

Introduction

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During the first half of the seventeenth century, the Dutch Republic emerged as one of Europe's leading powers. By 1609 it had gained its *de facto* independence from Habsburg Spain following a prolonged military struggle which began with the Dutch Revolt in the late 1560s. The political and military strength of this small country was based on large-scale borrowing from an increasingly wealthy middle class of merchants, manufacturers, and public officials. Land taxes and excise duties levied on a wide range of consumables secured the interest payment on these loans. The authorities were able to raise tax revenues to unprecedented levels because of the country's thriving commercial agriculture, export-oriented manufacturing, and international trade. The growth of these sectors, in turn, was built on the provision of an impressive range of public goods, including military protection, a flexible legal system, patent laws, water management, education facilities, and last but not least, a social welfare system that helped to sustain a large urban reserve of skilled and unskilled labor.

Until at least 1670 the political and economic organization of the Dutch Republic compared favorably with the rest of Europe, where economic growth was limited, and rulers relied on crude tax regimes, forced loans, privileges to business elites, and defaults on government debt to finance their political endeavors.² However, during the eighteenth century the United Provinces lost much of their luster. Agriculture stagnated, foreign trade suffered from increased competition, and the country lagged considerably behind the leaders in its transition to industrial capitalism. After the War of Spanish Succession had forced the Dutch Republic

¹ The author wishes to thank the anonymous reviewers of this book for helpful suggestions and comments, and Bas van Bavel, Joost Jonker, Maarten Prak and Jan Luiten van Zanden for comments on earlier drafts of this introduction.

² For a comparison of the Dutch Republic with other European states see Stefan R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300–1750* (London: Routledge, 2000); Charles Tilly, *Coercion, Capital and European States, AD 990–1990* (Cambridge: 1990). Thomas Ertman excludes the Dutch Republic from his analysis but he does highlight the bureaucratic and patrimonial absolutism that shaped most continental states in Europe: Thomas Ertman, *Birth of the Leviathan. Building States and Regimes in Medieval and Early Modern Europe* (Cambridge/New York: Cambridge University Press, 1997). Comparisons between the Dutch Republic, the Italian city-states and the Swiss Confederation are made in: Charles Tilly and Wim P. Blockmans, eds, *Cities and the Rise of States in Europe, A.D. 1000 to 1800* (Boulder, San Francisco and Oxford: Westview Press, 1994).

into virtual bankruptcy and a subordinate role in international politics, the rulers and businessmen who had previously shaped political and economic institutions to their mutual benefit seemed unable to adapt them to changing domestic and foreign circumstances. In the late eighteenth century warfare, a new democratic ideology, and, ultimately, in 1795, the invasion of French troops were added to this institutional sclerosis. After two decades of French rule, the Congress of Vienna finally reunited the northern and southern parts of the Netherlands into one kingdom, ruled by the autocratic William I.

It is a major challenge for students of Dutch history to explain the rise and the decline of the Dutch Republic within one conceptual framework. Such an encompassing analytical model underlies Jan de Vries and Ad van der Woude's handbook *The First Modern Economy* (1997), which considers both the expansion of the Dutch economy in the sixteenth and seventeenth centuries, and its stagnation in the eighteenth century, as part of the process of modern economic growth.³ However, De Vries and Van der Woude pay limited attention to political developments. The state figures into their model as the guardian of secure property rights, but the complex interaction between economic and political actors within and between towns and provinces is not addressed. The opposite is true for the work of Jonathan Israel, who consistently relates economic success and failure to changes in political circumstances.⁴ Israel underestimates the importance of long-term economic trends, however, and he largely dissociates Dutch economic and political performance in the eighteenth century from its earlier achievements.

This collection of essays explores the interaction between political and economic developments which explain the particular trajectory of the Dutch Republic. The volume's point of departure is that of Adam Smith's concept of political economy, as he defined it in *The Wealth of Nations* (1776):

Political œconomy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.⁵

³ Jan de Vries and Ad van der Woude, *The First Modern Economy. Success, Failure, and Perseverance of the Dutch Economy, 1500–1815* (Cambridge: Cambridge University Press, 1997).

⁴ Jonathan Israel, *Dutch Primacy in World Trade, 1585–1740* (New York: Oxford University Press, 1989); Jonathan I. Israel, *The Dutch Republic: Its Rise, Greatness, and Fall, 1477–1806* (Oxford: Clarendon Press, 1995).

⁵ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Library of Economics and Liberty. Retrieved December 12, 2007 from the World Wide Web: <http://www.econlib.org/library/Smith/smWN1.html>, Book IV, Introduction.

The United Provinces taxed their subjects and borrowed from them in exchange for public goods. This volume analyzes the underlying bargaining process between provinces, towns, and various groups of economic actors, and the effect this had on the organization of public finance, the provision of public goods, and economic performance. Two questions stand out. How did the political economy of the United Provinces affect its political and military strength and the competitiveness of its agriculture, industry and trade? And how important was the balancing act between political and economic actors in comparison with numerous external factors, including political and military pressure, economic crises, or technological change?

The Dutch Revolt

A cursory reading of the Dutch Republic's history would seem to support the current popular notion among political scientists and economic historians that political revolutions in early modern Europe were crucial for the establishment of more representative forms of government, the reorganization of public finance, the creation of more secure property rights, and, ultimately, economic growth. England's Glorious Revolution (1688–1689) is the hallmark case. According to North and Weingast (1989) the offering of the English crown to William III in exchange for parliamentary control over public expenditure effectively constrained the new ruler and safeguarded the interests of taxpayers, entrepreneurs, and public debt holders.⁶ These changes marked the beginning of England's ascent to political and economic primacy in the eighteenth century. The Dutch Revolt, or rather the Union of Utrecht signed by the rebel provinces in 1579, may be likened to the Glorious Revolution because it put decisions about taxation and warfare into the hands of the States General. Like the English kings, the stadholders of the House of Orange retained an important role in politics, but their power was balanced by the urban magistrates and landed elites that dominated the provincial estates. Following these political changes was a very long period of rapid economic growth, a tenfold increase in fiscal revenues, and the creation of a public debt of unprecedented proportions.⁷

⁶ Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History* XLIX, no. 4 (1989); cf. also North's earlier statements on this issue in: Douglass Cecil North and Robert Paul Thomas, *The Rise of the Western World; a New Economic History* (Cambridge: Cambridge University Press, 1973), and Douglass North, *Structure and Change in Economic History* (New York: Norton, 1981).

⁷ Marjolein C. 't Hart, *The Making of a Bourgeois State: War, Politics, and Finance During the Dutch Revolt* (New York: Manchester University Press, 1993); Wantje Fritschy, "A 'Financial Revolution' Revisited: Public Finance in Holland During the Dutch Revolt, 1568–1648," *The Economic History Review, New Series* 56, no. 1 (2003).

And yet the relationship between political change and economic growth is more complicated than North and Weingast suggest. In Britain the struggle between the parliament and the crown, and related fiscal reforms, had begun already in the first half of the seventeenth century, and continued into the eighteenth century.⁸ As for the impact on the economy, long-term trends in returns on capital and on land do not reveal any break around 1690.⁹ Likewise, in the province of Holland, major improvements in public debt management preceded the Dutch Revolt by several decades. As James Tracy (1985) has shown, during the 1540s armed conflicts with the Hanseatic League, Guelders, and France, and the financial demands made by Emperor Charles V to fight these wars, led Holland to raise its contribution to the central treasury. The States of Holland took on a collective responsibility to sell life and term annuities secured by new provincial excise duties to public officeholders, merchants, and other wealth owners, none of whom were under an obligation to buy these securities.¹⁰ Furthermore, the process of unification of the Netherlands, begun under the Burgundian dukes and then vigorously pursued by Charles V, had created a property rights regime that remained essentially unchanged during the Republic.¹¹ There is also growing evidence to suggest that the economic boom of the Dutch Golden Age was rooted in a process of agricultural specialization and commercialization dating back to the late fourteenth century.¹² Significantly, the

⁸ On seventeenth-century developments, see M.J. Braddick, *The Nerves of State: Taxation and the Financing of the English State, 1558–1714* (Manchester: Manchester University Press, 1996); Robert Brenner, *Merchants and Revolution. Commercial Change, Political Conflict, and London's Overseas Traders, 1550–1653* (Cambridge: Cambridge University Press, 1993); On fiscal changes in the eighteenth century: Peter Mathias and Patrick O'Brien, "Taxation in Britain and France, 1715–1810: A Comparison of Social and Economic Incidence of Taxes Collected for the Central Government," *Journal of European Economic History* 5 (1976); John Brewer, *The Sinews of Power: War, Money and the English State* (London etc.: Unwin Hyman, 1989).

⁹ Epstein, *Freedom and Growth*; G.C. Clark, "The Political Foundations of Modern Economic Growth: England, 1540–1800," *Journal of Interdisciplinary History* 26, no. 4 (1996); Stephen Quinn, "The Glorious Revolution's Effect on English Private Finance: A Microhistory, 1680–1705," *The Journal of Economic History* 61, no. 3 (2001). Also Peter Temin and Joachim Voth, "Credit Rationing and Crowding out During the Industrial Revolution: Evidence from Hoare's Bank, 1702–1862," *Explorations in Economic History* 42, no. 3 (2005).

¹⁰ J.C. Tracy, *The Financial Revolution in the Habsburg Netherlands. "Renten" and "Renteniers" in the County of Holland, 1515–1565* (Berkeley: 1985).

¹¹ W.P. Blockmans and W. Prevenier, *The Promised Lands: The Low Countries under Burgundian Rule, 1369–1530* (Philadelphia: 1999). For the early origins of the Republic's financial institutions: Jaco Zuijderduijn, "Medieval Capital Markets. Markets for Renten between State Formation and Private Investment in Holland (1300–1550)," 2007).

¹² For Holland's economic performance in the sixteenth century, see De Vries and Van der Woude, *First Modern Economy*. The classic account of early commercialization in Dutch agriculture in the sixteenth century is: J. de Vries, *The Dutch Rural Economy*

new class of merchants and entrepreneurs created in this process was to become one of the principal stakeholders in the towns that helped shape the political organization of the Dutch Republic.¹³

The political and fiscal organization of the Dutch Republic, as laid down in the 1579 Union, was not set in stone. The federal nature of the state, with foreign affairs and warfare being the sole prerogatives of the States General, however, remained untouched. Likewise, the distribution of provincial contributions to the Generality's budget did not change for more than two centuries. But within these boundaries, in the face of changing economic and political circumstances, Dutch regents, entrepreneurs, and taxpayers showed a remarkable ability to renegotiate specific arrangements regarding the level and administration of taxes, the organization of government borrowing, and the provision of public goods. The most prosperous cities, Amsterdam in particular, implemented a host of institutional innovations for the purposes of private finance, shipping, and trade in both the seventeenth and eighteenth centuries.¹⁴ When considering, in addition to this, the financial constraints that issued from political and military competition with England and France, one has to be careful in postulating that an institutional sclerosis in the Dutch Republic set in once the Golden Age was over.¹⁵

in the Golden Age, 1500–1700 (New Haven: 1974). On developments before 1500: W.P. Blockmans, "The Economic Expansion of Holland and Zeeland in the Fourteenth–Sixteenth Centuries," in *Studia Historica Oeconomica. Liber Amicorum Herman Van Der Wee*, ed. E.A. Aerts et al., (Leuven: 1993). B.J.P. van Bavel and J.L. van Zanden, "The Jump-Start of the Holland Economy During the Late-Medieval Crisis, c.1350–c.1550," *Economic History Review* 57, no. 3 (2004).

¹³ 't Hart, *Making*; For the rise of the new mercantile elite, see: Clé Lesger, *The Rise of the Amsterdam Market and Information Exchange: Merchants, Commercial Expansion and Change in the Spatial Economy of the Low Countries, c.1550–1630* (Burlington VT.: Ashgate, 2006). See also Milja van Tielhof, *The 'Mother of All Trade'. The Baltic Grain Trade in Amsterdam from the Late 16th to the Early 19th Century* (Leiden: Brill, 2002).

¹⁴ De Vries and Van der Woude, *First Modern Economy*. Cf. also: Oscar Gelderblom and Joost Jonker, "Completing a Financial Revolution: The Finance of the Dutch East India Trade and the Rise of the Amsterdam Capital Market, 1595–1612," *The Journal of Economic History* 64, no. 3 (2004); Oscar Gelderblom and Joost Jonker, "Amsterdam as the Cradle of Modern Futures Trading and Options Trading, 1550–1650," in *The Origins of Value. The Financial Innovations That Created Modern Capital Markets*, ed. W.G. Goetzmann and K.G. Rouwenhorst (Oxford: Oxford University Press, 2005). For innovations in eighteenth-century trade: J.P.B. Jonker and K.E. Sluyterman, *At Home on the World Market : Dutch International Trading Companies from the 16th Century until the Present* (The Hague: Sdu Uitgevers, 2000).

¹⁵ W. Fritschy, *De Patriotten en de financiën van de Bataafse Republiek. Hollands krediet en de smalle marges voor nieuw beleid, Hollandse Historische Reeks* (1988), pp. 57–73; A less positive appraisal of the organization of Dutch public finance in the eighteenth century is found in: Tom Pfeill, *Tot redding van het vaderland'. Het primaat van de Nederlandse overheidsfinanciën in de Bataafs-Franse tijd 1795–1810, Neha-Series Iii* (Amsterdam: NEHA, 1998), and Jan Luiten van Zanden and Arthur van Riel, *The Strictures*

There are then two issues at stake in the contributions to this volume. On the one hand, the authors consider the effect that the creation of an independent Dutch state in the late sixteenth century had on the country's property rights regime, its public debt management, fiscal policies, and economic performance. The crucial question here is: how much of the Burgundian–Habsburg legacy actually survived the Dutch Revolt, and what was new about the Dutch Republic's institutional set-up? On the other hand the essays revisit the typically negative verdict on Dutch political and economic institutions in the eighteenth century. Did local and provincial particularism or the complacency of economic and political elites really bring the United Provinces down? Or were the implemented fiscal, financial, and economic reforms simply not sufficient in the competition with larger powers? These questions are addressed in two sets of essays, one focusing on continuity and change in public debt management and fiscal policies, the other on long-term developments in Dutch agriculture, manufacturing, and trade.

Public finance

In the second quarter of the sixteenth century the province of Holland created a funded debt, based on the sales of annuities and the levying of excise duties to pay the interest. As a result Holland was able to contribute more to the central government while paying less for its debt service. In his contribution James Tracy demonstrates how these new expedients were of little use to Holland when its towns revolted against Philip II. The civil war of 1572–1576 plunged the economy into a deep crisis, raised provincial taxation, and pushed up interest rates on public loans to 30 or 40 percent. It was only through ad hoc measures which ignored the principles established in the earlier reorganization of public debt that Holland managed to raise enough money to pay William of Orange's troops. Interest payments on existing annuities were suspended. New short-term loans (*obligatiën*) were issued and not repaid but rather converted into long-term annuities. Some of the more demanding creditors were paid off with confiscated ecclesiastical property in lieu of redemption. Furthermore, towns lost control over two-thirds of their beer and wine excises, the revenue of which was added to the common means (*gemene middelen*) of the province. In return, they gained the right to use these now provincial tax revenues to pay garrisons billeted within their city walls. These were initially conceived of as emergency measures implemented to overcome

of Inheritance: The Dutch Economy in the Nineteenth Century (Princeton: Princeton University Press, 2004). Johan Aalbers provides the best overview of the international constraints on the Dutch Republic following the War of the Spanish Succession: Johan Aalbers, *De Republiek en De Vrede Van Europa : De buitenlandse politiek van de Republiek der Verenigde Nederlanden na de Vrede van Utrecht (1713), voornamelijk gedurende de jaren 1720–1733; Deel 1: Achtergronden en algemene aspecten* (Groningen: Wolters-Noordhoff, 1980).

administrative disorder and imminent military threats. But the new arrangements in fiscal authority between local and provincial governments became permanent. When the fighting on Dutch soil ceased, the States of Holland did not want to relinquish control over the raising of what had been urban excises. In exchange, town magistrates insisted on the local use of the actual revenues.

The establishment of provincial control over the majority of local taxes in Holland marked the beginning of what Wantje Fritschy (2003) has aptly called a tax revolution.¹⁶ Between 1580 and 1650 Holland's tax revenues increased tenfold, due primarily to a massive increase in the amounts of excises. The government obviously benefited from the growing economic activity in the Golden Age, but as Fritschy shows in this volume, the improvements in the fiscal system were equally impressive. More and more goods were made subject to excise duties, moderate taxes on income and wealth were introduced, and most importantly, great strides were made in the administration of public finance. The creation of a provincial Financierkantoor (finance office) in Holland, registering the income and expenditure of all provincial receivers, made possible both structured financial policies and close monitoring of public officials and tax farmers. In the long run, these administrative changes proved very important for they enabled the government to reorganize public finance in periods of financial distress. For instance, in 1680 and 1707 detailed information on tax revenues from the finance office was used by the provincial authorities to adjust the fiscal system to changing patterns of consumption and production. On both occasions the least remunerative taxes were abolished, and new taxes designed to maximize revenues from different groups of tax payers were introduced.

The detailed reconstruction of the taxation of bread in Jan de Vries' essay provides further evidence for the ability of the Dutch to maximize fiscal revenue. From 1596 onwards town magistrates in the Dutch Republic organized regular *baking trials* to establish exactly how much rye or wheat was needed for a standard loaf of bread. This enabled the local authorities to tax the full input of grain, rather than some fictitious amount as was done in other European countries. To prevent an excessive tax burden on bakers, the town magistrates also specified the fixed costs involved in baking, and then proceeded to set a bread price that generated a reward sufficient to cover both fixed and variable costs, including taxes. Close monitoring of the bread market also taught local rulers that well-off consumers preferred the more expensive wheat bread. This knowledge was then used to cross-subsidize the production of rye bread: bakers were allowed to sell wheat bread at prices high enough to compensate for the very small profits (if any) they made on rye bread. De Vries points out that the primary purpose of the system of cross-subsidization was to maximize tax revenue from the preferred bread consumption of the middling groups. It was not a measure taken to ease the burden on the poor. Taxation was likely to have made Dutch rye bread 25 percent more expensive than a similar loaf purchased elsewhere in Europe.

¹⁶ Fritschy, "Financial Revolution".

The political economy of bread thus presents an intriguing puzzle regarding the fiscal regime of the United Provinces. Merchants, artisans, retailers, farmers, and other middling groups paid the bulk of all excise duties and land taxes. Indeed, the government managed to adjust its fiscal regime to the consumer preferences and purchasing power of its constituents. But why did the burghers accept the extraordinary tax burden? Maarten Prak and Jan Luiten van Zanden argue in their essay that town magistrates in the different provinces worked hard to secure the commitment of local citizens. This is apparent from several *ad hoc* fiscal measures implemented in the 1740s, after the Republic had been dragged into the War of Austrian Succession. To meet the costs of fighting France, the United Provinces had to raise additional funds. They borrowed money to cover immediate expenditures but they then had to raise taxes to service the new debt. The implementation of the emergency taxes in Leiden in Holland and Zwolle in Overijssel reveals how the middling groups were won over. First, the town magistrates organized the collection of taxes themselves. Leiden and Zwolle were strongly committed to the interests of their citizens – as is evidenced by, among other things, their provision of local public goods – and the town magistrates' control must have reassured them. Second, tax payers were by and large allowed to determine their own assessment, sometimes in combination with *ex post* inspection of the tax registers. A third strategy, practiced in Zwolle but not in Leiden, was to give the urban middle class the right to actually veto the introduction of new taxes. Together these measures made for a remarkably smooth acceptance of the emergency taxes, and helped the Dutch Republic pull through the War of the Austrian Succession.

Rationalization of the fiscal regime constituted only half of the changes in public finance in the United Provinces. Equally important was the impressive growth of government debt, in particular that of Holland. In the opening decades of the Revolt this province had borrowed an average of five to ten million guilders per year to fund its war efforts. In the 1590s, when the Spanish threat receded and previous emergency loans were renegotiated or redeemed, the provincial estates opted to return to the well-tryed sale of life and term annuities. Over the next half century they succeeded in raising large amounts of money this way. By 1650 the value of term and life annuities stood at 53 million guilders.¹⁷ And yet these traditional expedients did not suffice to fund the war against Spain. Therefore, shortly after 1600 the States of Holland began selling short-term obligations to pay for additional expenditure. Unlike the obligations sold to military commanders in the 1570s, the new bonds were no longer redeemed but rolled over on expiry. A similar technique had been used in Antwerp before, where bonds had found a ready market among merchants and sovereigns, including Charles V. The bonds were sold in Holland on an unprecedented scale. In 1650 the value of obligations

¹⁷ E.H.M. Dormans, *Het tekort. Staatsschuld in de tijd der Republiek, NEHA Series III* (Amsterdam: NEHA, 1991), pp. 47, 58.

outstanding was nearly 80 million guilders; by 1730 it had risen to well over 200 million guilders.¹⁸

The public sale of loans of this size required considerable organization. New issues had to be tailored to the fiscal revenues available to service the debt; obligations which had expired had to be rolled over; and lenders willing to invest in Holland's public debt had to be found. In her contribution to this volume Marjolein 't Hart analyzes the public debt management of the provincial tax receivers in the Amsterdam district. This public official was responsible for the collection of taxes, the sales of annuities and bonds, and the payment of interest on these loans from their tax receipts. Following regular instructions from the States of Holland the receiver issued loans on the local capital market. Throughout the seventeenth century successive holders of the receiver's office came from a single Amsterdam family with excellent connections to a large number of potential lenders. They used their contacts with the wealthy to place Holland's annuities and bonds. Although these informal dealings did not suffice to place all debts, they did constitute an important share, and hence reduced search costs for the Republic's principal financial officers.

Despite their extraordinary ability to raise taxes and loans, the Dutch could no longer compete in the eighteenth century with the great powers of Europe. Fiscal revenues were simply too small. England's system of public finance was modeled on that of Holland but it could access a much larger land surface and population, and could thus levy up to four times the amount of taxes compared to the United Provinces. France was able to compensate for its much poorer public debt management by taxing a population 20 to 25 times the size of Holland. The end of the Dutch Republic as a great power came with the War of the Spanish Succession. By the end of the war debt service took up more than 60 percent of Holland's fiscal revenue, and in 1715 the Union actually had to suspend interest payments on its loans for a period of nine months.¹⁹ In the following decades the States of Holland and the States General had to work extremely hard to restructure their debts and restore creditworthiness.

The contributions of Fritschy, Prak and Van Zanden show the fiscal ingenuity and determination with which local and provincial governments met their financial obligations in the eighteenth century. This is why in the 1760s and 1770s at 2.5 percent the bond yields of Holland were still the lowest in Europe. Indeed, it was not until the fourth Anglo-Dutch war (1780–1784) that the Republic's financial problems became insurmountable, one reason for this being that despite the intention laid down in the Union of Utrecht in 1579, the land provinces had never developed a fiscal system as sophisticated as that of Holland. Most provinces did

¹⁸ *Ibid.*, pp. 47, 58, 91.

¹⁹ W. Fritschy and R. Liesker, *Gewestelijke financiën ten tijde van de Republiek der Verenigde Nederlanden. Deel IV. Holland (1572–1795)*, ed. Instituut voor Nederlandse Geschiedenis, vol. 100, *Rijks Geschiedkundige Publicatiën. Kleine Serie* (The Hague: Instituut voor Nederlandse Geschiedenis, 2004).

introduce excise duties at some point in the late sixteenth and early seventeenth centuries, but revenues were nowhere near those of Holland's common means.²⁰ In the eighteenth century the government also had to contend with a stagnating economy. The dynamic interaction between agriculture, trade and manufacturing that served to bolster each of these sectors in the sixteenth and seventeenth, had lost much of its potential. Colonial trade continued to thrive but the European trade in agricultural products and Dutch manufactures declined in the face of growing foreign competition and protection.²¹

The Dutch economy

The economic difficulties of the eighteenth century were in marked contrast to the prolonged growth of the Dutch economy in previous centuries. In the first chapter of this volume, Erik Reinert shows how for one-and-a-half centuries mercantilist thinkers from Sweden, England, Germany, France, Spain, and Italy used the Dutch situation as a benchmark for the development of their own economies. Jealously, and almost unequivocally, contemporary observers from these countries highlighted the prosperous development of livestock farming, the fisheries, long-distance trade, shipping, and manufacturing, and the dynamic interaction between these sectors, as being the key elements underlying Dutch economic success. Furthermore, they stressed the benefits of pragmatic government intervention, most notably the attempts of town magistrates, in attracting skilled workers and entrepreneurs to stimulate local manufacturing. Few mercantilists blamed the Dutch state for the stagnation of the economy in the eighteenth century. They invariably ignored Adam Smith's later concerns about high taxes and bad government. Some criticized what they saw as the complacency and incapacity of Dutch entrepreneurs, but most economic writers stressed the limited size of the territory and the growing political and economic competition from other European nations.

The mercantilists' emphasis on the interaction between agriculture, manufacturing, shipping, and trade in the Dutch economy in the sixteenth and seventeenth centuries still sounds plausible. Modern research has revealed regular shipping and trade of domestic products, large flows of migrant workers, and massive urban investment in agriculture and rural industries.²² But the question of what caused the rise of these product and factor markets remains. Why

²⁰ W. Fritschy and R. Liesker, *Gewestelijke financiën ten tijde van de Republiek der Verenigde Nederlanden*, ed. Instituut voor Nederlandse Geschiedenis, vols 86, 91, 94, 100, *Rijks Geschiedkundige Publicatiën. Kleine Serie* (The Hague: Instituut voor Nederlandse Geschiedenis, 1996).

²¹ De Vries and Van der Woude, *First Modern Economy*; Jonker and Sluyterman, *At Home*.

²² De Vries and Van der Woude, *First Modern Economy*; Bavel and Zanden, "Jump-Start".

were farmers and manufacturers in the United Provinces able to produce large marketable surpluses, and why were these goods – as well as the labor, land, and capital required to produce them – exchanged so easily on domestic and foreign markets? Was it because the Dutch Revolt created more secure property rights for entrepreneurs? Or did the Dutch benefit from a far more gradual evolution of growth-enhancing institutions that may be traced back as far as the late medieval period? The essays of Bas van Bavel, Milja van Tielhof, and Oscar Gelderblom suggest that institutions which were quite different in origin safeguarded the owners of land and capital from arbitrary expropriation of their property and opportunist behavior of other parties.

Van Bavel analyzes the transformation of Holland's peasant economy into a highly commercialized agriculture-based one between the fourteenth and seventeenth centuries. A crucial element in this development was the growth in urban landownership in combination with widespread short-term leases to commercial farmers. Van Bavel shows how secure property rights to land were created during the reclamation campaigns of the high Middle Ages. Peasant ownership was firmly rooted in customary law, and this allowed peasants to continue the small-scale exploitation of their land for a very long time. Short-term leases, therefore, were a later development. It was only during the first half of the sixteenth century that the legal enforcement of lease arrangements emerged in the Habsburg Netherlands, the result of a complex set of circumstances, including inflation, improved land registration, the reception of Roman law, and the growing wealth and power among urban elites. The impact on the economy was tremendous. By 1620 urban landownership was likely to have amounted to 60 percent of total acreage. The owners of this land would have gained a regular income from leases and would have left the exploitation of their land in the hands of commercial farmers.

Van Tielhof for her part shows how the commercialization of Dutch agriculture critically depended on soil improvement through continuous and large-scale drainage. Her case study of the Rijnland water board in the south of Holland traces the institutional foundations of the system of water management in this area back to 1200. From then on farmers and villages were required to supply labor to maintain sluices and dikes. In the course of the sixteenth century, the greater scale and complexity of waterworks, probably in combination with the growth of urban landownership, led to the replacement of these labor services by the hiring of specialized contractors. To fund these works, the water board began levying a *morgengeld*, a levy on land at different rates according to the quality of the soil. To secure a steady flow of income, the water board left the collection of the water tax to representatives of village communities, which in turn often farmed it out to professional collectors. Occasional administrative irregularities notwithstanding, the system worked very well for most of the seventeenth century.

In contrast to the commercialization of agriculture, the rapid growth of long-distance trade in the late sixteenth and seventeenth centuries was closely linked to the Dutch Revolt. One obvious example of this was the Fall of Antwerp in 1585 which led to the reorientation of international commodity flows to Amsterdam.

But two further changes also stand out. One was the subjection of all imports and exports to customs duties. Local authorities feared that the new tax would be an unsustainable burden on commerce, but trade continued to grow, so that the tariffs could be kept at modest levels. To give in to objections from the trading community the customs revenues were earmarked for the protection of the merchant fleet. A second achievement was the formation of the VOC in 1602. The Dutch East India Company united a number of smaller companies that had sprung up in various towns in Holland and Zeeland since 1595. These early companies had enjoyed limited liability through the century old *partenrederij*. Moreover, they had been extremely lucrative investment projects with net profits exceeding the starting capital of the VOC by at least 50 percent. What was new about the Dutch East India Company, however, was the monopoly it enjoyed and the ten-year term for initial investments (later converted into an indefinite term). In combination, these factors promised high returns, and a business continuity which enabled the company directors to set up a permanent trading organization; they also created a vigorous market for VOC shares. Added to the latter development was the introduction of bills obligatory – a common debt instrument in use in Antwerp since the 1540s – to produce the pledging of VOC shares as collateral for these obligations.²³

To assess the benefits of these institutional changes, Oscar Gelderblom compares the organization of long-distance trade in England and the Dutch Republic. Both countries began to explore new markets within Europe and beyond in the second half of the sixteenth century. At first glance the role of the central government appears to have been rather similar in both cases. Customs duties were a major source of income for the two governments, and the English crown, like the States General, chartered a joint-stock company for the organization of the Asian trade. And yet crucial differences existed. Measured as a percentage of the value of their trade, merchants in London paid much higher import and export duties than their counterparts in Amsterdam, simply because the royal customs were the principal source of public revenue in England. The East India Company also raised capital *per voyage* to Asia. Therefore it lacked the retained earnings necessary to establish a permanent trading organization as the VOC had done. There was no rapid accumulation of capital in London, no company shares to trade, and no collateralization of these shares in obligation loans. Before 1650 interest rates on obligations in London typically stood two to three percent higher than in Amsterdam. In addition to the higher capitalization and profitability of colonial trade in the United Provinces, the Dutch commercial regime had also changed the terms of public finance. While the English crown had to make do with costly advances from syndicates of customs farmers, the provincial receivers of Holland began to negotiate obligations at gradually declining rates on local money markets. In due time the short-term character of these loans – worth approximately

²³ Gelderblom and Jonker, “Completing”.

75 million guilders by 1650 – disappeared and they effectively became part of Holland's consolidated debt.²⁴

In the second half of the seventeenth century, however, the Dutch gradually lost their competitive edge. England reorganized its Asian trade and France set up its own East India Company. At the same time the VOC directors failed to capitalize on the opportunities the secondary market for company stock had created, and preferred to raise capital through issuing debt rather than equity. The company managed to service these loans with the revenues from its annual auctions until the last two decades of the eighteenth century, when wars with England and France prevented VOC ships from returning to the Netherlands. The abundant supply of capital in the Dutch Republic after 1640 also led the water board of Rijnland to rely on loans to raise money for the maintenance of dikes and sluices. The rates of the *morgengeld* were adapted to meet increased financial demands but eventually revenues fell below expenditure and in the second half of the eighteenth century, Rijnland needed provincial subsidies to keep going. A complicating factor was that the benefits of drainage in the Rijnland spilled over into neighboring communities – notably in the province of Utrecht – and the water board failed to reach an agreement on the renewal of outdated terms to share drainage costs.

Similar problems with fragmented authority were at the heart of the decline of the Dutch beer industry. Richard Yntema's reconstruction of the development of brewing between the sixteenth and eighteenth centuries shows how provincial rivalry harmed producers throughout the Dutch Republic. In the sixteenth century, breweries in Haarlem, Delft, and Gouda flourished as a result of exports to the southern provinces. Between 1580 and 1640 beer brewers in the province of Holland compensated for the loss of this Flemish market by expanding their sales into other parts of the Dutch Republic. However, after 1640 this domestic trade broke down. Increasing financial demands from the States General and the wish of the other provinces to stimulate their own brewing industries, led the latter to raise tariffs on imported beer. This reduced to a trickle of exports from Holland to other parts of the Dutch Republic. Under increasing pressure the Dutch towns began levying higher tariffs on each other's beer, which precipitated the collapse of the entire industry in Holland. To meet local demand for beer, small-scale breweries were set up in towns across the United Provinces – effectively reversing the local specialization that had given the Dutch beer industry its competitive edge in the sixteenth and early seventeenth centuries.

The End of the Dutch Republic

At the end of the eighteenth century the Dutch economy was still one of Europe's wealthiest economies. In addition to the extraordinary riches of the urban elites, it had highly developed goods and factor markets, and an estimated domestic product

²⁴ Dormans, *Tekort*.

per capita second only to that of England. Yet the economic dynamism of the Golden Age had long since vanished. The growth in domestic markets had stagnated, the once booming export trade in agricultural produce and colonial products had lost its vigor, and few attempts were made to emulate foreign examples of mechanized manufacturing. Political prospects were even gloomier. In the second half of the eighteenth century, the Dutch Republic still fielded an army of 40,000 troops, and its standing navy numbered over 80 large armed vessels, but this military force no longer sufficed to keep up with the great powers.²⁵ While England and France vied for primacy in European politics and the Atlantic economy, the Dutch Republic had become a passive bystander who could only pursue a policy of neutrality, or enter into strategic alliances with other states to secure the territorial integrity of the United Provinces and its colonial possessions.²⁶

This very dependence on the power struggle between England and France can explain why it took until 1795 before any attempts were made to unify the Dutch Republic politically and to centralize the Republic fiscally. Given the overwhelming military strength of the great powers after 1715, no financial effort on the part of the United Provinces would have sufficed to claim a more dominant position in European politics.²⁷ At the same time it was extremely unlikely that the Dutch Republic would be overrun by either of the two countries, for one would never have let the other get away with such a major disruption of the existing balance of power. Why then did the Dutch Republic come to an end in the closing decade of the eighteenth century?

In the concluding essay of this volume, Thomas Poell demonstrates how the political and fiscal reform that started with Batavian Revolution of 1795 resulted from three developments, each necessary but in and of itself insufficient to create a politically unified and fiscally centralized state. First there was the deep financial crisis caused by the war with England in the early 1780s and by France's military offensive and occupation of the Netherlands in 1794 and 1795. Then there was the democratic ideology first introduced by the *patriotten* in the mid-1780s which altered the Dutch mindset with regard to representative government. The financial problems might have been overcome, had the seven provinces and their constituent parts been able to achieve a voluntary rearrangement of the Union's political and fiscal institutions. However, by 1795 there were too many players involved and their political and economic interests varied too widely to achieve this. Thus, it took excessive financial demands from the French occupier, combined with the political pressure they put on the Dutch authorities, to force the towns and provinces to overhaul the principles agreed upon in the Union of Utrecht two centuries earlier. Even then it took more than a decade of political struggle between constantly changing coalitions of local and provincial rulers with different ideological and

²⁵ Israel, *Dutch Republic*, p. 1095. Fritschy, *Patriotten*, p. 63.

²⁶ Aalbers, *Republiek*, passim.

²⁷ Fritschy, *Patriotten*.

political agendas before a financial union with an amalgamated debt and a national tax system, supervised by state commissioners, was to be created in 1806.

The French occupation did not solve all financial and economic problems.²⁸ In 1813 the Kingdom of the Netherlands found itself saddled with an oversized bureaucracy, an enormous public debt, and an economic structure that produced no incentives for investment in new industrial technologies in the northern provinces. On paper, the unification with the southern Netherlands in 1815 created a stronger state and a more diversified economy but the union only survived for 15 years. Furthermore, the Congress of Vienna had decided to strengthen the role of the Orange stadholders, rather than that of parliament. As a result King William I was able to embark upon an “autocratic experiment” that fostered patronage, and frustrated any attempt by parliament to monitor, let alone influence, the state budget. In retrospect, it was only William’s abdication of the throne in 1840, followed by Van Hall’s financial reorganization during 1844–1845 and the liberal constitution of 1848 which realigned the powers of king and parliament, that made possible a revision of the fiscal system and the introduction of policies more conducive to industrialization and growth.

Looking ahead

The remarkable history of the Dutch Republic does not lend itself to simple generalizations about the bargaining processes that shaped the state and the economy. The differences in political and economic organization between Holland and the other provinces are too great. Holland was the richest province with the most advanced economy and a political system that raised public revenue to unprecedented levels. It was Holland’s economic and political strength that enabled the Dutch Republic to play a dominant role in Europe in the seventeenth century. The contributors to the present volume also draw extensively on the history of this one province. However, their essays also point to a broader interpretation of the political economy of the Dutch Republic.

In the first place the extensive knowledge of Holland’s history allows a detailed reconstruction of institutions designed to solve a number of economic problems that were by no means specific to the Dutch Republic. This wider relevance of Dutch history is most apparent in the essays on the regulation of bread prices, the commercial exploitation of farmland, and the funding strategies applied to new ventures in long-distance trade. These essays explicitly compare the solutions found for these problems in Holland with those in other European countries. The same approach may be observed with regard to other themes addressed in this volume. The detailed reconstructions of institutional change in the funding of water management, the monitoring of the state’s fiscal operations, or the enforcement of

²⁸ The following is based on Van Zanden and Van Riel, *The Strictures of Inheritance: The Dutch Economy in the Nineteenth Century*.

tax compliance in Holland may also be compared with the solution of similar problems in other pre-industrial societies.

In the second place, Holland's history offers a prime example of how political crises can influence institutional development. The Dutch Revolt created a double constraint on the executive: the States General could only act upon agreement of the seven provinces, while decision making in each of the provinces was based on continuous bargaining between the towns and noblemen. But was this substantially different from earlier negotiations between the nobility, the prosperous towns of the coastal provinces, and the Habsburg rulers? Surely the basic tenets of Holland's system of public finance, as well as the legal framework for the exchange goods, land, labor, and capital had been established before Dutch Revolt. Thus, the response of Holland's rulers and entrepreneurs to new economic opportunities or political challenges relied on existing rules and practices. What difference then did the Dutch Revolt make for the state and the economy?

This is where the history of Holland alone cannot provide answers. The history of all 17 provinces that once belonged to the Habsburg Netherlands, however, can, for within this larger area we find regions with very different economic opportunity structures. In the coastal provinces of Flanders, Brabant, Holland, and to a lesser extent also Friesland and Zeeland, commercial farming, trade, and manufacturing flourished from the late Middle Ages onward – historical roots that might explain both Holland's Golden Age, and the resilience of the Antwerp economy after the Revolt. In most of the land provinces a much more traditional economic structure existed – albeit one with notable pockets of early growth, such as the Guelders River Area or the Liège area. The 17 provinces are a “historical laboratory” not only in an economic sense. The unification of the Netherlands begun under Burgundian rule and completed with the recognition of the Netherlands as a separate *Kreitz* within the Holy Roman Empire, created a number of political and legal institutions that applied to the entire Netherlands. Then, in the third quarter of the sixteenth century the Dutch Revolt led to the division of the Habsburg Netherlands. In the North, the Dutch Republic became what has been termed the first modern economy – with highly developed commodity and factor markets. In the South, the virtual cessation of maritime trade forced a reorganization of the economy that in the early seventeenth century compensated for some of the activity lost, yet could not prevent a prolonged crisis that lasted until 1750.

Thus, the Dutch Revolt has provided us with a natural experiment. After the separation of the northern and southern provinces, the Spanish (later Austrian) Netherlands were ruled by deputies of foreign monarchs who relied on a small elite bureaucracy in Brussels to govern the country. They operated within narrow financial margins set by a small number of towns in Flanders and Brabant refusing to hand over control of their purse strings to the central government.²⁹ Meanwhile in the Northern provinces, and in Holland in particular, the reorganization of the

²⁹ Herman Coppens, *De financiën van de Centrale Regering van de Zuidelijke Nederlanden aan het einde van het Spaanse en onder Oostenrijks bewind (Ca. 1680–1788)*,

fiscal system allowed the provincial estates to control tax revenues, and to secure the issue of massive public loans on them. A comparison between the 17 provinces that shared the Burgundian–Habsburg legacy, but then found themselves under different political regimes after the Dutch Revolt, can shed crucial light on the political and economic impact of this political crisis. It can do so all the more as both maritime provinces and inland provinces with similar economic outlooks also found themselves on different sides of the dividing line. Such a comparative analysis is a logical next step in furthering our understanding of the economic and political history of the Netherlands between 1500 and 1800.

vols 54/142, *Verhandelingen van de Koninklijke Academie voor Wetenschappen, Letteren en Schone Kunsten van België. Klasse der Letteren* (Brussel: Paleis der Academiën, 1992).

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