

A Balance Sheet for James VI of Scotland¹

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This article constructs a conjectural balance sheet for the finances of James VI of Scotland (1567-1625), who ruled a rapidly-developing European state. Various accounting concepts are applied to it, including insolvency, liquidity and leverage. James was probably insolvent by the 'quick ratio' test for about twenty years before obtaining the English throne in 1603. The article proposes modifications to the standard paradigm for interpreting pre-modern state finance – the transition from 'domain state' to 'tax state', hitherto discussed with reference only to revenue and expenditure. Assets are argued to be crucial, and a political dimension to fiscal decisions is outlined.

1. Introduction

This article is a case-study in methodology and concepts. It argues that the dominant paradigm for understanding the fiscal history of early modern Europe – the transition from the domain state to the tax state – requires further development using methods borrowed from accountancy, and in particular the concept of a balance sheet. For this purpose it employs the case-study of Scotland in the reign of James VI (1567-1625), a medium-sized European state undergoing rapid fiscal development.

European fiscal history has made remarkable advances in recent years. For the medieval and early modern periods, the works edited by

¹ All sums of money in this article are in £s Scots. At the outset of the reign, £1 sterling was worth £4 10s. Scots at par; the value of the £ Scots declined until 1601, by which time £1 sterling was worth £12 Scots. A merk was two-thirds of a £ Scots. I am grateful to Dr Athol Murray for commenting on a draft of this article.

Richard Bonney and his colleagues are indispensable². The importance of finance to the emergence of the modern state has been underlined, and the roles of such subjects as taxation and economic theory have been clarified. Professor Bonney and his colleagues have successfully conceptualised the transition from medieval to more modern fiscal systems, developing the concepts of 'domain state' and 'tax state'. Broadly speaking, the domain state raised revenues from land rents and similar dues, whereas the tax state imposed levies on the economic activities of all subjects³.

What then are the components from which these overarching concepts have been constructed? The 'Structures' section of Bonney's 1995 volume comprises chapters on 'Expenditure', 'Revenues', 'Public Credit' and 'The Fiscal Burden'. These are all important topics, but an accountant would be surprised to find no chapter on 'Assets'⁴. It is vital to know what states spent and what they received, but do we not also need to know what they owned? It is good to know what they borrowed, but surely the level of their assets affected their ability to repay? Accountants even have a term for the relationship of debts to

² The principal work here is R. Bonney (ed.), *Economic Systems and State Finance*, (Oxford 1995), part of the European Science Foundation's series 'Origins of the Modern State in Europe'. This book transcended national boundaries to tackle general themes. It was supplemented by a volume on the main European states individually: R. Bonney (ed.), *The Rise of the Fiscal State in Europe, c.1200-1815*, (Oxford 1999). A third volume tackled some specific issues in more detail, and also developed the 'conceptual model' which will be discussed below: W. M. Ormrod, R. Bonney and M. Bonney (eds), *Crises, Revolutions and Self-Sustained Growth: Essays in Fiscal History, 1130-1830*, (Stamford 1999). Underpinning some of this work was the European State Finance Database, a collection of electronic data at <www.le.ac.uk/hi/bon/ESFDB/index.html>, discussed in appendices to Bonney (ed.), *Economic Systems*, and to Ormrod *et al.* (eds), *Crises, Revolutions and Self-Sustained Growth*.

³ R. Bonney and W. M. Ormrod, 'Introduction: crises, revolutions and self-sustained growth: towards a conceptual model of change in fiscal history', in Ormrod *et al.* (eds), *Crises, Revolutions and Self-Sustained Growth*, pp. 1-21. This model, in fact, has four stages – tribute state, domain state, tax state and fiscal state – of which the central two are discussed in the present article.

⁴ Similarly, the 'conceptual model of change in European fiscal history', with 18 headings, has no heading for 'Assets'. Under the heading 'Statistics/accounting', for the domain state, there is mention of 'Difficulty in establishing any sort of balance sheet in "primitive" systems', but this idea is not developed: Bonney and Ormrod, *op. cit.*, pp. 4-8.

assets – leverage – and we shall see that it can be a useful concept for an early-modern state. Fiscal historians' omission of any sustained discussion of assets and wealth (as opposed to revenue and expenditure) is particularly surprising for the concepts of domain state and tax state⁵. One would expect the domain state to hold its own assets to generate its revenues, while the tax state would raise its revenues in other ways. This article will investigate this distinction, showing how the question of the Crown's assets can be separated from more commonly asked questions about revenue, and suggesting how an understanding of it can be used to broaden and refine the conceptual transition from the domain state to the tax state.

Since accountancy has been mentioned, it should be stated that this article is not 'accounting history', in the sense of research into how accounts were maintained, used and conceptualised in the past⁶. It is naturally important to understand James's accounts, but the search for his balance sheet is not an attempt to discover such accounting practices in use in the past. James's financial officers had probably never heard of a balance sheet. They kept the royal accounts in roman numerals and did not use double-entry or even columns; many of the accounts were for produce rather than cash, accounted for using the 'long hundred' of six score⁷. The point is that we can better understand

⁵ The concept of a balance sheet has been applied by Raymond Goldsmith to a number of 'premodern financial systems', including Elizabethan England, but his enquiries are not primarily concerned with the state. He discusses government finances helpfully, but with little investigation of assets: R. W. Goldsmith, *Premodern Financial Systems: a Historical and Comparative Study*, (Cambridge 1987), ch. 10.

⁶ R. K. Fleischman, V. S. Radcliffe and P. A. Shoemaker (eds), *Doing Accounting History: Contributions to the Development of Accounting Thought*, (Studies in the Development of Accounting Thought, vol. 6, Oxford 2003).

⁷ Early Scottish libraries held no known copies of the early accounting treatises of Pacioli (1494) or Mellis (1588): J. Durkan and A. Ross, *Early Scottish Libraries*, (Glasgow 1961). The copies of Pacioli in Scotland today all reached the country much later: A. B. G. Dunlop, 'Bibliographical notes on five examples of Pacioli's *Summa* (1494) in Scotland', in T. A. Lee (ed.), *A Scottish Contribution to Accounting History*, (New York 1986), pp. 3-27. There are many examples of early Scottish accounts in R. Brown (ed.), *A History of Accounting and Accountants*, (Edinburgh 1905), ch. 3. For the long hundred see J. Goodare, 'The long hundred in medieval and early modern Scotland', *Proceedings of the Society of Antiquaries of Scotland*, 123 (1993), pp. 395-418.

the effects of their financial decisions if we construct a hypothetical balance sheet and observe what would have happened to it when certain types of decision were made.

Only a modest level of accounting sophistication is necessary for this project, since the finances of an early-modern monarchy were not very sophisticated – which is not to say that they could not be complicated in their own way. Overcoming difficulties with the sources is an important part of the project. There are also methodological challenges in deciding what did and did not constitute ‘assets’ and in working out how assets could be valued. But first, a basic accounting framework.

2. The concept of a balance sheet

We can express our money either as *income* – how much we receive (gross or net) during a given period such as a year – or as *capital* – how much we have got (gross or net) at a given moment. Modern accountants do both. They record income in an income account showing the year’s net income as the difference between revenue received and expenses disbursed during the year. Accountants record capital differently – in a balance sheet. This records assets on one side, and liabilities on the other. Assets are usually divided into fixed assets (held for a long period), current assets (including materials for processing and sale) and indeterminate assets (various non-tangible items). Liabilities consist, broadly, of the owner’s capital and the business’s debts. A business with debts exceeding its assets can be said to be insolvent, though it may be able to recover its position if its current income exceeds its current expenditure.

James VI’s assets included many items rarely thought of as having a capital value. Even modern accountants have difficulty in valuing some types of asset and in deciding whether some items (such as brands or licences) count as assets at all. Nevertheless, it is agreed in principle that anything that can be valued, and to which the business has an exclusive claim, is an asset. In many cases we shall find that the sources do not readily furnish actual figures concerning (for instance) values of jewels or castles – though suggestions will be made as to how such

figures might be estimated. The basic argument is that jewels and castles were assets with a financial value for accounting purposes. At present it would be premature to suggest figures for all the entries that a royal balance sheet would require, but the construction of an accounting framework is an essential preliminary stage in the process and provides its own rewards.

2.1. Defining the monarchy as a business. To compile accounts for a business, we first have to define it. It is an accounting axiom that a business has an owner whose personal finances are separate from the business itself. A balance sheet will show the owner's capital (or 'ownership interest') as a distinct item. We can thus regard the king as the owner of the business. In one sense it is obvious that the king 'owned' his jewels and castles, but it may be a subtler idea to separate him, conceptually, from the business of operating them. A modern business will be established by an owner who invests capital in it and who thus has a claim on the business – he or she could in theory withdraw that capital; which explains the sometimes surprising fact that the business's capital appears on the balance sheet as a *liability* of the business. The fact that James VI had not personally invested capital in his monarchy does not matter. Treating him as if he (or his predecessors) had done so allows us to conceptualise what his monarchy was worth.

Can we separate James's personal money and possessions from those of the business? The 'business' of the Scottish state consisted in large part of providing for the monarch's household and living arrangements. From this point of view, we may think that if James had owned a set of salt pans (which he did contemplate at one point), it would have been easier to draw up accounts for the salt pans that did not include his personal money or possessions. The solution is to recognise that James's finances were largely handled on his behalf by financial officers such as the Treasurer and Comptroller, who kept accounts to show that they had acted faithfully. James rarely handled large sums himself, and his personal money was essentially pocket money.

The king had a family, whose living arrangements also had to be provided for. How does this relate to the question of defining the

business? The answer is that Queen Anne's finances were separate from those of the Crown, and should be excluded from the analysis. Anne brought her husband a dowry, which was his; in return he granted her a dower, in the form of lands which became hers⁸. James sometimes helped with Anne's debts, notably in a much-quoted letter of 1599 asking the collector of taxation to pay a debt to her jeweller, George Heriot⁹. But this letter does not show that it was James's own debt. James sometimes paid his wife's debts and gave her gifts, but he also sometimes paid his courtiers' debts and gave them gifts. From an accounting point of view, Anne was effectively a courtier. The same applies to the households established for the royal children.

Contemporaries might have seen the king as a trustee rather than an owner of the monarchy's fixed assets, on the grounds that he was not supposed to depreciate them. The medieval theory that a king could not alienate his kingdom – neither his demesne lands, his feudal rights, nor his crown itself – was still alive in the reign of James VI. Kings, being powerful, did in fact alienate their lands from time to time, but they claimed the power to recover them through periodic 'revocations'¹⁰. This distinction between an owner and a trustee is unimportant from an accounting point of view, since it bears more on how financial decisions were made than on how the resulting actions were accounted for.

2.2. Types of assets. Accountants typically divide assets into three categories: fixed assets, current assets and indeterminate assets¹¹. Fixed assets comprise land, buildings and equipment used in the business and retained by it; current assets comprise inventory (materials for processing and goods to be sold – known in the UK as 'stock'), sums owed to the

⁸ M. M. Meikle, "'Holde her at the oeconomicke rule of the house": Anna of Denmark and Scottish court finances, 1589-1603', in E. Ewan and M. M. Meikle (eds), *Women in Scotland, c. 1100-c. 1750*, (East Linton 1999), pp. 105-06.

⁹ J. O. Halliwell (ed.), *Letters of the Kings of England*, 2 vols. (London 1846), ii, pp. 96-97.

¹⁰ P. N. Riesenbergh, *Inalienability of Sovereignty in Medieval Political Thought*, (New York 1956); J. Goodare, *State and Society in Early Modern Scotland*, (Oxford 1999), pp. 107-09.

¹¹ This last category is referred to in the UK as 'intangible assets', and is normally subsumed within the categories of fixed and current assets.

business by debtors, and cash in hand. Indeterminate assets may include investments, brands and trademarks, expenditure on research and development, and licences. These three categories can all be applied, with adjustments, to James VI's finances.

In the early-modern period, the main way of categorising assets was into 'heritable' and 'movable' assets. Heritable assets comprised real estate – land and buildings; movable assets comprised tangible items that could be moved, plus sums owed by debtors and cash in hand. This latter category of assets could be disposed by a testator (within limits) and so appeared in people's testaments, while land and buildings could not and did not. It makes sense to employ these concepts for James's assets, creating a category for 'movables and current assets'. An accountant might wish to treat the movables as fixed assets, on the grounds that they were intended for continued use rather than for processing and sale. Some of James's jewels, indeed, have survived better than some of his buildings. But the main point of the modern distinction between fixed and current assets is that the latter are not regarded as subject to depreciation. So long as we remember to depreciate the movables, we shall be on firm ground. As for indeterminate assets: we shall see that James did have assets that can be regarded as falling in this category, but the main questions about them are whether they are assets at all – and if so how they can be valued – rather than which category of assets they fall into.

3. The sources

Balance sheets were never drawn up for the Crown. The main sources for the royal finances are income accounts, detailing revenue and expenses¹². Anyone who keeps a record of their finances will

¹² For the financial administration see J. Goodare, *The Government of Scotland, 1560-1625*, (Oxford 2004), pp. 11-12, 152-60, A. L. Murray, 'The procedure of the Scottish exchequer in the early sixteenth century', *Scottish Historical Review*, 40 (1961), pp. 89-117, and A. L. Murray, 'Notes on the treasury administration', *Accounts of the Treasurer of Scotland*, 12, ed. C. T. McInnes (Edinburgh 1970), pp. xii-xlix. For an overview of financial policy-making see Goodare, *State and Society*, ch. 4.

generate income accounts of some kind, but a balance sheet is a separate and more specialised thing, a report answering a question that does not have to be asked. Noble families did sometimes produce something rather like a balance sheet: a testament, recording assets and liabilities at the death of the head of the household. Testaments covered only movable property, not land or buildings, and were produced only irregularly, but they can still provide a lot of information about nobles' finances¹³. Unfortunately, although individual monarchs died, the Crown did not; there is no equivalent to the testament to help us understand the royal finances¹⁴. Official reports were usually about annual income and recurrent liabilities, rather than about capital or debts¹⁵.

The fiscal administration was quite simple in theory, though sometimes arcane and labyrinthine in practice. The administration could keep track of money received and spent, but had little scope for budgeting or financial planning. Modern accounting is heavily concerned with management, financial control and decision-making. Early-modern accounting, by contrast, was largely about record-keeping and prevention of fraud. The accounts used the 'charge and discharge' principle: income was 'charged' at the point when it was due to be paid in, and expenditure was 'discharged' at the point when it was due to be paid out. Some payments were not actually made until later, or occasionally not at all¹⁶. Things probably tended to even out in the

¹³ K. M. Brown, *Noble Society in Scotland: Wealth, Family and Culture from Reformation to Revolution*, (Edinburgh 2000), ch. 4.

¹⁴ The exception is a testament apparently made by Queen Mary in 1566. It has not survived, so we do not know what it listed – whether, for example, her debts were included. The surviving inventory of movables gives no values, although a conventional testament had to value movables: J. Roberson (ed.), *Inventaires de la Roynne d'Écosse, Douairière de France, 1556-1569*, (Bannatyne Club 1863), pp. xxx-lix, 93-124. There is no evidence that James VI ever made a testament. I am grateful to Dr Jenny Wormald for advice on this point.

¹⁵ E.g. National Archives of Scotland [hereafter NAS], 'The burding liand on the kingis majesties rentis, far exceeding the rentail', 1586, E19/5. Cf. a comparable document for 1625, E19/22.

¹⁶ Murray, 'The procedure of the Scottish exchequer', pp. 100-01.

end, since financial officers – who were personally liable for the sums they handled – would not routinely have charged themselves with sums unless they were pretty sure that they were going to receive them, while if they had routinely claimed discharge items which they had not paid, the intended recipients would have complained. But the slightly provisional nature of a charge and discharge account would sometimes be significant.

4. Fixed assets

James VI's fixed assets mainly comprised land (normally yielding a rental income), and buildings such as castles and palaces. There were also certain royal rights to other types of revenue from property, distinct from actual ownership of real estate. It might be mentioned that the term 'ownership' is best used with caution, since feudal property law recognised a range of proprietors with distinct rights in any given piece of land, rather than a single 'owner'.

4.1. Rented land. How could lands be valued? Surveys of the Crown lands, in the form of rentals, give the annual value rather than the capital value; in theory it should be possible to derive the latter from the former, but this is difficult in practice. As in England, rentals probably omitted several sources of income: demesne farming (though the Crown probably did little of this), sales of woods, entry fines and profits of courts. Nor do we know a Scottish multiplier for deriving a purchase price from an annual rental – in England it was 16 to 20¹⁷. There is also the possibility, or even likelihood, that, as in England, the lands of the Crown were under-rented compared with the lands of private proprietors, and thus could be sold to private purchasers at a higher multiplier: 24, 30 or even 40 years' purchase¹⁸. Whether they were so sold remains to be ascertained

¹⁷ L. Stone, *The Crisis of the Aristocracy, 1558-1641*, (Oxford 1965), pp. 130-31, 165.

¹⁸ R. Hoyle, 'Introduction: aspects of the crown's estate, c.1558-1640', in R. W. Hoyle (ed.), *The Estates of the English Crown, 1558-1640*, (Cambridge 1992), pp. 15-21.

by research, but many alienations of Crown land were probably made as royal favours. Thus the Crown reaped less financial reward, but received political benefits. The gross revenue from the Crown lands was calculated to be £15,522 7s. 0*d.* in 1556¹⁹. With a multiplier of 20, this would make the capital value about £ 310,500. This exercise can do no more than indicate the rough range in which an actual figure would fall.

One reason why this exercise can at present be only tentative is that a large and increasing proportion of the Crown's 'rents' in fact consisted of feu duties, payable by 'feuars' who had purchased the right to collect the rents from the tenants. Control of lands which had been feued in this way had effectively been relinquished by the Crown; the feuars had become proprietors, able to input and output tenants, set and collect rents, and sell their property rights to do these things, without reference to the Crown as feudal superior. Feu duties were accounted for like rents but were fixed in perpetuity, so their real value tended to decline with inflation. Although they were not normally saleable (feudal superiority, and therefore the right to receive feu duties, were inherent in the Crown's nature), feu duties could be alienated by creating a new feu, superior to the existing ones. Thus the royal lands of (say) Fife or Kilmarnock could have been granted or sold to a newly-created earl of Fife or Kilmarnock, who would have received the right to collect the feu duties from the existing feuars, and would himself have been liable to pay feu duties or other (possibly nominal) dues to the Crown. A new layer would have been inserted in the feudal hierarchy.

The right to collect feu duties could perhaps be regarded as an investment, rather than ownership of real estate, since effective ownership had passed to the feuar. In this view, what the Crown now received was an annuity. What we would therefore want to know would be the realisable capital value of such an annuity, which would probably be calculated with reference to the rate of interest prevailing at the time, with, perhaps, some augmentation owing to the high status

¹⁹ A. L. Murray, 'The Exchequer and Crown Revenue of Scotland, 1437-1542' (University of Edinburgh PhD thesis 1961), App. 3.K.

conferred by feudal superiority, plus, as we shall see, the feuars' occasional obligations to make larger payments. In practice feu duties would not often be sold at a market price; James VI was much more likely to give them away to his nobles or courtiers. But if he chose to give away assets with a capital value, that does not stop an accountant regarding feu duties as assets with a capital value.

4.2. Other rights from land. A further range of assets can be treated under the general heading of fiscal feudalism²⁰. This was the Crown's money income from its rights as ultimate feudal superior of all other landlords. For instance, landlords holding their lands from the Crown by the traditional feudal tenure of 'ward and relief' were periodically liable for up to four 'casualties': ward, marriage, relief and non-entry. Ward, the heaviest casualty, arose if the lands were inherited by a minor; the Crown could, in theory, take the lands into its own hands, collecting the rents, until the heir came of age. Even feuars had to pay a modest casualty (one year's extra feu duties) at the entry of an heir. In practice the heaviest casualties were not collected in full but were assigned to a donator – often a member of the heir's own family – in return for a 'composition'. The value of this composition had to be negotiated individually, and might vary widely. Compositions for feudal casualties were in some ways a kind of inheritance tax, but they were legal rights connected with land, and distinct from parliamentary and other forms of taxation which were set politically.

The asset value of the Crown's feudal rights is hard to determine. As with feu duties, they could hardly have been sold outright, but if they had been farmed to a projector in return for cash down and a small annual fee, the result might have been similar. The net annual value of compositions for feudal casualties can certainly be ascertained – it was about £8,800 in the 1610s²¹. This figure might have increased greatly if

²⁰ For what follows see J. Goodare (ed.), 'Fiscal feudalism in early seventeenth-century Scotland', *Scottish History Society Miscellany*, 13 (2004), pp. 189-222.

²¹ *Ibid.*, p. 203.

the Crown had been able to collect a greater share of its theoretically extensive rights. In the late 1620s it was proposed to convert compositions into fixed (and much larger) annual payments; this proved politically impossible to implement²². Ultimately it seems simplest to categorise the feudal rights in the same way as the feu duties: as the right to receive an income from land, analogous to a modern annuity-bearing investment.

The Crown had or claimed various other minor rights, loosely connected to land. These included various profits of justice (effectively seigneurial rights, since feudal courts were connected with rights to land)²³, metal mines (usually leased or feued to landlords or entrepreneurs, but the Crown could claim an annuity from them)²⁴, salmon fishings below the level of high tide²⁵, assize herring (a traditional levy on herring fishing)²⁶, pearl fishings²⁷, and treasure trove²⁸. None of these were very lucrative, but one would expect them to appear on a full balance sheet.

These rights of the Crown have been treated here as fixed assets, on the grounds of their connection with rights to land. This connection would certainly have been recognised by contemporaries, who viewed the Crown as the feudal overlord of the land of Scotland. In this view – essentially a legal fiction – the king had anciently been the actual lord of all the lands in Scotland, and had granted the lands out to his followers in return for their services. The Crown's residual feudal rights thus helped to define it as royal.

It might instead be possible to regard some, at least, of these feudal rights as 'indeterminate' assets. More will be said about this class of

²² *Ibid.*, pp. 206-07.

²³ Murray, 'Notes on the treasury administration', pp. xix-xxii.

²⁴ *RPC*, ix, pp. 333-34.

²⁵ Sir Thomas Hope, *Major Practicks*, 2 vols., ed. J. A. Clyde (Stair Society 1937-38), para III.15.4.

²⁶ *Ibid.*, para I.6.32.

²⁷ *RPC*, xii, pp. xvii-xx.

²⁸ Sir James Balfour of Pittendreich, *Practicks*, 2 vols., ed. P. G. B. McNeill (Stair Society 1962), ii, p. 519.

assets later, but here it can be observed that the feudal rights functioned rather like modern franchises – rights to conduct particular kinds of business, granted to a corporation either by another corporation or by a government. The term ‘franchise’ itself originated as a word for a feudal privilege. Such a view of the feudal rights would entail a radically different accounting treatment of them, since their capitalisation would then be calculated as the acquisition cost of the franchise. Since the feudal rights had no acquisition cost, however, this principle seems impossible to apply; if so, it is appropriate to retain the classification of these rights as fixed assets connected to royal land rights.

4.3. Buildings. On royal lands, we find another category of fixed assets: royal buildings. These comprised castles and palaces, with most buildings fulfilling both functions at least to some degree. James VI had ten principal buildings in the early part of his reign: Blackness Castle, Doune Castle, Dumbarton Castle, Dunfermline Palace, Edinburgh Castle, Falkland Palace, the Palace of Holyroodhouse, Inverness Castle, Linlithgow Palace and Stirling Castle. To these he added Dalkeith Palace, Huntingtower Castle, Lochmaben Castle and a house for the mint in Edinburgh, while disposing of Dunfermline to his wife²⁹.

The accounts of the master of works provide information on repairs, improvements, and new construction, which can be hard to distinguish. We would wish to put repairs down to current expenses, while adding improvements and new construction to the capital value. For instance, Edinburgh Castle was damaged in the siege of 1573, but the subsequent repairs included the construction of the Half Moon Battery which remains one of the castle’s most distinctive features and which surely enhanced its contemporary value. This problem is also faced by modern accountants and is not, in principle, insoluble, but limitations of the sources might make it hard to solve in practice. Most of the accounts for these operations on Edinburgh Castle are missing³⁰.

²⁹ H. M. Paton *et al.* (eds), *Accounts of the Masters of Works*, 2 vols. (Edinburgh 1957-82).

³⁰ For what remains see *ibid.*, i, pp. 299-301.

Similarly there is little or no financial record of some other building works of the reign, such as the construction of the Chapel Royal in Stirling Castle in 1594, or the refurbishment of Dunfermline Palace in the 1590s³¹. Still, it seems clear that the main building operations in James VI's reign were undertaken in the 1610s, and there is a good deal of information on these³².

How can royal buildings be valued? By accounting convention, buildings and land can be accounted for either at historic cost or at current valuation. Modern practice favours the latter, because values change so much. However, there were no purchases or sales of palaces in early-modern Scotland; acquisitions came through other means such as forfeiture, while disposals typically occurred through allowing a hereditary 'keeper' to treat an unwanted building as his own. One could ascertain the sale value of a smaller house and scale it up, but there would remain an insuperable difficulty of separating the value of the land from the value of the building.

Prospects are better for another approach: estimating what the buildings would have cost to build, thus in effect creating a historic cost valuation.³³ There are two related approaches to this. One, as with sale values, would be to obtain the construction cost of a smaller house and scale it up. Another would be to begin with the unit cost of constructing a defined section of a building. Building contracts from the late seventeenth century can illuminate these questions. A three-storey house, 70 by 38 feet, was to cost 10,000 merks in 1677. The contract to build the house of Leys in 1686 was expressed in unit costs, specifying that the mason should receive 'tenne pound Scots and ane bolle of meale for ilke roode of work, and fyve shilling six pennies for ilk foot

³¹ For the Chapel Royal see A. MacKechnie, 'James VI's architects and their architecture', in J. Goodare and M. Lynch (eds), *The Reign of James VI*, (East Linton 2000), pp. 163-65. The work on Dunfermline Palace was done for Queen Anne and may have been funded from her separate revenues.

³² Paton *et al.* (eds), *Accounts of the Masters of Works*, i, pp. xiii-xiv; ii, pp. lxxix-cv.

³³ I am grateful to Dr Aonghus MacKechnie for discussing this issue with me. For construction in general see C. McKean, *The Scottish Château: the Country House of Renaissance Scotland*, (Stroud 2001), pp. 272-75.

of hewen stone, and eighteine shilling Scotts for each couple, and his morning drink and four houres [drink] to hime and his men"³⁴. No doubt a fuller search would uncover other relevant indicators of buildings' unit costs which could be applied to the royal buildings in conjunction with the considerable, if partial, direct information on construction of buildings in the master of works' accounts. It might also be possible, with care, to use data on the cost of royal buildings in other countries, though building practices, materials, wage rates and other cost determinants would vary from those in Scotland.

There would be other issues to address in this exercise. Lairds commissioning houses could often oblige their tenants to do unpaid carriage work, whereas the Crown usually had to pay for such work. The accounts of the Master of Works contain much information on quarrying, carting and ferrying costs, which vary from building to building and a general formula would have to be developed. The cost of roofs would also require attention. The house of Leys had a wooden roof, while many royal buildings had more expensive slate roofs, or very costly lead ones; again the accounts contain relevant information. The price of lead varied greatly, and it would be important to be precise about the date of one's valuation.

Could it be argued that Edinburgh Castle and other such buildings cannot be assigned a financial value because they could not easily have been sold? This view would regard them as integral components of the infrastructure of the Scottish monarchy, unusable by anyone except a monarch of Scotland. This argument, however, fails on three grounds. Firstly, it could be credibly applied only to a restricted group of royal buildings – essentially those in the capital, Edinburgh. Elsewhere, it was militarily advantageous for the Crown to possess castles, but an argument for the absolute indispensability of any particular castle

³⁴ J. G. Dunbar and K. Davies (eds), 'Some late seventeenth-century building contracts', *Scottish History Society Miscellany*, 11 (1990), pp. 295-99, 312. A rood was 6 ells, an ell being 37 inches; a 'rood of work' was a square rood, thus 342.25 square feet: R. D. Connor and A. D. C. Simpson, *Weights and Measures in Scotland: a European Perspective*, (Edinburgh 2004), p. 87. A 'couple' was a pair of rafters.

would be hard to mount. Secondly, the argument could equally apply to modern assets having only one function in one place: gas pipelines are usable only by a particular gas business⁵⁵. Thirdly, one reason why accountants assign financial values to assets is to keep track of the cost of these assets. Monarchs chose to spend large sums on their buildings. Edinburgh Castle undoubtedly had a financial cost, and to that extent it also had a value.

5. Movable and current assets

Turning to the movables and current assets, it will be recalled that this composite category of assets includes some items that could today be regarded as 'fixed' assets.

5.1. Weaponry. This is certainly so for the first category of 'movable' assets: weaponry. These included cannon, handguns, gunpowder, other weapons, armour and ancillary equipment. Most were kept in Edinburgh Castle, and there is a detailed inventory for 1567: one double cannon, six single cannon, four culverins of various sizes, plus handguns, other weapons and related equipment. No financial values are given, but the inventory could be collated with other sources to produce an asset value⁵⁶. The Scottish navy under James VI was non-existent until 1614, when a single 40-ton ship was acquired; it was disposed of to England in 1621⁵⁷. Its asset value was evidently modest.

5.2. Jewellery. Jewellery, consisting of gems and gold and silver work, was an important category of prestige items, many of which were readily

⁵⁵ This is the phenomenon of 'asset specificity': O. E. Williamson, 'The economics of governance: framework and implications', in R. N. Langlois (ed.), *Economics as a Process: Essays in the New Institutional Economics*, (Cambridge 1986), pp. 179-80.

⁵⁶ H. Paton (ed.), *Report on the Manuscripts of the Earl of Mar and Kellie*, 2 vols. (Historical Manuscripts Commission 1904-30), ii, pp. 21-27. For more on royal munitions see D. H. Caldwell, 'Royal patronage of arms and armour making in fifteenth and sixteenth-century Scotland', in D. H. Caldwell (ed.), *Scottish Weapons and Fortifications, 1100-1800*, (Edinburgh 1981), pp. 73-93.

⁵⁷ Goodare, *State and Society*, pp. 165-66.

saleable. James V had had a large collection of jewels, to which Queen Mary had added, but many were dispersed during the civil wars that followed her deposition (1567-73). James VI's regents managed to recover a good deal, and Bruce Lenman estimates that by 1579 'the collection was beginning to resume the proportions of that of James V'³⁸. Unfortunately individual jewels varied enormously in value – and inventories, compiled to prevent theft, did not record financial values. It is thus very difficult to arrive at a value for the royal collection, although it was clearly considerable. At present our main statistic is that James bought almost £100,000 worth of jewels from his chief supplier, Thomas Foulis, in a remarkable spending spree between 1590 and 1595³⁹. Perhaps in doing so he was not spending money but investing it; whether it was a prudent investment, at a time of severe cash-flow problems, is another question. What proportion of the royal collection came from Foulis might be ascertained by detailed collation of inventories⁴⁰.

5.3. Clothes and furnishings. Along with jewels can be considered clothes and furnishings. The value of tapestries, silk doublets or velvet beds could be considerable. Here we are potentially on firmer ground. Amy Juhala found no inventories from James's reign, but she did find some from earlier reigns and demonstrated a good deal of continuity in valuable items⁴¹. From this we have a reasonable prospect of ascertaining financial values. Inventories omit them, but because doublets, and even tapestries, were more uniform in their values than jewels, it would be

³⁸ B. P. Lenman, 'Jacobean goldsmith-jewellers as credit-creators: the cases of James Mossman, James Cockie and George Heriot', *Scottish Historical Review*, 74 (1995), p. 168.

³⁹ J. Goodare, 'Thomas Foulis and the Scottish fiscal crisis of the 1590s', in Ormrod *et al.* (eds), *Crises, Revolutions and Self-Sustained Growth*, p. 181.

⁴⁰ T. Thomson (ed.), *A Collection of Inventories and Other Records of the Royal Wardrobe and Jewelhouse, 1488-1606*, (Edinburgh 1815) could be supplemented with other sources, including the accounts of George Heriot, jeweller to Queen Anne (and periodically to the king) from the 1590s onwards, which gave cash values. See A. L. Juhala, 'The Household and Court of James VI of Scotland, 1567-1603' (University of Edinburgh PhD thesis 2000), pp. 155-73.

⁴¹ *Ibid.*, pp. 146-55.

possible to collate royal inventories with testaments – all with values attached – of nobles who possessed such items. One might also mention royal animals – particularly horses, but also hunting dogs, hawks and even the occasional lion; their financial value may have been significant.

5.4. Debts to Crown. Debts payable to the Crown are the next type of assets – this time genuinely ‘current’ assets in modern terms. They consisted of revenues that the administrative system had been unable to collect on time. Local revenue-gathering officials sometimes failed to account in the Exchequer for their revenues (mostly land rents, feudal dues or customs duties). Either they had not gathered the revenues, or they were withholding them. Revenues due but unpaid were often simply charged, with no mention that they had not (yet) been collected. A revealing exception was direct taxes, where the collector of taxes was a temporary official who had to close his accounts without carrying anything forward, so that unpaid taxes were listed in his accounts.

The taxation accounts allow an approach to the question of whether debts to the Crown could be divided, following accounting practice, into good (recoverable), bad (irrecoverable) and doubtful (in between). The concept of a ‘good’ debt is probably inapplicable, since liabilities once incurred were all due for immediate payment; they would either be paid, or else would be at least doubtful. The taxation accounts show deductions from the gross charge that can be roughly equated with doubtful and bad debts. In the 1606 tax (collected 1607-10, with accounts rendered in 1611), the gross charge of £313,161 18s. 2*d.* was reduced by £5,565 7s. 8*d.* (1.8 per cent) pending decisions on liability; £3,185 18s. 0*d.* (1 per cent) cancelled by the tax commissioners on grounds of non-liability; and £17,038 8s. 11*d.* (5.4 per cent) unpaid by taxpayers who had been put to the horn (outlawed)⁴². This would put doubtful debts as 1.8 per cent of the gross charge, and bad debts (the latter two categories) as 6.4 per cent. Among the uncertainties in these figures are the questions of whether these accounts are

⁴² NAS, taxation accounts, 1606, E65/5, fos. 1v., 21v., 34r., 34v.-40v.

representative, and whether taxes payable by taxpayers followed the same patterns as revenues payable by local officials. For what they are worth, though, they suggest a ratio of bad to doubtful debts of three and a half to one. A modern accountant would write off bad debts, but James's officials did not.

These figures also allow a more oblique approach to the question of the actual value of debts to the Crown. On the face of it they suggest that 8.2 per cent of the gross tax income charged remained uncollected; however, things are not so simple, and not only because of the tentative nature of this figure. In searching for a figure for James VI's balance sheet, what we want to know is *all* the debts outstanding at the point when the balance is taken. There would additionally be revenues outstanding from the previous tax; these might all be considered bad debts, but efforts were sometimes made to collect them. The 8.2 per cent is also a snapshot at a particular point in the tax-collection cycle, and it might be different at other points. The value of debts to the Crown thus remains somewhat obscure.

The most notable time when James was owed money was the early 1590s. He returned in 1590 from his wedding trip to Denmark with £108,000 as the net proceeds of his tocher (dowry). Of this, £100,000 was deposited with eleven burgh councils, who were ordered to pay 10 per cent interest to the comptroller. The king gradually withdrew the deposits, all the money being spent by 1594⁴⁵.

5.5. Cash. The final type of current assets was cash in hand. There is little information about this, probably because large sums were not retained for any length of time. The Danish dowry had to be lent to the burghs because the Crown had no arrangements for looking after £100,000 in cash. Some earlier kings had amassed treasure – the 'boxes' of James III attracted attention⁴⁶. There is no such evidence for James VI. The Privy

⁴⁵ A. Montgomerie, 'King James VI's tocher gude and a local authorities loan of 1590', *Scottish Historical Review*, 37 (1958), pp. 11-16.

⁴⁶ N. Macdougall, *James III*, (Edinburgh 1982), pp. 254-55; N. Macdougall, *James IV*, (Edinburgh 1989), pp. 36, 50-51, 91-93, 154-55.

Council hoped in 1611 to 'haif some money over', that is, to retain a regular revenue surplus as cash, but nothing came of it⁴⁵.

6. Indeterminate assets

Next we come to the indeterminate assets: intangible items to which the business has an exclusive claim and which it can in principle sell. Characteristic modern assets in this category are brands, trademarks, and research and development expenditure, none of which had early-modern equivalents. One important class of indeterminate assets consists of investments in the equity of other businesses – and, perhaps surprisingly, this can be paralleled in the assets of James VI. Businesses owned and operated by the Crown can be regarded as wholly-owned subsidiaries rendering their profits to the parent business.

The Crown might engage in various business activities. James V in the 1530s had farmed sheep on a large scale⁴⁶. In the early sixteenth century there had been a royal gun foundry in Edinburgh Castle. This was not primarily a profit-making concern, but it did make non-royal items like the bells of St Magnus' Cathedral, Kirkwall, and the reasons for its abandonment seem to have been economic⁴⁷. James VI was certainly willing to listen to entrepreneurs. A plan was authorised in 1599 for a royal salt manufactory, requiring an initial investment of £20,000 to construct two salt pans, plus a further £20,000 for two more pans which was to be raised from profits generated by the first two. The scheme never left the drawing board⁴⁸.

This leaves just one type of business in which the Scottish Crown routinely engaged: the issue of coinage. This required a building and equipment, plus operating capital for the purchase of bullion or

⁴⁵ D. Laing (ed.), *Original Letters Relating to the Ecclesiastical Affairs of Scotland, 1603-1625*, 2 vols. (Bannatyne Club 1851), i, p. 282.

⁴⁶ P. Symms, 'Some aspects of the sheep farming activities of James V', *Scottish Economic and Social History*, 7 (1987), pp. 66-69.

⁴⁷ D. H. Caldwell, 'The royal Scottish gun foundry in the sixteenth century', in A. O'Connor and D. V. Clarke (eds), *From the Stone Age to the 'Forty-Five*, (Edinburgh 1983), pp. 427-49.

⁴⁸ *APS*, iv, pp. 182-84.

exchange of existing coins⁴⁹. The Mint was a profitable manufacturing enterprise. That it was a subsidiary enterprise is indicated by the fact that it raised its own operating capital, borrowed by the Master of the Mint on his own credit. The Treasurer's interest in the Mint was normally limited to receiving its profits, just as a parent firm receives dividends. Thus the assets in James VI's own balance sheet should be the capital value plus the revenues remitted to the Treasurer that year.

The Mint was not straightforwardly commercial, and this is important when considering its valuation. For one thing, its operations affected the value of the currency in which royal revenues were expressed. Coins could also carry political propaganda. But the most important reason was coinage manipulation. In theory, the Mint purchased bullion at market rates and fashioned this into coins with a somewhat higher face value; the difference, known as seignorage, covered operating costs and rendered a profit for the Crown. The face value of the coins had an arbitrary element independent of the market; consumers could not refuse new coins just because their face value was high. Under James VI, the Crown often called in existing coins and reissued them at a higher face value, either recoinage them or simply overstriking them⁵⁰. The decision to do so was essentially a political one in which the Crown had to balance its own needs against the political effectiveness of those most likely to suffer from the inflation that would result – merchants (who might lobby in protest) and the poor (who might riot)⁵¹. The 'value' of the Mint was thus variable, dependent on coinage policy. If the coinage was being debased it would be highly profitable; if not, it could bring in just small sums, or even lie idle for years at a time. The Mint was periodically leased out to entrepreneurs. The 'tack' (i.e. lease) of 1598 to 1601 yielded £5,000 per year to the Crown; that of 1601-02, when large sums were required in a hurry, yielded £45,899 9s. 6d.

⁴⁹ J. E. L. Murray, 'The organisation and work of the Scottish mint, 1358-1603', in D. M. Metcalf (ed.), *Coinage in Medieval Scotland, 1100-1600*, (British Archaeological Reports, no. 45, London 1977), pp. 155-69.

⁵⁰ C. E. Challis, 'Debasement: the Scottish experience in the fifteenth and sixteenth centuries', in Metcalf (ed.), *Coinage in Medieval Scotland*, pp. 171-96.

⁵¹ Goodare, *Government*, pp. 53-55, 93, 273.

One approach to valuing the Mint would be to take an annual average of its profits, and treat it as a business capable of generating profits at this level over a long period. Christopher Challis has calculated the 'total fiscal yield' of the coinage from 1579 to 1604 – the years for which the best records survive from the period of debasement – as £292,980 2s. 2d., which gives us an annual average of £11,268⁵². Thereafter debasement ceased; in the years 1611-1625 inclusive, when records once again become available, the Mint yielded £50,779, an annual average of only £3,385⁵³. If the former figure is representative of other earlier years of the reign (1567-78) and the latter of other later years (1605-10), then the overall average yield would be in the region of £7,317. Many businesses experience fluctuations in their profits, but with the Mint, these fluctuations were driven more by politics than by the market. This should not prevent us recognising the Mint as a business with (at least in theory) a capital value. If an entrepreneur seeing the above figures were asked what it would be worth paying for the Mint, the answer would presumably have been that, with 10 per cent interest rates, it would be worth paying up to £110,000 for it if it was going to yield £11,268 annually, but only about £30,000 if its annual yield was going to be £3,385. Perhaps a compromise figure of £70,000 gives the best overall impression of the Mint's value.

Could one treat as an 'indeterminate asset' the king's legal right (or power) to issue such things as licences? He could, for example, license the export of certain commodities, the regular export of which was banned by statute. Such licences were ostensibly to regulate trade, but could also generate revenue. He could also regulate breaches of the 'penal statutes' – imposing fines for such things as usury (taking more than 10 per cent interest), carrying firearms, or forestalling and regrating (selling outside regulated markets) – either by pardoning the offence or (more fiscally relevantly) by collecting a negotiated composition in lieu of a fine⁵⁴. These types of revenue, however, are better seen as rough

⁵² Challis, *op. cit.*, pp. 186, 188.

⁵³ Calculated from NAS, mint accounts, E101/2.

⁵⁴ Goodare, *Government*, pp. 101, 123, 210-11.

and ready taxes on the activities concerned, not as assets with a capital value. They could in theory have been farmed to a projector in return for cash down, but so could taxes – in which case an accountant would regard this as a form of borrowing rather than as a ‘sale’.

7. Depreciation

Before parting with the assets, the issue of depreciation must be addressed. Depreciation, in accounting terms, does not refer directly to physical deterioration but is a device for spreading the cost of a fixed asset evenly across its useful life. Physical deterioration may affect the length of its useful life; technological obsolescence and changes in fashion may also limit it. For all these reasons, there is a need to know an asset’s useful life. Actual figures for depreciation are not offered here, but suggestions are made on how they should be estimated.

Land would not be depreciated; indeed since our period was one of rising population, perhaps it even *appreciated* in value, but estimating a value for this might well be too radical for the normal convention of accounting conservatism. Buildings today are sometimes depreciated over 50, 70 or 100 years. In estimating the useful life of a Renaissance palace, similar figures might well be justified. Some buildings lasted much longer – Holyroodhouse remains a royal palace today – but others lasted only a short period, such as Dunfermline Palace, substantially rebuilt in the 1590s but abandoned within a few decades⁵⁵. Castles, though less dependent on royal taste and fashion, were subject to severe technological obsolescence. Finally, there is depreciation of movables. Munitions decayed, sometimes rapidly, and became outdated. They could well be written off after a decade or so, except perhaps the artillery. Jewels probably should not be depreciated, on the grounds that they did not generally decay, and if their settings became unfashionable they could easily be reworked into new ones (though they might be lost or stolen). Clothes and furnishings became outdated

⁵⁵ A. MacKechnie, ‘The royal palace of Dunfermline’, in R. Fawcett (ed.), *Royal Dunfermline*, (Society of Antiquaries of Scotland 2005), pp. 101-38.

and decayed, but slowly, and should be depreciated at a modest rate, perhaps over a few decades.

8. Liabilities

8.1. Capital. The liabilities of an early modern monarchy were usually simpler than its assets. The first item to consider is the capital, also known as equity or ownership interest – the money that James would have been left with if he had wound up the business. A figure for this would be a fundamental one for understanding his finances – in everyday language, it would tell us what he was ‘worth’. One of the uses of a balance sheet is to determine the value of the equity, using the equation

$$\text{Assets} - \text{Liabilities} = \text{Owner's equity.}$$

This also reminds us that the equity is not a thing to which one can point, but an arithmetical construct dependent on other things. The issue of the equity will be considered further below.

8.2. Drawings. A related but sometimes more tangible type of liability consists of drawings – money that the owner has withdrawn from the business during the financial year. This is not an expense of the business (to be included in the profit and loss account), but a separate deduction directly from the equity. For a modern corporation, drawings take the form of dividends to shareholders. For James VI, we have seen that money spent on his living expenses cannot usually be regarded as drawings, since a principal purpose of the business was to operate his living arrangements. However, some payments may be regarded as drawings. James on at least one occasion *borrowed* from a financial officer, when the Master of the Mint accounted for £2,000 and £666 13s. 4d. ‘lent to his majestie upoun his bande and obligatioune’⁵⁶. An even clearer example of a drawing was this discharge in the Comptroller’s accounts for 1597-98: ‘Item the compter dischairges him be payment maid be him to his majesteis self, conforme to the lordis of chekeris precept’, £600⁵⁷. These small sums were pocket money.

⁵⁶ NAS, mint accounts, 1592-7, E101/2, fo. 27v.

⁵⁷ ER, xxiii, p. 207.

8.3. Net income. The next liability is the net income for the year. Net income is a liability because, unless and until the business spends it on something, it represents an increase in the capital, and thus in the size of the owner's claim on the business. If the net income is negative (as it often was for James), this either reduces the capital or increases the debts.

Systematic information is available for James's annual net income, though certain caveats must be entered about its comprehensiveness. His annual surpluses and deficits are shown in *Figure 1*⁵⁸. These figures can be linked to the political history of the reign⁵⁹. There were deficits during the early years of civil war, up to 1573. The erection of a formal royal court in 1580, and the king's marriage in 1589, imposed insupportable burdens on the finances. In the late 1590s the graph's impression of financial recovery is false, because James increasingly repudiated his debts in a series of small bankruptcies – in the largest, in 1598, over £160,000 was repudiated⁶⁰. In 1603 James succeeded to the English throne and the cost of the court was removed from Scotland, a crucial fiscal transformation. Eventually, James's Scottish finances staged a remarkable recovery with the aid of heavier direct taxation and customs revenues. The deficit year of 1618 paid for the royal visit of 1617.

8.4. Debts owing by Crown. James's debts have recently received detailed attention, and only an outline is required here⁶¹. Most debts were not formally-contracted loans but unpaid bills, on which no interest was paid. Frequent annual deficits indicate indebtedness, and there was a tendency, especially in the crisis-ridden 1590s, to repudiate debts – at least temporarily. Many such debts were eventually repaid, mainly in the 1610s.

⁵⁸ The principal series of MS accounts used to compile this graph, all in NAS, are: Treasurer's accounts E21 and E22, Comptroller's accounts E24, thirds of benefices accounts E45, new augmentations accounts E49, taxation accounts E65 and mint accounts E101.

⁵⁹ For a recent overview of this see J. Goodare, 'Scottish politics in the reign of James VI', in Goodare and Lynch (eds), *Reign of James VI*, pp. 32-54.

⁶⁰ J. Goodare, 'The debts of James VI of Scotland', *Economic History Review*, 62 (2009). This paper also contains a fuller discussion of *Figure 1*.

⁶¹ *Ibid.*

One point should be made on the definition of a debt. Formal loans to the Crown, if secured on real property, could resemble asset sales by the Crown. The Comptroller's accounts for 1587-8, for instance, included four charge items. Firstly there was £1,625 'ressavit' from John Lindsay of Menmuir in return for which there were 'alienat' to him several rents from the lands of Balcarres. Two further sums were 'ressavit' in return for similar items of royal property. These must be regarded as sales of assets. The fourth sum, however, was £1,000 'borrovit' from John Touris of Inverleith at the king's command, 'for the quhill the comptar was oblisit to infeft the said laird of Inverleith in ane annuelrent of ane hundreth poundis yeirlie quhill [i.e. until] redemptioun and lauchfull outquytting thairof⁶². This thus involved an 'infefment' – a vesting of feudal property (*anglicè* enfeoffment) from a landed estate. In all four cases, the Crown received cash and handed over rights to land. The only substantive difference in the Touris case was that the Crown intended to repay the principal. After the payment of £150 interest, the loan was duly repaid after eighteen months⁶³. In treating the Touris transaction as a secured loan rather than a sale, we should nevertheless recognise the similarities between the two.

9. Conclusions (i): accounting issues

The foregoing discussion of assets and liabilities can be summarised diagrammatically in *Table 1*. The word 'conjectural' in its title should be emphasised. Most of the figures it presents are not based on detailed analysis, and should not be quoted. They are 'order of magnitude' figures, the utility of which (providing that they are recognised as such) has been noted by Raymond Goldsmith⁶⁴. The value of James's buildings may not have been very close to £1.5 million, but it is unlikely to have been £150,000 or £15 million. Two figures for which a greater degree of accuracy can be claimed are those for fiscal feudalism and for

⁶² *ER*, xxi, pp. 363-4.

⁶³ *ER*, xxi, pp. 410, 412.

⁶⁴ Goldsmith, *op. cit.*, p. 6.

the Mint. Future research might well produce further data; this article has at least outlined the issues and the way forward. No doubt, as with most early modern statistics, some uncertainties would remain.

At this early stage of research, it has been possible to sidestep to some extent the question of when in the reign any balance is being struck. Much changed during James VI's 58-year reign. The conjectural figures in *Table 7* relate to a period, about halfway through the reign, when his financial problems were severe, his debts were high, and his net income often negative. Further research should address the question of chronology more systematically. All the items on the balance sheet would fluctuate annually, and there were also longer-term structural changes – notably the changes to James's assets brought by his marriage, the receipt of a dowry in cash and the alienation of dower lands to his wife.

9.1. Insolvency. Was James insolvent? The solvency of a modern business can be tested by the 'current ratio': the ratio between its current assets (as opposed to fixed assets) and its liabilities. If the current assets exceed the liabilities, the business is solvent. A more demanding test is set by subtracting inventory (which is not immediately realisable) from the current assets; the resulting ratio can be called the 'quick ratio' or 'acid-test ratio'. It has been argued elsewhere that an acid-test measure of solvency would disregard almost all of James's assets apart from the jewels, which alone had a ready market. Under this measure, he was probably insolvent from about 1582 until some date after 1603, when his succession to the English throne at last enabled him to get his Scottish finances under control⁶⁵. Calculating a current ratio would require further investigation of the value of James's other assets, and would also encounter the conceptual problem (discussed above) of the definition of 'current' assets.

9.2. Liquidity. Liquidity is the ease with which assets can be converted into cash. Many royal assets, such as buildings and their contents, were

⁶⁵ Goodare, 'Debts of James VI'.

not very liquid. However, this does not stop modern businesses owning buildings and contents, and it should not necessarily be regarded as a problem for James either. To show that he was overcapitalised one would have to show that he used his buildings inefficiently. However, the extent to which the burgh of Edinburgh had to help him accommodate visitors to his court hardly suggests that he had too many buildings; here at least he arguably had too few⁶⁶.

There is little or nothing in the sources about turning silk doublets or velvet beds into cash, or about pawning them. By contrast, with jewels, there is a lot of such information, though James seems in general to have bought more jewels than he sold⁶⁷. Jewels did not depreciate and were readily transportable. Gold and silver items could also be physically converted into coins in the royal Mint. The sale of prestige assets like jewels would have weakened James politically, but people's reactions might not have been wholly negative. It would depend on how many people saw jewels primarily as status symbols, and how many saw them primarily as investments. Some people would have said, 'James is a bad king because he doesn't have many jewels'; others, less bedazzled by jewels in themselves, might have said, 'James is a bad king because his recent sales of jewels indicate bad management'. The point is that the second, more pragmatic attitude to jewels might have led at least a few people to say, 'James is a good king because his recent sales of jewels, however regrettable, indicate good management'. In modern terms, liquidation of capital investments at a time of financial crisis might indeed be regarded as good management, though James did not practise it systematically.

9.3. Leverage and risk. A firm's leverage is the ratio of its debts to its capital⁶⁸. This can change depending on what is viewed as capital; in recent years the inclusion of brands as capital has reduced some firms' leverage. The discussion above of James's ownership interest allows the

⁶⁶ Juhala, *op. cit.*, pp. 283-91.

⁶⁷ Lenman, *op. cit.*

⁶⁸ The UK term is 'gearing'.

question to be posed of how it related to his debts. An actual ratio is out of reach, but a theoretical discussion of the concept may still be illuminating.

Fiscal historians have usually thought about debts in relation to annual revenue (gross or net), saying that the debt burden was so many times the annual income, or – particularly commonly – quoting figures for costs of debt servicing as a proportion of gross annual expenditure⁶⁹. Accountants think about this too, but they also think about capital. Two firms with the same turnover can have different leverage. A firm with high leverage will typically have a smaller share capital and more borrowed capital than a similar-sized firm with lower leverage. It will have to pay more interest on its loans but under favourable market conditions (such as low interest rates) may still yield a larger profit per share. A highly leveraged model of James VI's finances would thus give him lower ownership interest and more debts. Lacking shareholders, however, he would be interested only in the total net gain in the ownership interest (i.e. the profit), which would not be affected by higher or lower leverage. Interest rates, too, affected him little; his debts consisted largely of unpaid bills, on which no interest was due. Indeed such debts benefited him, since in an inflationary period he bought goods and services when prices were lower and repaid when they were higher.

Where leverage would have mattered to James, however, was in the related question of risk. Other things being equal, a more highly-leveraged firm is more vulnerable to bankruptcy if profits fall or interest rates rise. The latter problem was unlikely to affect him, but the former might. Indeed, for much of his reign he operated at a deficit – negative profits – which ate into his capital.

There is also the question of what proportion of the assets were revenue-generating. Military assets, then as now, represented an obvious diversion of resources from productive purposes. The same applies to palaces and their contents. But so long as they had a financial

⁶⁹ E.g. M. Körner, 'Expenditure', in Bonney (ed.), *Economic Systems*, p. 411.

value they represented a hedge against bankruptcy. In general this relates to the models of domain state and tax state, since revenue-generating assets were particularly characteristic of the domain state.

9.4. Accounting decisions. A balance sheet always balances. So we can glance at what would have happened to it when various types of financial decision were made. Decisions affecting the fixed assets may begin with those concerning land. Buying land for cash was rarely an option for James, though he could in theory have done so with his windfall gains from his dowry or his English subsidy⁷⁰. Land purchases would otherwise have increased his debts, and because the return to capital from land was usually lower than for most other investments, would not have been profitable. Alienation of land, the opposite decision, seems often to have been politically necessary and may have brought scant economic benefit, but if the land was sold for cash rather than given away, it might have strengthened James through enabling the repayment of interest-bearing debt. Many of the foregoing points would also apply to decisions to acquire or dispose of buildings, or movable assets such as jewels, with the proviso that the benefits of having these were political and cultural rather than economic. James did not have to deck himself out in a peacock's costly finery; Philip II of Spain never did. But James was hardly abnormal among early modern monarchs in his love of display.

Decisions affecting the indeterminate assets might include the possibility, occasionally canvassed, of the Crown engaging in business. More important issues concerned the coinage. A decision to depreciate the coinage would not only bring in revenue, but would also tend to raise the capital value of the mint and thus to reduce the leverage.

Finally, decisions affecting the liabilities would include varying the annual expenditure, increasing or reducing net income for the year and thus, in turn, affecting the level of the ownership interest. The conjectural balance sheet above shows a significant diminution in the ownership

⁷⁰ He received a total of £58,500 sterling from England in roughly-annual instalments between 1586 and 1602: J. Goodare, 'James VI's English subsidy', in Goodare and Lynch (eds), *The Reign of James VI*, pp. 110-25.

interest from an excess of expenditure over income. Decisions to contract debts would have a similar effect – unless the debts were not interest-bearing, which James's debts commonly were not.

The branch of economics to which all this is most directly relevant is the new institutional economics, which emphasises the administrative, legal and political constraints on 'economic' decisions⁷¹. James and his financial officials could make a number of decisions about his assets, but most were not intended as 'economic' decisions. They were made for institutional, often directly political, reasons. James alienated his lands because he needed to reward nobles for services; he bought weapons to prepare for war; he bought jewels to impress his nobles and foreign diplomats. Conceptualising the Scottish monarchy as a business should not mislead us into thinking that its primary aim was to make profits. One overtly 'economic' decision was to depreciate the coinage as a remedy for fiscal crisis; this did make profits but damaged the king's prestige. We do not yet have an institutional economic theory explaining the internal workings of the state, but the new institutional economics has at least moved beyond traditional economic assumptions that either ignore the state or assume that it operates to promote growth. Its view of the state as often predatory on the economy is surely borne out by James VI's Scotland⁷².

10. Conclusions (ii): from domain state to tax state

The second set of conclusions suggests some refinements to the conceptual models of 'domain state' and 'tax state'.

10.1. An asset-based approach. The domain state can readily be conceptualised as a business. Its revenues are generated by economic

⁷¹ Cf. C. Ménard (ed.), *Institutions, Contracts and Organizations: Perspectives from New Institutional Economics*, (Cheltenham 2000), and for a historical survey, D. C. North, 'Economic performance through time', in M. C. Brinton and V. Nee (eds), *The New Institutionalism in Sociology*, (Stanford, Calif. 1998), pp. 247-57.

⁷² D. C. North, *Structure and Change in Economic History*, (New York 1981), ch. 3.

activity in its property. It manages real estate and makes investment decisions concerning this. The rents paid by its tenants may or may not be 'economic rents' – they may well, for instance, include an element of military service – but are certainly susceptible of economic analysis. The domain state was an effective organisation in an age of subsistence farming and limited commerce, allowing the resources extracted by monarchs to be consumed locally. Lands possessed by monarchs were not necessarily different from lands possessed by nobles or churchmen; outside towns, all wealthy people operated in similar ways, and differentiation of functions was low⁷³.

The tax state, by contrast, is less like a business. It holds fewer fixed assets. Its revenue-raising is determined less by the market and more by political negotiation with taxpayers. An economist can describe the impact of taxes in economic terms, but an accountant will not describe taxes as assets or assign them a capital value.

Hitherto, the chief criterion distinguishing the domain state from the tax state has been the proportion of revenues accruing from the domain or from taxation. Bonney and Ormrod write: 'Ideally, our test with regard to revenues would be a quantitative one: if 51 per cent of total revenues came from "domain" rather than "tax" sources ... then the operation of the fiscal system might be characterized as a "domain state". They add that 'a further criterion has to be the extent of permanence of the prevailing characteristic within the fiscal system. For example, some "domain states" transformed themselves into "temporary tax states" to meet a pressing emergency, but then reverted'⁷⁴. The criterion of 'permanence' cannot be measured by reference to the proportion of revenues accruing in a particular year: how can we tell whether taxes are going to be permanent?

This is where an asset-based approach can help. Domains are less flexible than taxes. Taxes can be varied every year, or even abandoned at a moment's notice. Once lands are acquired, they will probably be

⁷³ Goodare, *State and Society*, pp. 41-42, 59.

⁷⁴ Bonney and Ormrod, *op. cit.*, p. 10.

retained for the time being rather than dissipated; nor can their yield readily be increased except by long-term management of a kind that early-modern states rarely prioritised.

10.2. A political approach. Domains can, however, fluctuate depending on politics – the monarch may grant out lands in return for service, or may forfeit lands for treason. But while taxes fluctuate up and down for short-term reasons (notably warfare), there is likely to be an identifiable longer-term trend in the Crown's landholding practices. This may be particularly true in the early-modern period, when land was increasingly bought and sold for money. The peaks in royal landholding in France, England and Scotland were in 1517, 1540 and 1542 respectively; thereafter, in all three countries, there was a continual downward trend⁷⁵. Ideally, one would want to understand this within the broader framework of the secularisation of the lands of the medieval church. The explanation in both cases is perhaps more likely to be economic than political: the church was unable to exploit its lands as efficiently as lay landlords, and neither was the Crown. For the Crown, a political element in decisions to dispose of lands lay in the relative efficiency and feasibility of persuading the political classes to grant it revenues through taxation.

One of the strengths of the Bonney and Ormrod model of state finance is its explicitly 'economic approach' as opposed to earlier 'constitutional' approaches⁷⁶. In Scotland it was conventional to describe the customs as 'our soverane lordis propertie', meaning that the right to collect them lay with the king personally⁷⁷; but while this was constitutionally important, it did not mean that the customs were an identifiable capital asset, still less that they were not a tax from an economic point of view. But perhaps we need to move beyond the 'economic' approach too, to recognise the importance of political coercion in both the domain state and the tax state, and to integrate an

⁷⁵ Goodare, *State and Society*, p. 40.

⁷⁶ Bonney and Ormrod, *op. cit.*, p. 13.

⁷⁷ E.g. *ER*, xxii, p. 17.

element of political decision-making into the analysis. This could even be seen as a distinct 'political approach' to the issue of state finance. A full development of this theme would be beyond the scope of this article, but some suggestions may be made.

To take political aspects of the domain state first: domains were most often acquired through forfeiture. Political conflict between the Scottish Crown and groups of nobles led to major forfeitures in 1425, 1437, 1455, 1476 and 1528, most of the lands so acquired being retained⁷⁸. Similarly in England, the late medieval period saw the first systematic accumulation of crown lands deliberately retained as such, and again the reasons for the acquisitions were political⁷⁹. Not only that, but any decision to retain forfeited lands in crown hands was a political one, since lands could instead be granted out to loyal supporters. By the reign of James VI, the crown lands were being steadily alienated; when forfeited lands came into his hands, he usually granted them out again⁸⁰.

Political decisions made by tax states were particularly obvious in constitutional regimes, since taxes were discussed and voted in parliament. Scotland was a partly constitutional regime in this sense, since direct taxes had to be voted in parliament and could never be taken for granted by the Crown. Several of James VI's parliaments opposed his tax demands, and one of his worst fiscal disasters was his failure to persuade a convention of estates in 1600 to revise the tax assessment system. On the other hand, the customs – indirect taxes on

⁷⁸ P. McNeill and R. Nicholson (eds), *An Historical Atlas of Scotland, c.400-c.1600*, (Conference of Scottish Medievalists 1975), pp. 72-73 and map 83. The idea of long-term retention of a royal estate may date from 1404, when a 'principality' was created from the patrimonial lands of the Stewart dynasty: S. Boardman, *The Early Stewart Kings: Robert II and Robert III, 1371-1406*, (East Linton 1996), pp. 281-82.

⁷⁹ B. P. Wolffe, *The Crown Lands, 1461-1536*, (London 1970).

⁸⁰ The major forfeitures in James's reign were of the earls of Bothwell (1593-95), Gowrie (1600) and Orkney (1615). For grants of Bothwell's lands see *RMS*, vi, nos. 150, 166, 175, 192, 1163, 1342, and of Gowrie's, see *ibid.*, nos. 1093-97, 1348, 1778, 1812, 1880, 1902, 2101. Orkney's lands, however, were retained: P. D. Anderson, *Black Pattie: the Life and Times of Patrick Stewart, Earl of Orkney, Lord of Shetland*, (Edinburgh 1992), pp. 141-44.

overseas trade – were not voted by parliament, and occasionally had their rates revised by royal edict.

It is one of the key arguments of this article that a domain state holds productive assets, and that research on the subject should address that issue directly rather than simply looking at revenues. The transition from a domain state to a tax state is likely to be characterised by a disposal of the productive assets. It was during the reign of James VI that Scotland became, or at least set in motion a trend towards becoming, a tax state. The two central components of the new system were regular parliamentary taxation and effective customs duties, introduced in the 1580s and 1590s respectively⁸¹. Little research has yet been done on the crown lands' disposal, so it is unclear exactly when tax revenues overtook domain revenues (Bonney and Ormrod's '51 per cent' test); but when it came to seeking additional revenue, the attention of policy-makers fell squarely on taxation. This article may aid future work on this question, not least by offering a classification of some of the more obscure domain revenues.

It should, in principle, be possible to apply the concept of a balance sheet to other countries and other periods. The methodology does not rely on a unique surviving record for a particular moment⁸². It is beyond the scope of this article to draw direct comparisons with other European countries, or to indicate how exactly the methodology outlined here for James VI could be used to construct balance sheets for Elizabeth I, Henry IV, Christian IV, Rudolf II or Philip II. But research into the assets and liabilities of these and other monarchs might well prove fruitful.

⁸¹ J. Goodare, 'Parliamentary taxation in Scotland, 1560-1603', *Scottish Historical Review*, 68 (1989), pp. 23-52; A. L. Murray (ed.), 'A memorandum on the customs, 1597', *Scottish History Society Miscellany*, 13 (2004), pp. 66-82.

⁸² Unlike the records used by Goldsmith, *op. cit.*, p. 8.

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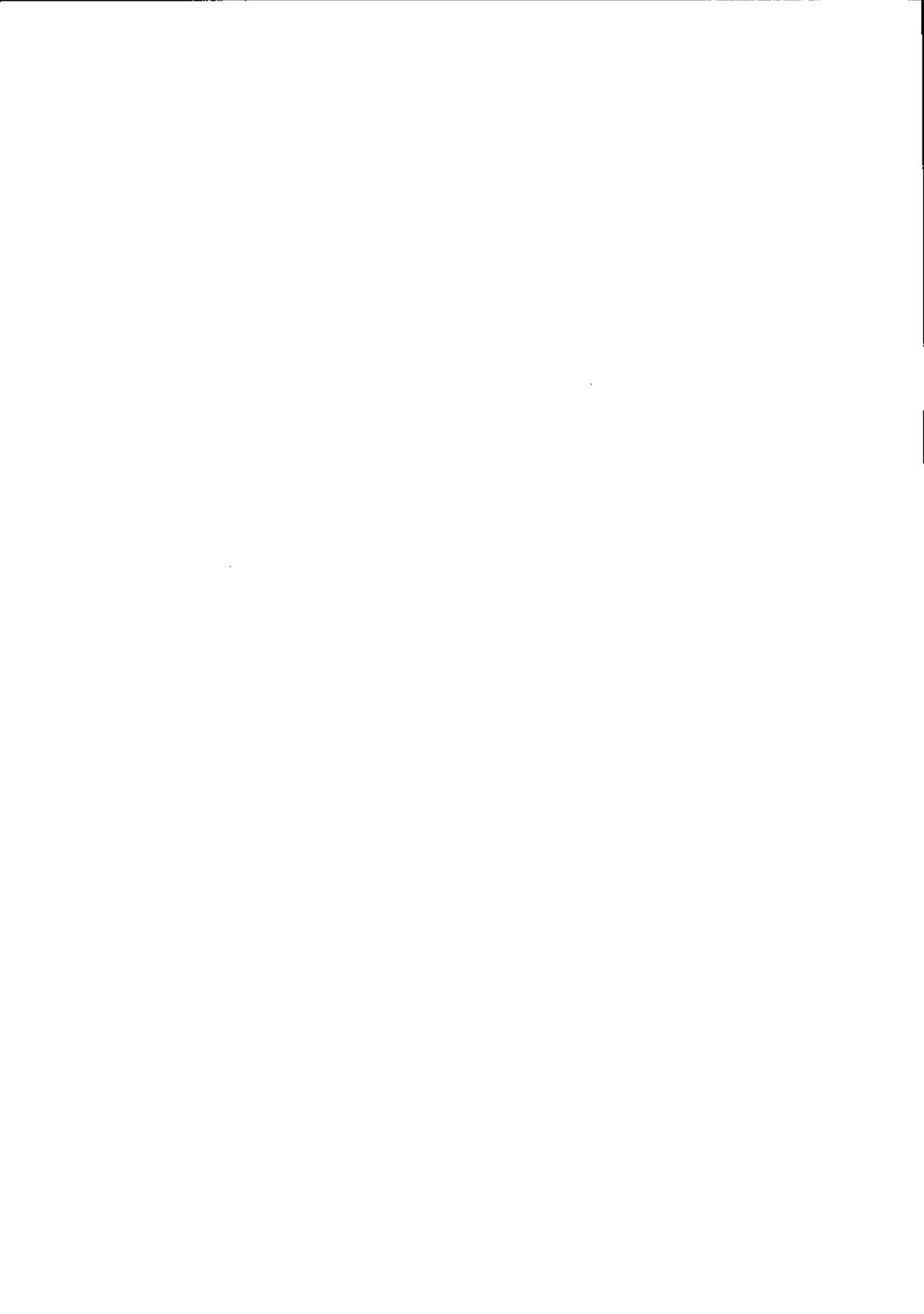
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Appendix

A Balance Sheet for James VI of Scotland

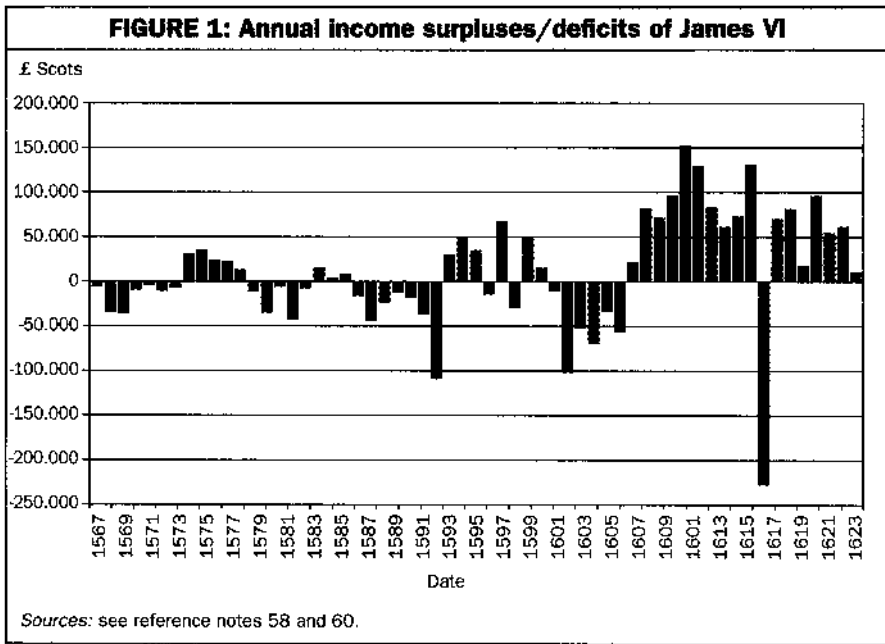


TABLE 1: Conjectural balance sheet for James VI, c. 1600	
	£ Scots
ASSETS	
<i>Fixed assets:</i>	
Land:	
Rented land	200,000
Feu duties	100,000
Fiscal feudalism	100,000
Mineral and other rights	25,000
Buildings	1,500,000
<i>Movables and current assets:</i>	
Munitions	50,000
Jewels	200,000
Clothes, furnishings, etc.	100,000
Debtors of crown	50,000
Cash in hand	5,000
<i>Indeterminate assets:</i>	
Mint	70,000
TOTAL	2,400,000
LIABILITIES	
Ownership interest	1,420,000
Drawings	5,000
Net income for year	-25,000
Creditors of crown	1,000,000
TOTAL	2,400,000
<i>Sources: see discussion in section 9.</i>	

