this episode would require modelling the peasantry as a fourth player, which is beyond the scope of the present analysis.

4 Dynamics and the Diamond-Buckle Puzzle

The analysis presented thus far has been static. But Smith's account in Book III is fundamentally dynamic: the alliance between king and towns does not merely persist—it transforms the underlying conditions that gave rise to it. In this section, I extend the framework to capture these dynamics, focusing in particular on Smith's celebrated "diamond buckles" argument about how commerce inadvertently weakened the feudal lords.

4.1 Setup

Consider a sequence of periods $t = 0, 1, 2, \ldots$ In each period, the three players form a coalition as described in Section 2, and the resulting coalition determines how the state variables evolve. Players are assumed to be myopic: they select the coalition that maximizes current-period payoffs without anticipating future state changes. This is a natural assumption for medieval politics, where kings, lords, and urban leaders had finite and uncertain tenures—dynasties ended, lords were killed or dispossessed, and town governments turned over—making long-horizon strategic planning implausible. The state of the political economy at time t is characterized by three variables: (i) W_t = urban wealth (commercial income, population, economic capacity); (ii) κ_t = royal power (fiscal and administrative capacity); and (iii) λ_t = lordly military power (armed retinues, castle garrisons, feudal levies).

Stage-Game Payoffs. In each period, the stage game is as described in Section 2, with payoffs now evaluated at the current state variables $(W_t, \kappa_t, \lambda_t)$. Under the KT coalition:

$$\pi_K^{KT} = \tau W_t + m(W_t) + \kappa_t - c(\lambda_t, \kappa_t), \quad \pi_T^{KT} = (1-\tau)W_t + s(\kappa_t, \lambda_t), \quad \pi_L^{KT} = \bar{\pi}_L - \ell(\kappa_t)$$

Under the KL coalition:

$$\pi_K^{KL} = \alpha\tau W_t + m_L(\lambda_t) + \kappa_t, \quad \pi_T^{KL} = (1-\tau)W_t - p(\lambda_t), \quad \pi_L^{KL} = \bar{\pi}_L + r$$

Under the LT coalition:

$$\pi_K^{LT} = \kappa_t - d(\lambda_t, W_t), \quad \pi_T^{LT} = (1-\phi)W_t + s_L(\lambda_t), \quad \pi_L^{LT} = \bar{\pi}_L + h - c_K(\kappa_t)$$

The coalition that emerges each period is determined by the equilibrium conditions from Section 2; the resulting coalition then determines how the state variables evolve.

Transition Equations.

Under the KT Equilibrium. When king and towns ally against the lords:

$$\begin{aligned} W_{t+1} &= (1+g)W_t \\ \kappa_{t+1} &= \kappa_t + \tau W_t \\ \lambda_{t+1} &= \lambda_t - \gamma W_t \end{aligned} \tag{11}$$

where $g > 0$, $\tau > 0$, and $\gamma > 0$.

The intuition is simple. Urban wealth grows over time ($g > 0$) because royal protection and trading privileges allow commerce to flourish. Long-distance trade expands, the urban middle class prospers and W increases. The king benefits directly: his tax revenue is τW_t, which funds royal administration, professional armies, and state capacity.

Importantly, to capture Smith's key insight, as urban commerce develops, the lords "gradually exchanged their whole power and authority" for "trinkets and baubles." In this notation: $\partial\lambda/\partial W < 0$ under the KT equilibrium. This is Smith's celebrated "diamond buckles" mechanism.[16]

The transition equations above are reduced-form: they posit the direction of change in each state variable rather than deriving it from the players' optimization. A microfounded version would model each lord as allocating income between retainers (contributing to λ) and consumption of luxury goods. As urban commerce expands and the variety of available goods increases, the opportunity cost of maintaining retainers rises, and lords rationally shift spending toward consumption—generating $\partial\lambda/\partial W < 0$ as a result rather than an assumption. Weingast (2025)

[16] Weingast (2025) offers an important emendation of the standard account of this mechanism. He argues that causality runs from the reduction of violence to the appearance of luxury goods, not the reverse: lords near towns could afford to disband their retainers because the town's expanding security umbrella made local violence unnecessary, while lords in the agrarian hinterland remained trapped in the arms race. This spatial logic is compatible with our framework, in which the decline of λ is driven by rising W under the KT equilibrium.

provides a complementary behavioral logic: lords near towns disband retainers not merely because they desire luxuries but because the town's expanding security umbrella reduces the local need for self-defense. A full dynamic model with endogenous military spending would be a valuable extension; the reduced-form approach adopted here is standard in the political economy literature (cf. Acemoglu and Robinson, 2005) and suffices to capture the qualitative dynamics of Smith's argument.

Under the KL Equilibrium. When king and lords ally against the towns we obtain:

$$\begin{aligned} W_{t+1} &= (1-d)W_t \\ \kappa_{t+1} &= \kappa_t + \alpha\tau W_t \\ \lambda_{t+1} &= \lambda_t \end{aligned} \tag{12}$$

where $d > 0$. In this configuration, urban wealth stagnates or declines ($d > 0$). Without royal protection, towns are vulnerable to predation; especially if the nobility are hostile to commerce, urban prosperity declines and long-distance trade is undermined.

The king still extracts tax revenue, but only $\alpha\tau W_t$ (reflecting the compliance discount), and since W is declining, royal power grows slowly. Moreover, the diamond-buckle dynamic does not get going: lords maintain their armed retinues and military capacity because there are fewer luxury goods to tempt them.

Under the LT Equilibrium. Finally, when lords and towns ally against the king, we obtain the following:

$$\begin{aligned} W_{t+1} &= (1+g_L)W_t \\ \kappa_{t+1} &= \kappa_t - \mu W_t \\ \lambda_{t+1} &= \lambda_t - \gamma_L W_t \end{aligned} \tag{13}$$

where $g_L < g$, $\mu > 0$, and $\gamma_L \in [0, \gamma]$. Commerce continues under lordly dominance, but lords provide less protection and trade support than the king, so $g_L < g$. The king, now opposed by both lords and towns, loses power in proportion to urban wealth: the wealthier the opposing

coalition, the more damage to royal authority. Lords allied with towns may still consume luxuries ($\gamma_L \geq 0$), though perhaps less than under KT.

The main insight is that the KT equilibrium is *self-undermining in the long run.* Under the KT equilibrium, W grows, which increases the benefits of the king-town alliance (more tax revenue, stronger urban militias). Similarly, over time κ grows, which strengthens the king's overall position. Finally, λ *declines*, which reduces the threat that lords pose to both king and towns.

This dynamical system captures a core insight of Smith's discussion. Initially, the decline in λ reinforces the KT equilibrium: weaker lords make the alliance even more attractive. But as λ continues to fall, a threshold is eventually crossed after which point an absolutist monarchy can emerge.

Specifically, define $\underline{\lambda}$ as the threshold below which lords cease to be a relevant political force. When $\lambda_t < \underline{\lambda}$: (i) the king no longer needs urban allies to counterbalance the lords—there is nothing to counterbalance; and (ii) the towns no longer need royal protection from lordly predation as the lords lack the capacity to predate. Therefore, the three-player game collapses into a two-player game (king vs. towns), with the king now dominant due to high κ.[17]

In this new configuration, urban privileges become *grants from above* rather than *bargains between equals.* The king can dictate terms to the towns. This is the world of early modern absolutism that Smith describes at the end of Book III, Chapter 4:

> "A regular government was established in the country as well as in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other."

Smith's description fits France from the reign of Louis XIII onwards, although there were inter-

[17]The transition equations apply only while state variables remain positive. When λ_t hits $\underline{\lambda}$, the game regime changes as described here. Analogously, under the LT equilibrium, κ declines and we can define a threshold $\underline{\kappa}$ below which the king ceases to be an effective political player; the game then reduces to a bilateral contest between towns and lords—the situation Smith describes for Italy and Switzerland (discussed in Section 5).

mittent episodes like the Fronde during which this situation looked like it would be reversed.[18] This is a canonical example of what Greif and Laitin (2004) call a *self-undermining* institution: the very success of the arrangement erodes the conditions that made it sustainable.

4.2 The Stability of the KL Equilibrium

In contrast, the KL equilibrium can be *self-reinforcing*. Under KL: urban wealth stagnates or declines, so over time the towns become even less attractive as potential allies. As urban manufacturing and long-distance trade do not develop, the lords are not tempted by luxury spending. This means that λ is preserved, so lords remain a reliable source of military support for the king. In this way, the conditions that favor KL are reproduced each period.

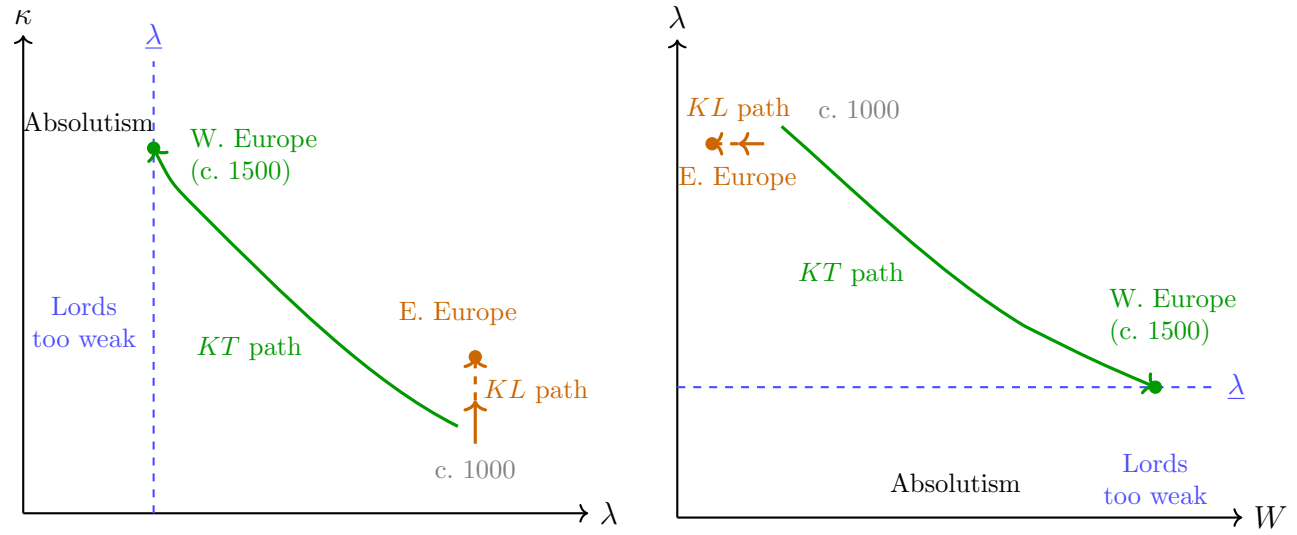
This is a kind of poverty trap. Towns that start weak remain weak; lords that start strong remain strong. The stability of the KL equilibrium obtains because the equilibrium itself suppresses the commercial development that would otherwise erode lordly power. This dynamic may help explain the divergence between Western and Eastern Europe. In the West, towns were sufficiently developed by the 11th–12th centuries to make the KT equilibrium attractive. The resulting commercial expansion weakened the Western nobility over time. In the East, weaker urban development meant the KL equilibrium obtained. This suppressed further urban growth and preserved lordly power—contributing to the "second serfdom" and the persistence of feudal institutions into the early modern period.[19]

Figure 3 summarizes the dynamics in two panels. Panel (a) considers the space (λ, κ), treating W as a function of the coalition history. Under the KT equilibrium, the system moves *northwest*: κ rises (king grows stronger) while λ falls (lords grow weaker). Eventually, the trajectory crosses the threshold $\lambda = \underline{\lambda}$, at which point the outcome becomes royal absolutism. In contrast, under the

[18] For further analysis of absolutism in France see Major (1994). The rise of fiscal and legal capacity in 17th century France is discussed in Johnson and Koyama (2014).

[19] See Brenner (1976) for the classic statement of this divergence. Many scholars believe that this divergence was widened by the demographic shock of the Black Death. See Bosshart and Dittmar (2025) for a modern empirical assessment. Peters (2022) argues that the need for rulers to borrow from the nobility (rather than the towns) in Eastern Europe was responsible for the second serfdom. This argument is very compatible with the dynamics outlined here. She finds that polities with smaller cities were more likely to impose the second serfdom.

KL equilibrium, the system remains roughly stationary or drifts slowly: κ grows modestly, λ is preserved, and the feudal configuration persists. Panel (b) makes the role of urban wealth explicit by plotting the dynamics in (W, λ) space. Under the KT equilibrium, towns grow richer while lordly military power declines—this is Smith's "diamond buckles" mechanism at work. Under the KL equilibrium, both W and λ stagnate. Together, the two panels capture the full three-variable dynamics.



(a) (λ, κ) space **(b)** (W, λ) space

Figure 3: Two-panel phase diagram. Panel (a): dynamics in (λ, κ) space. Under the KT equilibrium (green), royal power grows while lordly power declines; when λ falls below $\underline{\lambda}$, the outcome is absolutism. Under KL (orange), lordly power is preserved and the feudal configuration persists. Panel (b): dynamics in (W, λ) space, making the "diamond buckles" mechanism visible. Under KT, urban wealth W grows while lordly military power λ declines—commerce enriches the towns while lords spend down their military capacity on luxuries. Under KL, both W and λ stagnate. Together, the two panels capture the full three-variable dynamics.

4.3 Regime Switching and Critical Junctures

The preceding analysis describes the dynamics *within* each equilibrium: how the state variables evolve when a given coalition persists. But it does not address when the system *switches* between equilibria. I now use the payoff structure from Section 2 to derive explicit conditions for regime change.

The switching boundary. Recall from Section 2.2 that the king prefers the KT coalition when urban wealth exceeds a threshold:

$$W > W^*(\lambda, \kappa): \quad (1-\alpha)\tau W^* + m(W^*) = c(\lambda, \kappa) + m_L(\lambda) \tag{14}$$

This defines a boundary in (W, λ) space. Above the boundary (high W), the king allies with the towns. Below the boundary (low W), the king allies with the lords. The boundary is upward-sloping ($\partial W^*/\partial \lambda > 0$): stronger lords require richer towns to justify the cost of the KT coalition.[20]

Dynamics and the switching boundary. Now consider how the transition equations move the system through (W, λ) space relative to this boundary.

Under the KT equilibrium, the system begins above the boundary. Urban wealth grows ($W_{t+1} = (1+g)W_t$), which pushes the system further to the right—deeper into the KT region. Simultaneously, lordly power declines ($\lambda_{t+1} = \lambda_t - \gamma W_t$), which pushes the system downward. Since $W^*(\lambda, \kappa)$ is upward-sloping in λ, the decline in λ *lowers* the threshold, reinforcing the system's position in the KT region. Moreover, growing κ further lowers W^* (since $\partial c/\partial \kappa < 0$), providing an additional self-reinforcing channel. In the short and medium run, the KT equilibrium is therefore self-reinforcing: the conditions that sustain it grow stronger as the coalition persists.

In the long run, however, the continued decline in λ eventually pushes the system below $\underline{\lambda}$—the threshold at which lords cease to be a relevant political force—and the three-player game collapses into a two-player game between the king and the towns, producing absolutism. This is the self-undermining dynamic analysed in Section 4.3.

Under the KL equilibrium, the system begins below the boundary. Urban wealth stagnates or declines ($W_{t+1} = (1-d)W_t$), pushing the system further to the left—deeper into the KL region. Lordly power is preserved ($\lambda_{t+1} = \lambda_t$), so the boundary $W^*(\lambda, \kappa)$ remains roughly in place. The

[20] This two-region partition of (W, λ) space into KT and KL regions holds for κ sufficiently high that the LT equilibrium is excluded (since high κ raises the cost of opposing the king). A negative shock to κ—such as a succession crisis—can introduce an LT region not represented in the two-dimensional diagram. The historical examples of LT discussed in Section 3 (Magna Carta, War of the Public Weal) are best understood as arising from such shocks.

KL equilibrium is self-reinforcing because it suppresses the very commercial development that would push W above $W^*(\lambda, \kappa)$.

Critical junctures. Endogenous dynamics alone cannot explain why some polities ended up in the KT region while others ended up in KL. The answer lies in *critical junctures*: exogenous shocks to state variables that push the system across the switching boundary.

Consider a polity initially in the KL equilibrium, with $W < W^*(\lambda, \kappa)$. A positive shock to urban wealth—a new trade route, the opening of a market, contact with a more commercially advanced region—can push W above $W^*(\lambda, \kappa)$, making the town alliance attractive to the king for the first time. If the king responds by switching to the KT coalition, the self-reinforcing dynamics of KT take over: urban wealth grows, lordly power declines, and the system moves further from the boundary. The initial shock need not be large; it need only be sufficient to cross the threshold. But once crossed, the dynamics amplify the initial perturbation.

Conversely, a polity in the KT equilibrium can be pushed into KL by a negative shock to W or a positive shock to λ. A catastrophic war, a plague that devastates urban populations, or a military innovation that dramatically increases the value of feudal cavalry could shift the system across the boundary.

Several historical episodes can be interpreted as critical junctures of this kind:

First, the Commercial Revolution (11th–12th centuries), as discussed in Section 3, provides a clear example (also, see Lopez, 1971). The revival of long-distance trade constituted a sustained positive shock to W across much of Western Europe, making towns valuable enough to justify the cost of the KT coalition. As discussed in Section 3.1, Philip Augustus's urban policy in early 13th-century France exemplifies a king responding to this shift.

A second example is provided by The Black Death (1348–50). As demonstrated by Jedwab et al. (2024), the initial Black Death shock was truly exogenous. The resulting demographic catastrophe killed roughly a third of Europe's population and had complex effects on both W and λ. In Western Europe, where the KT equilibrium was already well established, the shock was

absorbed without regime change: urban wealth recovered, and the bargaining position of labour actually improved. In Eastern Europe, where urban development was weaker, the shock may have pushed W further below $W^*(\lambda, \kappa)$, tipping marginal polities from KT into KL (see Jedwab et al., 2022, for a general analysis of the political economy of the Black Death).

Third, succession crises and civil wars: a shock to κ—a minority, a disputed succession, a military defeat—can trigger the LT equilibrium by reducing the cost that lords and towns bear from opposing a weakened king. The Magna Carta crisis followed King John's catastrophic defeat at Bouvines (1214); the War of the Public Weal followed Louis XI's early provocations from a position of uncertain legitimacy. In terms of the model, these shocks reduce κ, which lowers $c_K(\kappa)$ and $s(\kappa, \lambda)$, making the LT coalition more attractive.

Finally, military technology shocks: the spread of gunpowder weapons in the 15th–16th centuries increased κ (kings could project power more effectively with artillery and professional infantry) while reducing λ (castles became less defensible, mounted knights less decisive). Both effects pushed toward absolutism by simultaneously strengthening the king and weakening the lords (see Desierto and Koyama, 2026).

Phase diagram. Figure 4 summarizes the dynamics in (W, λ) space. The upward-sloping curve $W^*(\lambda, \kappa)$ divides the space into a KT region (above and to the right) and a KL region (below and to the left). Under KT, the system moves rightward (rising W) and downward (falling λ), eventually crossing $\underline{\lambda}$ into absolutism. Under KL, the system moves leftward (declining W) while λ remains constant. Critical junctures appear as discrete jumps—horizontal shifts in W or vertical shifts in λ—that can push the system across the boundary.

4.4 Discussion

Several features of this dynamic analysis merit emphasis.

First, the model captures the narrative arc of the two key chapters of *The Wealth of Nations*.

The KT equilibrium is not a permanent arrangement but a transitional phase. The tenuous alliance between the monarchy and the towns solves the problem of decentralized violence but has

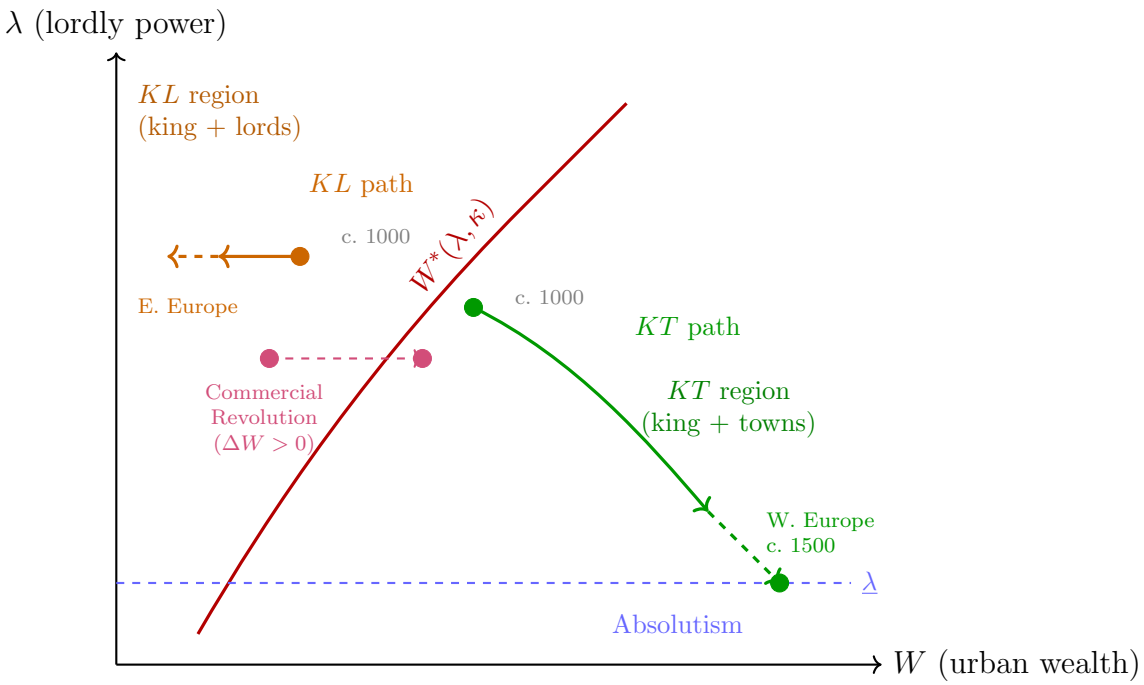


Figure 4: Phase diagram in (W, λ) space. The upward-sloping curve $W^*(\lambda, \kappa)$ is the switching boundary: above it (high W), the KT equilibrium obtains; below it (low W), the KL equilibrium obtains. Under KT (green), the system moves right (W grows) and down (λ falls), eventually crossing $\underline{\lambda}$ into absolutism. Under KL (orange), the system moves left (W declines) while λ is preserved. The purple arrow illustrates a critical juncture: a positive shock to W (such as the Commercial Revolution) pushes the system across the switching boundary from KL into KT. The diagram is drawn for given κ; as κ grows under KT, the boundary shifts leftward, reinforcing the coalition.

the unintended consequence of creating the conditions for a new problem (royal absolutism) in the future. This is Smith's "silent revolution" of commerce that ultimately strengthened kings at the expense of both lords and urban autonomy.

Second, the model generates *divergence* from similar initial conditions. Small differences in W_0 can lead to dramatically different long-run outcomes—commercial development and eventual absolutism in one case, persistent feudalism in another. This is consistent with the observed variation across medieval and early modern Europe.

Third, the self-undermining logic suggests that the medieval urban liberties were inherently temporary. They arose from a particular configuration of power (weak kings, strong lords, growing towns) that could not persist indefinitely. Once the lords were weakened, the bargain that sustained urban privileges dissolved. This may explain why the constitutional achievements of the medieval period—the charters, the communes, the representative assemblies—often proved fragile in the face of early modern state-building.

Fourth, the switching boundary $W^*(\lambda, \kappa)$ as derived above treats regime change as frictionless: the system switches coalitions whenever payoffs cross the threshold. In practice, accumulated institutional relationships create switching costs that make the boundary "sticky." A town whose commercial networks, governance structures, and political relationships are built around one patron faces significant costs from switching to another, even if current-period payoffs would favour defection. The War of the Public Weal illustrates this: towns in the Loire Valley stayed loyal not because the king rewarded loyalty but because their economic and institutional lives were oriented toward the royal domain, while princely capitals like Bourges, Rouen, and Dijon had commercial ties to ducal households that made defection to the royal cause costly. These switching costs create a band of inertia around the switching boundary: the system must be pushed not just across $W^*(\lambda, \kappa)$, but sufficiently far across it to overcome the accumulated weight of existing relationships. This helps explain why some transitions (such as the emergence of the KT equilibrium in 12th-century France) were gradual and required sustained commercial growth, while others (such as the LT coalition during the Magna Carta crisis) were triggered by sudden, dramatic shocks.

5 Complications and Nuances

This sweeping analysis has no doubt missed many nuances. A few of these deserve a brief discussion. First, I have assumed that the towns tended to have similar preferences and this has justified the treatment of them as a unitary actor. Of course, in practice, there could be important intra-urban divisions. One example of this comes from medieval Flanders where internal conflicts within the cities could determine whether a city was aligned with the King of France or with the Count of Flanders. In the early 14th century, towns such as Bruges, Ghent, Ypres, and others were divided between two factions. The *Leliaerts* ("Lilies," named for the French fleur-de-lis) tended to be the wealthier merchants and urban patricians and tended to support the French King, Philip IV. Against them were the *Klauwaerts* ("Claws," named for the claws of the Flemish lion), the artisans and guildsmen who sought political representation and autonomy from patrician control and who allied themselves with the Count of Flanders against the French crown.

These divisions would later spill into the Hundred Years War and the wool guilds and manufacturers often preferred an alliance with England against the King of France, reminding us that foreign policy considerations could further complicate the dynamics I have studied. This case suggests when towns are internally divided, the relevant question was not simply whether "towns" ally with the king or the lords, but *which faction* within the towns forms the dominant coalition.

Second, as some of the case studies have suggested, the lords also were not always a unified coalition. There were divisions within the nobility and in many cases the nobles could be at least as attune to the demands of the towns as were the kings.[21] By the later Middle Ages, the instinctive class hostility that Smith describes ("The lords despised the burghers, whom they considered not only as of a different order, but as a parcel of emancipated slaves, almost of a different species from themselves") had given way. As discussed above, during the War of the Public Weal, the

[21]Indeed, lords chartered towns for the same reasons as kings—to attract settlers, generate revenue, and strengthen their territorial position. Stephenson (1933, 31–32) documents how by the mid-thirteenth century "a veritable craze for urban development had spread to every corner of France," with counts, dukes, and lesser lords all competing to charter *villes neuves* and *bastides*. This is why the presence of a municipal charter alone does not predict allegiance to the king rather than to a lord: both sides used chartering as a tool of political coalition-building.

French nobility understood the importance of attracting the support and allegiance of the towns. During the Magna Carta crisis of 1215, about two-thirds of the leading barons joined the rebellion but at least one-third remained loyal to John (Desierto et al., 2023).

Third, there are important boundaries to this analysis. Smith identified one limiting case. In regions where "the sovereign came to lose the whole of his authority"—whether due to distance from the seat of government, the natural strength of the country, or other reasons—the three player typology ceased to be relevant:

> "In countries, such as Italy and Switzerland, in which ... the sovereign came to lose the whole of his authority, the cities generally became independent republics, and conquered all the nobility in their neighbourhood; obliging them to pull down their castles in the country, and to live, like other peaceable inhabitants, in the city" (Smith, 1776, Bk.III, Ch.3).

When the power of the king in a region fell below some threshold, the king ceased to be an effective political player. The game was reduced to a direct contest between towns and lords. This describes the situation in Italy and Switzerland after the Holy Roman emperor ceased to be able to effectively operate beyond the Alps.

In this case, the outcome depends on relative military capacity. Smith observes that "the militia of the cities seems, in those times, not to have been inferior to that of the country," and urban forces "could be more readily assembled upon any sudden occasion." Where towns were wealthy and the king absent, towns won outright: "This is the short history of the republic of Berne, as well as of several other cities in Switzerland ... it is the history of all the considerable Italian republics."

A final possibility would be an over-powerful armed aristocracy. It is possible that the Polish-Lithuanian Commonwealth, with its powerful *szlachta*, approximates this limiting case.

6 Concluding Comments

This paper has provided a simple and tractable analysis of Smith's discussion of the towns under feudalism. I have argued that where towns were wealthy and capable of providing military support as was the case in England and France, the KT equilibrium was likely to obtain because the towns could offer substantial resources to the king in his struggle against the feudal lords. But Smith's preferred equilibrium was not the only possibility: when kings became excessively predatory, towns allied with lords (LT), as in the Magna Carta crisis; when towns were too weak to justify the cost of fighting the lords, kings allied with lords instead (KL), as in Frederick II's Germany or in Eastern Europe more broadly.

The dynamic extension revealed that the KT equilibrium is self-undermining in the long run. The very success of the king-town alliance—growing urban wealth, rising royal capacity, declining lordly military power through Smith's "diamond buckles" mechanism—eventually eliminates the conditions that made the alliance necessary. When lords cease to be a serious threat, the three-player game collapses and royal absolutism emerges. In contrast, the KL equilibrium is self-reinforcing: suppressing urban commerce keeps towns weak, which preserves the conditions that make the king-lord alliance attractive. This asymmetry generates divergence from similar initial conditions—small differences in initial urban development, amplified by the self-reinforcing dynamics of each equilibrium, can produce dramatically different long-run trajectories. Critical junctures—exogenous shocks such as the Commercial Revolution, the Black Death, or succession crises—can push polities across the switching boundary between these equilibria, with consequences that persist and amplify over time.

There are limits to the scope of this analysis. The simple game formalizing Smith's argument was relevant for the feudal world of fragmented sovereignty, roughly from the tenth to the fifteenth century in much of Western Europe. The static framework takes initial conditions as given: it does not explain why some regions had weak kings and others strong ones, or why some towns were wealthier than others. These are prior questions about geography, trade routes, military

technology, and historical contingency. But the dynamic extension shows how, once a polity enters one equilibrium or the other, the resulting trajectory is largely determined by the self-reinforcing or self-undermining logic of the coalition in place. What the framework does explain is how, *given* a particular configuration of parameters, political coalitions formed and reformed—and how shocks to those parameters could tip societies from one equilibrium to another.

In the long-run, the period after 1600 saw the growth of much larger cities in Western Europe. The population of Paris was around 300,000 by 1600 and approximately 400-500,000 by 1700 and the population of London rapidly increased in the 17th century. Such urban behemoths, full of recent migrants from the country-side who were typically young and poor, posed a new kind of threat to royal authority. This was exemplified by Paris in the late 18th century where urban crowds could directly threaten the monarch's hold over his own city. In this environment, the magistrates and authorities who had dominated medieval towns were much less important than the urban crowd itself which could mobilize and demand political change. This situation is obviously far from the medieval configuration considered in this paper and it is well-suited to the kinds of models that have been developed to study revolutionary movements such as Acemoglu and Robinson (2005). This, of course, was beyond the scope of Smith's analysis.

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