# Chapter 9

# The Organization of Long-Distance Trade in England and the Dutch Republic, 1550–1650[1]

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## Introduction

Early modern states benefited from long-distance trade in a variety of ways. First, commerce was a major source of income, either directly through the levying of monopoly fees or customs, or indirectly through excises on consumer goods or impositions on the income and wealth of merchants.[2] Second, the mercantile community was a principal source of credit for early modern states. Europe's rulers borrowed from their own subjects, but also relied on foreign financiers to which the success of international money markets in Antwerp, Genoa, or Amsterdam clearly attests.[3] Third, merchants were instruments of state policy. Privateers, suppliers of ships, weapons and ammunition, and the great colonial companies were major players in the inter-state rivalries that divided Europe.[4] Finally, foolishly or not, early modern rulers attached great value to the role of trade in supplementing the state's stock of gold and silver.[5]

1 The author is grateful to Bas van Bavel, Maartje van Gelder, Pierre Jeannin†, Sheilagh Ogilvie, and participants in the economic history seminar of the University Carlos III for helpful comments and suggestions.

2 Richard Bonney, 'Revenues', in Richard Bonney (ed.), *Economic Systems and State Finance*, (Oxford, 1995).

3 On Antwerp: Herman Van der Wee, *The Growth of the Antwerp Market and the European Economy (14th–16th Centuries)*, 3 vols (Leuven, 1963), vol. 2, pp. 199–207; 220–22; On Genoa: Jacques Heers, *Gênes au XVe Siècle. Activité Économique et Problèmes Sociaux* (Paris, 1961), pp. 96–154; Fernand Braudel, *Civilisation Matérielle, Économie Et Capitalisme, XVe–XVIIIe Siècles*, 3 vols (Paris, 1979). vol. 3, pp. 130–44; On Amsterdam: J.C. Riley, *International Government Finance and the Amsterdam Capital Market 1740–1815* (Cambridge, 1980), pp. 101–249.

4 M.N. Pearson, 'Merchants and States', in James D. Tracy (ed.), *The Political Economy of Merchant Empires* (Cambridge, 1991), pp. 41–116.

5 Charles H. Wilson, 'Trade, Society and the State', in *Cambridge Economic History of Europe, IV. The Economy of Expanding Europe in the Sixteenth and Seventeenth Century*, ed. E.E. Rich and C.H. Wilson (Cambridge, 1967), pp. 508–10; R.W.K. Hinton,

The benefits of trade, however, did not automatically accrue to the state. In return, merchants expected the government to protect their person and goods against theft and robbery, and to refrain from arbitrary confiscation and imprisonment.[6] Furthermore, for the organization of their commercial and financial transactions merchants needed vending locations, storage facilities, clear rules for payment and delivery, and legal provisions to enforce these rules.[7] Early modern rulers who withstood the temptation to prey on merchants in their territory still had to find the money to pay for the protective measures, commercial infrastructure and administration of justice requested by resident or visiting traders.

According to their political power and financial means, the rulers of pre-industrial Europe organized trade in their territories in a variety of ways. In the late medieval period transactions were often confined to regional or international fairs. For a few weeks or months per year the fairs of Champagne, Flanders, or South-East England provided protection, contract enforcement, and a host of other services to visiting traders. Other rulers tried to limit long-distance traders to one or just a few places, as, for example, in the major ports of the Ottoman, Polish, and Russian empires. In the new monarchies of France, Burgundy, Spain, and England in the fifteenth and sixteenth centuries, the crown favoured specific groups of merchants who, in return for their financial support, obtained patents of monopoly, waivers of taxes and tariffs, and other material benefits.[8]

Few rulers were able to break this longstanding tradition of bargaining with privileged groups of traders. It was only in the commercial heartland of Europe, notably in the Italian city states, the Low Countries, and (after 1650) in England,

'The Mercantile System in the Time of Thomas Mun', *The Economic History Review, New Series* 7/3 (1955). 280–81.

6 One could imagine a situation in which a ruler consistently confiscated the property of merchants. However, unless a merchant community was completely atomized, such a regime would be very short-lived, for these merchants would simply avoid markets where arbitrary confiscation occurred. See Avner Greif, Paul Milgrom, and Barry R. Weingast, 'Coordination, Commitment and Enforcement: The Case of the Merchant Guild', *Journal of Political Economy* 102 (1994). 747–8.

7 Avner Greif, 'The Fundamental Problem of Exchange: A Research Agenda in Historical Institutional Analysis', *European Review of Economic History* 4 (2000). 251–6.

8 Particularly in late-medieval Europe, rulers set temporal limits to the services they provided. For example, they provided protection and contract enforcement only for the duration of periodical fairs Paul R. Milgrom, Douglass C. North, and Barry R. Weingast, 'The Role of Institutions in the Revival of Trade: The Law Merchant, Private Judges and the Champagne Fairs', *Economics and Politics* 2/1 (1990); John H. Munro, 'The "New Institutional Economics" and the Changing Fortunes of Fairs in Medieval and Early Modern Europe: The Textile Trades, Warfare, and Transaction Costs', *Vierteljahrschrift fuer Sozial- und Wirtschaftsgeschichte* 88/1 (2001); For the continuation of fairs in various parts of early modern Europe: Stephan.R. Epstein, 'Regional Fairs, Institutional Innovation and Economic Growth in Late Medieval Europe', *Economic History Review*, 2nd ser. 47 (1994); and Braudel, *Civilisation*, vol. 2, pp. 63–75.

that governments relinquished the financial support of a trusted body of privileged merchants in favour of securing numerous small loans contracted on the market from a much larger pool of lenders.[9] The rulers were able to do this because they levied indirect taxes on consumption. The excise revenues were earmarked for public debt service. At the same time, customs duties were kept low so as not to harm trade. This solution earned the rulers of the Italian city states, the Dutch Republic, and England enough money to create the domestic monopoly of violence and the commercial, financial, and legal infrastructure desired by the merchant community.

Both economists and historians agree that this kind of *inclusive commercial regime* generated the highest payoffs for both merchants and rulers alike, yet we know very little about its actual costs and benefits. Historians typically limit themselves to descriptions of the fortuitous combination of capable entrepreneurs and benevolent rulers, without trying to measure the effects of the political, legal, fiscal, and commercial arrangements that were in place. At the same time, the most sophisticated models used by economists estimating the effects of property rights institutions and contracting institutions on economic performance equate urbanization with commercial success.[10] The robustness of their findings notwithstanding, the actual channels through which institutional design influenced the growth of trade remain hidden in these models.

This chapter compares the organization of foreign trade in England with that of the Dutch Republic between 1550 and 1650 to evaluate the effects that different commercial regimes had on the growth of trade. In this period both countries strengthened their position in long-distance trade both within as well as outside of Europe. In the 1550s English merchants were the first northern Europeans to reach Russia and the Mediterranean by sea. The Dutch followed suit after 1580. Around the same time traders from both countries also successfully broke the hegemony that Portugal and Spain had held in trade with Africa, Asia, and America. Despite the similarity of their endeavours, the organization of trade differed markedly

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[9] Braudel, *Civilisation*, vol. 3, pp. 95–330; Pearson, 'Merchants', pp. 41–116; F. Mauro, 'Merchant Communities, 1350–1750', in James D. Tracy (ed.), *The Rise of Merchant Empires: Long-Distance Trade in the Early Modern World, 1350–1750* (Cambridge: 1990); Pierre Jeannin, *Les Marchands au XVIe Siècle* (Paris, 1957); Daron Acemoglu, Simon Johnson, and James Robinson, 'The Rise of Europe: Atlantic Trade, Institutional Change, and Economic Growth', *The American Economic Review* 95/3 (2005); On public finance in Venice, see Frederic C. Lane and Reinhold C Mueller, *Money and Banking in Medieval and Renaissance Venice* (Baltimore and London, 1985); for Genoa: Heers, *Gênes*; for the Dutch Republic: E.H.M. Dormans, *Het Tekort. Staatsschuld in De Tijd Der Republiek*, *Neha Series III* (Amsterdam, 1991); and for England: P.G.M. Dickson, *The Financial Revolution in England : A Study in the Development of Public Credit, 1688–1756* (London, 1967).

[10] Acemoglu, 'The Rise of Europe'; Brad deLong and Andrei Shleifer, 'Princes or Merchants. European City Growth before the Industrial Revolution', *Journal of Law and Economics* 36 (1983).

between the two countries. In England a string of chartered companies was set up to allow a limited group of London-based merchants, several of whom had very close ties to the English crown, to reap the benefits of this new trade. In the Dutch Republic all foreign markets were open to merchants big and small from various parts of the country. Fierce competition between towns, however, led to only the East India trade being reorganized into one company, the VOC. A similar initiative for the Atlantic trade, the West India company (founded in 1621), was effectively undermined in the 1630s by interlopers from Amsterdam. Although England had been the first to attempt to conquer new markets in the mid-sixteenth century, it was the Dutch Republic, with its much more inclusive commercial regime, that prevailed a century later.

The chapter documents the different ways in which the Dutch and English organized long-distance trade between 1550 and 1650 First we establish the extent to which the chartering of companies in England led to the exclusion of capable entrepreneurs and possibly to under-investment in long-distance trade. We then consider the attempts by the respective governments to extract revenue from long-distance trade. In particular we look at the effect of customs duties on the profitability of trade. Finally we compare the development of capital markets in the two countries and in doing so, seek to answer the following questions: Were merchants in the Low Countries able to borrow at lower rates than their counterparts in England; was this in any way due to differences in institutional arrangements; and did the available financial institutions influence the quest for funds by the Dutch and English government? The paper concludes by examining the attempts of the English to emulate the approach taken by the Dutch in the course of the seventeenth century.

## The organization of trade in England and the Dutch Republic

In the first half of the sixteenth century Antwerp was the principal market of northwestern Europe, where hundreds of foreign merchants gathered to exchange their goods.[11] The English Merchant Adventurers exchanged broadcloths for copper, silver, and metal wares, imported by merchants from Southern Germany. Merchants from Portugal, Italy, and Spain sold spices, textiles, precious stones, and a multitude of manufactured goods from the Mediterranean basin. Tradesmen of the German Hansa marketed grain and naval stores in the Netherlands and returned home with commodities purchased from other foreigners. From the 1530s onwards a growing number of traders from the Low Countries also participated in international exchange. Merchants from Flanders and Brabant specialized in the export of textiles, metal wares, tapestries, and luxury wares. Shipmasters from Holland and Zeeland emerged as their principal transporters, while merchants from



[11] Van der Wee, *Growth*, vol. 2.

Amsterdam and other northern ports supplied Antwerp with increasing quantities of grain, salt, fish, and dairy products.

Antwerp lost its leading role in international trade in the second half of the sixteenth century. Bankruptcies of the Spanish and French crown in the 1550s and the Dutch revolt against the Habsburg rulers after 1568 drove off many of the resident foreign traders. English merchants were the first to leave the Scheldt port, albeit not for purely political reasons. In the turmoil of the mid-sixteenth century they recognized the opportunity to bypass Antwerp and establish direct trading links with the Baltic area, Russia, Germany, and the Mediterranean.[12] The departure of most of the English, German, Italian, and Spanish merchants from Antwerp created new opportunities for entrepreneurs born and raised in the Low Countries. In the 1570s these new merchants extended their trade with Spain and Italy and explored new outlets in Russia and West Africa.

Initially, Amsterdam failed to take advantage of Antwerp's decline; instead the city's support for the Spanish king induced a naval blockade by the Sea Beggars who led the Dutch Revolt. However, as soon as Amsterdam had changed sides in 1578, its merchants re-established their lead in the Baltic trade. The commercial prospects of the nascent Dutch Republic further improved when Spanish troops seized Antwerp in 1585 – a victory that was followed by a complete naval blockade of the Scheldt port and the Flemish coast. The fall of Antwerp marked the beginning of direct trade with Russia, the Mediterranean, Africa, Asia, and America by merchants in Amsterdam, Middelburg, and other Dutch ports.

However similar their exploration of new markets was, the organization of foreign trade in England and the Dutch Republic differed markedly. In England, chartered companies monopolized foreign trade from the 1550s onwards. In most European markets these were *regulated* companies with members who traded for themselves. In addition to the Company of Merchant Adventurers, established in the fifteenth century and fully chartered in 1564, other companies included the Spanish Company (1577), the Eastland Company (1578), the Levant Company (1592), and the French Company (1609).[13] Merchants formed these companies to coordinate the collective action deemed necessary to force foreign rulers to protect them and their goods, waive customs duties, and provide material benefits such as storage facilities.[14] Regulation was also thought to stimulate the opening up of new

[12] George Unwin, 'The Merchant Adventurers' Company in the Reign of Elizabeth', *The Economic History Review* 1/1 (1927). 50, 59; F. J. Fisher, 'Commercial Trends and Policy in Sixteenth-Century England', *The Economic History Review* 10/2 (1940). 101–2, 108–9, 113–14; Lawrence Stone, 'State Control in Sixteenth-Century England', *The Economic History Review* 17/2 (1947). 109, 117.

[13] The merchants of the regulated Venice Company (founded in 1578) became members of the Levant Company when the latter was turned into a regulated company in 1592: A.C. Wood, *A History of the Levant Company* (Oxford, 1935).

[14] W.R. Scott, *The Constitution and Finance of English, Scottish, and Irish Joint-Stock Companies to 1720*, 3 vols, (Cambridge, 1912; reprint, Gloucester, 1968), I, p. 182;

markets. The merchants felt that membership in the companies should be limited, 'otherwise it will not only discourage us and others in like respect hereafter to attempt and go on with like charges and discoveries, but be utterly discouraged to enter into any new charge…'.[15]

The alleged damage competition could do to England's commercial interests was also invoked to justify the establishment of *joint-stock companies* for trade with more distant markets. These included the Russia or Muscovy Company (founded 1553, chartered 1555), the Guinea Company (1561), the Turkey Company (1581), and the East India Company (1600).[16] Besides curtailing competition, the joint-stock format was also chosen to raise sufficient capital for the establishment of fixed trading posts and for the creation of a military apparatus to protect trade against foreign competitors and pirates. A final argument for the joint-stock format, implicit in the discourse of company directors, but expounded by economic historians, was that a hierarchical organization, such as these companies were, would facilitate the supply of information and the monitoring of agents in long-distance trade.[17]

The chartered companies restricted their membership in a variety of ways, including imposing prohibitive entry fees,[18] placing a cap on the number of shareholders,[19] and making apprenticeships with a company merchant compulsory

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Robert Ashton, 'The Parliamentary Agitation for Free Trade in the Opening Years of the Reign of James I', *Past and present: a journal of historical studies* 38, December (1967), 49–50.

[15] Petition of Venice and Levant merchants in 1588 cited in Robert Brenner, 'The Social Basis of English Commercial Expansion, 1550–1650', *The Journal of Economic History* 32/1 (1972), 370; See also: Ashton, 'Parliamentary Agitation', 43.

[16] In addition to these large companies, there were a dozen or so smaller companies set up for trade with North and West Africa, the Canaries, as well as several colonial companies focusing on trade with North America (Ron Harris, *Industrializing English Law. Entrepreneurship and Business Organization, 1720–1844* (Cambridge/New York, 2000), p. 43.

[17] Douglass C. North, *Structure and Change in Economic History*, 1st edn (New York, 1981), pp. 37, 45–58; Niels Steensgaard, 'The Dutch East India Company as an Institutional Innovation', in Maurice Aymard (ed.), *Dutch Captialism and World Capitalism* (London, 1982); K.N. Chaudhuri, *The English East India Company: The Study of an Early Joint-Stock Company 1600–1640* (London, 1965), pp. 16–18; A.M. Carlos and S. Nicholas, 'Theory and History: Seventeenth-Century Joint-Stock Chartered Companies', *The Journal of Economic History*, 56/4 (1996), 916–24.

[18] Scott, *Constitution*, I, p. 125; Fisher, 'Commercial Trends', 113; Ashton, 'Parliamentary Agitation', 51–2; Wood, 'English trade', 407.

[19] Scott, *Constitution*, I, p. 152; P. Ramsey, 'The Tudor State and Economic Problems', in: S. Groenveld and M. Wintle, *State and Trade. Government and the Economy in Britain and the Netherlands since the Middle Ages* (Zutphen 1992), pp. 28–38, at 34; In 1586 the membership of the Russia Company was limited to 12 shareholders (Scott, *Constitution*, II, p. 48). In 1581 the Levant Company had set a maximum of 20 members. After its merger in

for young merchants who wanted to become a member.[20] The merchants in London also opposed the commercial ventures of businessmen in the outports, and the participation of "retailers, innholders, farmers, mariners, and handicraftsmen".[21] Finally, the government acted against foreign merchants. By 1590 Flemish, Italian and Hanseatic merchants had lost all their trade privileges.[22] In 1613 extra customs duties were levied on goods traded by alien merchants.[23] Dutch merchants complained that in addition to the higher customs duties, they were not given the right to trade with each other, to import whale oil or goods from the Levant, and did not have access to London's cloth halls.[24]

The necessity of regulation and exclusive membership to protect the property of merchants, govern their transactions, and reward pioneers for the exploration of new markets, as advocated by English company directors, is contradicted by the organization of foreign exchange in the Dutch Republic. In the fifteenth century the Dutch entry into the Baltic trade, the one time monopoly of the German Hansa, was achieved without recourse to any formal association of merchants.[25] Likewise, in France, Spain, and Portugal both the purchases of salt, wool, and wine and the sales of grain and naval stores were in the hands of private merchants.[26] It is true that the cities of Dordrecht and Middelburg initially enjoyed staple rights in the trade with Germany and France, but in the final quarter of the sixteenth century both outlets were opened to merchants from other parts of the Low Countries.

Nor was the exploration of new markets in Russia, Spain, Italy, and the Ottoman Empire left solely to chartered companies. Dutch trade in these countries

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1588 with various companies trading with Venice, membership was set at 41. In 1592 the company numbered 53 members (Brenner, 'Social basis', 370).

20 Scott, Constitution, I, p. 181; Harris, *Industrializing*, p. 45.

21 Unwin, 'Merchant Adventurers', 39–40, 46, 58–9; R.H. Tawney, *Business and Politics under James I: Lionel Cranfield as Merchant and Minister* (Cambridge, 1958); p. 78; Stone, 'State Control; Brenner, 'Social basis', 379–80.

22 Unwin, 'Merchant Adventurers', 50, 59; Fisher, 'Commercial Trends', 101–2, 108–9, 113–14; Stone, 'State Control', 109, 117.

23 F.C. Dietz, *English Public Finance, 1558–1641*, 2nd edn (London, 1964), pp. 155, 176n, 178, 195, 373.

24 N.W. Posthumus, *De nationale organisatie der lakenkoopers tijdens de Republiek* (Utrecht, 1927), pp. xxiii, 238–45.

25 Aksel E. Christensen, *Dutch Trade to the Baltic About 1600: Studies in the Sound Toll Register and Dutch Shipping Records* (1941); Milja van Tielhof, *De Hollandse graanhandel, 1470–1570. Koren op de Amsterdamse molen* (Den Haag, 1995); Milja van Tielhof, *The 'Mother of All Trades'. The Baltic Grain Trade in Amsterdam from the Late 16th to the Early 19th Century* (Leiden, 2002).

26 J. Nanninga Uitterdijk, *Een Kamper Handelshuis te Lissabon 1772–1594. Handelscorrespondentie, rekeningen en bescheiden* (Zwolle, 1904); J.W. IJzerman, 'Amsterdamsche bevrachtingscontracten 1591–1602. I, De vaart op Spanje en Portugal', *Economisch-historisch Jaarboek* 17 (1931), 163–291. Gelderblom, *Zuid-Nederlandse*, 163–85, 228–38.

was typically organized by private merchants working alone or in association with their kinsmen. To overcome commercial risks, asymmetric information, and capital constraints they opted for commission selling, freight contracts, and shared ownership of ships and merchandise.[27] Admittedly, Amsterdam's Muscovy trade was initially dominated by a limited number of Antwerp immigrants who received permits from the Russian Tsar allowing them to extract monopoly rents. However, attempts to obtain a formal monopoly from the States General to import Russian grain foundered in 1608 and again in 1628.[28] Furthermore, after 1600 a growing number of Russia traders acted as commission agents for Amsterdam merchants who did not have direct access to Archangel and Moscow, thereby effectively opening the Russian market to others.[29]

The Dutch government did contribute to the protection of merchants abroad. To this end the States General appointed consuls and embassies, while the Admiralties – responsible for Dutch naval defence – issued regulations for armament, organized convoys, and occasionally supplied soldiers and arms.[30] In 1625 the coordination of protection in the Mediterranean was delegated to leading Levant traders, who took turns as Directors of the Levant Trade.[31] From 1631 to 1656

27 Jan-Willem Veluwenkamp, 'Merchant colonies in the Dutch Trade System (1550–1750)', in Karel Davids et al. (eds), *Kapitaal, ondernemerschap en beleid. Studies over economie en politiek in Nederland, Europe en Azië van 1500 tot heden* (Amsterdam, 1996), pp. 141–64.; Oscar Gelderblom, 'The Governance of Early Modern Trade: the Case of Hans Thijs (1556–1611)', *Enterprise & Society* 4/4 (2003), 606–39; For Italy; Marie-Christine Engels, *Merchants, Interlopers, Seamen and Corsairs. The 'Flemish' Community in Livorno and Genoa (1615–1635)* (Hilversum, 1997); For Russia Jan-Willem Veluwenkamp, *Archangel. Nederlandse ondernemers in Rusland 1550–1785* (Amsterdam 2000) and Eric H. Wijnroks, *Handel tussen Rusland en de Nederlanden 1560–16540* (Hilversum 2003); For the Ottoman Empire: Mechmet Bulut, *Ottoman–Dutch Economic Relations in the Early Modern Period 1571–1699* (Hilversum 2001).

28 Eric H. Wijnroks, '"Nationale" en religieuze tegenstellingen in de Nederlandse Ruslandhandel, 1600–1630', in: C.M. Lesger and L. Noordegraaf (eds), *Entrepreneurs and Entrepreneurship in Early Modern Times. Merchants and Industrialists within the Orbit of the Duch Staple Market* (Den Haag 1995), pp. 621–32; E.J.J. van der Heijden, *De ontwikkeling van de naamlooze vennootschap in Nederland vóór de codificatie* (Amsterdam 1908), pp. 108–10.

29 Wijnroks, *Handel*, pp. 239–79.

30 The first diplomatic missions of the Dutch Republic to Russia were organized in 1614, 1618 and 1630: Wijnroks, *Handel*, pp. 229–38; The States General appointed their first consul in the Ottoman Empire in 1614, and agreed to the establishment of a *Direction for the Levant Trade* in 1625 (Bulut, *Ottoman–Dutch Economic Relations*); In Seville Dutch traders adhered to a Flemish nation that acted only when confiscation or imprisonment threatened: David Baute and Robert Kuiper (eds), *Cort relaas sedert den jare 1609: de avonturen van een Zeeuws koopman in Spanje tijdens de Tachtigjarige oorlog* (Hilversum 2000).

31 R. Davis, *English Overseas Trade 1500–1700* (London 1973), pp. 126–32.

several cities appointed similar directors to supervise convoying and armament in the Baltic trade.[32] However, unlike the directors of regulated companies in England, these officials were in no position to bar merchants from their markets.[33] On the contrary, in 1630 Amsterdam merchants successfully opposed plans for an Assurantiecompagnie which promised to maintain a fully armed fleet of 60 ships in the Mediterranean, in exchange for a monopoly on trade from the west coast of Africa to the Levant.[34]

Initially the Dutch government did not incorporate the companies exploring markets outside Europe. From 1595 dozens of private companies, based in Amsterdam, Middelburg, and various other cities in Holland, financed voyages to West Africa, America and Asia.[35] Building on the *partenrederijen* that had shaped European shipping since the fifteenth century, these companies raised capital by selling shares to a gradually expanding circle of investors, including local merchants and immigrants from the southern provinces and from Germany. Once one voyage was completed, the company was dissolved and directors began raising money for the next one. The internal organization resembled that of the shipping companies operating in European waters. The shipmasters were responsible for all matters relating to the actual sailing of the vessels, while one or more merchants conducted trade on behalf of the company directors. Occasionally the government provided military protection for these voyages, but in most cases armament and convoying were dealt with by the private companies.

It was only after trading links with Asia, Africa, and America had been firmly established that the Dutch Republic switched to a system of monopolistic charters for colonial companies. In 1602 the States General forced the directors of the first Asia companies to set up the *Verenigde Oost-Indische Compagnie* (VOC) in order to stem the growing competition between the cities and their companies. Within years of its creation, the VOC began to act as a true monopolist, using all political and legal means at its disposal to keep private competitors out of Asian waters. In 1607 similar plans were made for the incorporation of trade with Africa and America. The chartering of the *West-Indische Compagnie* (WIC) was postponed, however, as part of the conditions of the Twelve Years Truce

32 Van Tielhof, *Mother of All Trades*, pp. 232–3.

33 Scott, *Constitution*, II, pp. 123–4; Wilson, 'Trade', p. 502.

34 P.J. Blok, 'Het plan tot oprichting eener compagnie van assurantie', *Bijdragen voor Vaderlandsche Geschiedenis en Oudheidkunde* (1900), 1–41. P.J. Blok, 'Koopmansadviezen aangaande het plan tot oprichting eener compagnie van assurantie (1629–1635)', *Bijdragen en Mededelingen van het Historisch Genootschap*, 21 (1900), 1–160; Van Tielhof, *Mother of All Trades*, pp. 233–242; Jaap R. Bruijn, 'In een veranderend maritiem perspectief. Het onstaan van directies voor de vaart op de Oostzee, Noorwegen en Rusland', *Tijdschrift voor zeegeschiedenis*, vol. 9 (1990), 15–26.

35 W.S. Unger, 'Nieuwe gegevens betreffende het begin der vaart op Guinea', *Economisch-historisch jaarboek* 21 (1940), 194–217; H. den Heijer, *De geschiedenins van de W.I.C.* (Zutphen, 1994).

(1609–1621) with Spain. Not until 1621 was the company granted a monopoly on trade with Africa, North and South America.[36] However, merchants were unwilling to invest in the WIC because of its explicit military purposes. Indeed, so much money was channelled into the naval operations against Spain and Portugal that a regular flow of sugar, dyestuffs, tobacco, and other colonial commodities could only be maintained by allowing private traders back into the trade with America after 1634.[37]

## Investment in long-distance trade

In 1604 the English Parliament reviewed the organization of the country's foreign trade. The advocates of free trade argued that the limited and often overlapping membership of the chartered companies enabled London's business elite to extract monopoly rents.[38] To stimulate investment in foreign trade, entry fees needed to be reduced and markets opened up: 'When trade is free, it is likely that many young men will seek out new places.'[39] The Agitation for Free Trade movement was successful to the extent that trade with Spain and Portugal was opened up to new competitors in 1604. However, chartered companies continued to dominate trade in more distant markets, and small businessmen remained excluded.[40] The different organizational choices made in the United Provinces, and the concomitant rapid growth in Dutch trade suggest that restrictive regulation may have undermined English investments in international trade.

There is ample evidence that Dutch trade expanded beyond that of England between the years 1580 to 1650. Imports of grain, metals, and naval stores from Poland, Lithuania, Russia, and Scandinavia into the Dutch Republic dwarfed

[36] A third Dutch company receiving monopoly rights in the first decades of the seventeenth century was the whaling company *Noordsche Compagnie* in 1614: S. Muller Fz. *Geschiedenis der Noordsche Compagnie* (Utrecht, 1874).

[37] P.J. van Winter, *De Westindische Compagnie ter kamer Stad en Lande* (Nijhoff: 's-Gravenhage 1978), 123–38.

[38] Scott, *Constitution*, I, pp. 107–10, 120–27; II, p. 50; Tawney, *Business*, pp. 78–81; J. Boulton, 'London 1540–1700', in: Peter Clark (ed.), *The Cambridge Urban History of Britain. Vol. II 1540–1840* (Cambridge, 2000), 322; Brenner, 'Social basis', 365–8; R. Ashton, *The City and the Court: 1603–1643* (Cambridge, 1979), pp. 25–6; Ashton, 'Parliamentary Agitation'; M.J. Braddick, *The Nerves of State: Taxation and the Financing of the English State, 1558–1714* (Manchester, 1996), pp. 206–8.

[39] *Commons Journal* I, 219, cited in: Unwin, 'Merchant Adventurers', 37.

[40] In 1622 the Standing Committee on Trade in the English Parliament asserted that commercial regulations allowed 'two third parts of all the commodities of the kingdom [to be] borne and managed by fifty hands only.' S.P.D. Jas. I, 133/35; Cited in: Tawney, *Business*, p. 78; Compare F.J. Fisher, 'London's Export Trade in the Early Seventeenth Century', *The Economic History Review*, vol. 3 (1950) 151–61, 159, and Ashton, 'Parliamentary Agitation', 43.

those of England (Table 9.1). The same was true for the export of foodstuffs and manufactured goods to the Baltic. For example, the Dutch share in cloth sales in the Baltic rose from less than five per cent to 50 per cent between 1580 and 1640, while English exports decreased from 90 per cent to slightly over 40 per cent.[41] Even more impressive was the lead held by the Dutch in the imports of spices, sugar, dyestuffs and other products from Asia, South America and West Africa, which may have been as much as ten times the value of English imports of these goods. The only market in which the Dutch seem to have lagged behind the English was the Mediterranean. However, even though English overseas imports of currants, silk, and cotton exceeded shipments from Dutch merchants, the latter were also engaged in extensive continental trade with Italy, which may have put the Dutch in an overall stronger position.[42]

Table 9.1 Estimated overseas imports in England (1621) and the Dutch Republic (1636), in guilders

| Area | England | Dutch Republic |
|---|---|---|
| Northern Europe | 9,840,000 | 27,400,000 |
| Southern Europe (a) | 4,930,000 | 3,000,000 |
| Rest of the world | 1,010,000 | 18,000,000 |
| *Total imports* | *15,780,000* | *48,400,000* |

*Sources*: (a) including the Ottoman Empire. Davis, English Overseas Trade, 55; Jonker and Sluyterman, At home, 62.

It is not immediately clear that English foreign trade fell behind that of the Dutch as a result of the exclusion of foreigners, small businessmen, and merchants from the outports. At first glance, this may in fact seem unlikely, as an exhaustive

41 Jonathan Israel, *Dutch Primacy in World Trade* (Oxford, 1989), Table 5.8; Israel estimated that English exports to the Netherlands in 1618 consisted of 360,000 pieces of cloth, worth 22 million guilders (Israel, *Dutch Primacy*, Table 5.21). This is likely to be an overestimate. Not only has Scott suggested a much lower price for English cloth (£10 in 1613 compared to 200 guilders estimated by Israel), he has also estimated total exports for a good year such as 1613, at £2 million, while for a bad year such as 1620, they would be at least 25 per cent lower (Scott, *Constitution*, I, 142n, p. 169). Note also that F.J. Fisher estimated the total number of (notional) shortcloth exported from London at 144,000 pieces in 1614 and only 95,000 pieces in 1620 (Fisher, 'London's export trade'). It turns out that Israel has based his figures for 1618 on a pamphlet published in 1672! (see H.C. Diferee, *Ons glanstijdperk. Bladzijden uit onze geschiedenis als handelsnatie tijdens de zeventiende eeuw* (Amsterdam 1910) pp. 94–5).

42 Cf. on Dutch-Anglo rivalry in the Mediterranean: Jonathan I. Israel, 'The Phases of the Dutch "Straatvaart" (1590–1713). A chapter in the Economic History of the Mediterranean', *Tijdschrift voor Geschiedenis* 99 (1986), 1–30; and Bulut, *Ottoman–Dutch Economic Relations.*

survey of the investors in the country's major companies between 1550 and 1630 suggests that at least 3,500 merchants were involved in foreign trade in London.[43] Furthermore, the outports were not entirely excluded either. For example, 25 per cent of English broadcloth was exported from cities outside London.[44] However, data collected on Amsterdam's merchant community suggests that an even larger pool of potential investors in long distance trade existed here compared to that which existed in England. Between 1580 and 1630 – a period of only 50 years – no less than 5,000 merchants were active in wholesale trade. Among them were merchants born and raised in Amsterdam as well as newcomers from other towns in Holland, Friesland, Zeeland, the Spanish Netherlands, Portugal, Germany, and even England.[45] Furthermore, other cities in Holland and Zeeland controlled up to 40 per cent of Dutch imports and exports – a far larger share than that commanded by the English outports.[46] As a result, the number of active merchants in the Dutch Republic may have been double that of England in the period under investigation.

A greater number of merchants, however, does not necessarily mean that investments in the Dutch Republic outpaced those in England. In fact, the growth

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43 Th. Rabb has identified a total number of 3,900 merchants and merchant-knights who invested in England's chartered companies between 1550 and 1630. Unfortunately Rabb did not specify for which part of this group investment was limited to privateering, mining, and other non-commercial ventures. Since the companies numbered some 900 non-merchants among their shareholders (who may or may not have invested in foreign trade), it seems appropriate to estimate the number of foreign traders at 3,500. Th. K Rabb. *Enterprise and Empire: Merchant and Gentry Investment in the Expansion of England, 1575–1630* (Cambridge,1967).

44 The English outports handled no more than 20 to 25 per cent of English foreign trade (Fisher, 'London's export trade'; B. Supple, *Commercial Crisis and Change in England, 1600–1642. A study in the instability of a mercantile economy* (Cambridge 1959).

45 Oscar Gelderblom, 'From Antwerp to Amsterdam: The Contribution of Merchants from the Southern Netherlands to the Rise of the Amsterdam Market', *Review. A Journal of the Fernand Braudel Center*, 2003–3.

46 Amsterdam's share in total customs revenues never exceeded 60 per cent. (see http://www.le.ac.uk/hi/bon/ESFDB/hart/, for data collected by Dr Marjolein 't Hart, and used in the preparation of her chapter on 'The United Provinces, 1579–1806' in: Richard Bonney (ed.), *The rise of the fiscal state in Europe, c. 1200–1815* (Oxford, 1999), pp. 309–26); The share of the Amsterdam chamber in the total capital of the Dutch East India Company stood at 56 per cent, although some additional investments made by Amsterdam merchants in other chambers should be added to this: J.G. van Dillen, *Het oudste aandeelhoudersregister van de Kamer Amsterdam der Oost-Indische Compagnie* ('s-Gravenhage 1958); W.S. Unger, 'Het inschrijvingsregister van de Kamer Zeeland der Verenigde Oost-Indische Compagnie', *Economisch-historisch jaarboek* 24, (1950), 1–33; R. Th. W. Willemsen, 'Beleggers in een nieuwe compagnie. Het aandeelhoudersregister van de Kamer Enkhuizen der VOC, in Roelof van Gelder and Jan Parmentier en Vibeke Roeper, *Souffrir pour parvenir. De wereled van Jan Huygen van Linschoten* (Haarlem, 1998).

of early modern trade is often associated with magnates like the Fuggers of Augsburg, the Hooftmans of Antwerp, or the Trips of Amsterdam.[47] Since there is no evidence to suggest that such extremely wealthy merchants were more numerous in the Dutch Republic than in England, commercial investments in both countries may have been on a par with one another. Yet, the size of merchant communities does become an issue when institutions exist that also allow merchants with limited financial resources to participate in foreign trade, and this is precisely what set the Dutch Republic apart from England. The United Provinces boasted a number of financial institutions, including the *partenrederij*, freight contracts, bottomry loans, IOUs, and maritime insurance, which improved risk management, and hence enabled even the smallest of merchants to invest in trade. Commercial institutions like price currents, bourses, and specialized brokers quickly spread beyond Amsterdam and in doing so, lowered information costs for traders in several other ports, including Middelburg and Rotterdam.

The absence of similar institutions in England, however, does not automatically imply that the country's foreign trade suffered from capital *shortage*. Before 1580 chartered companies were able to mobilize sufficient funds through contributions by their shareholders, as well as the support of Queen Elizabeth, who lent ships to the Russia and Africa companies, and money to the Levant Company.[48] However, after 1580 funding became increasingly problematic. In 1586 the Russia Company was liquidated and re-established to attract new investors.[49] In 1592 the Levant Company merged with the Venice Company and increased its membership to boost investments. Several attempts to set up regular trade with Africa around 1600 failed for lack of capital to establish fortified trading posts.[50] By 1620 the Russia Company had become virtually bankrupt as a result of both massive fraud by factors and directors, and Dutch attacks on warehouses in Archangel.[51] The company was then liquidated and its privileges transferred to two new companies – one for whaling and one for trade with Russia.[52]

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47 R. Ehrenberg, *Das Zeitalter der Fugger. Geldkapital und Creditverkehr im 16. Jahrhundert*, 3rd edition (Jena, 1922); Jeannin, *Marchands*; Peter W. Klein, *De Trippen in de 17e eeuw; een studie over het ondernemersgedrag op de Hollandse stapelmarkt* (Assen, 1965).

48 Scott, *Constitution*, I, pp. 31, 70, 82; II, pp. 5–7, 10–11; Between 1550 and 1650 the English organized at least 50 voyages to Guinea: P.E.H. Hair, 'The experience of the sixteenth-century English voyages to Guinea', *The mariner's mirror: the Journal of the Society for Nautical Research* 83 (1997), 3–13.

49 Scott, *Constitution*, I, p. 34; Harris, *Industrializing*, p. 44; who refers to T.S. Willan, *The Early History of the Russia Company 1553–1603* (Manchester 1956), pp. 41–7, 211–16.

50 Scott, *Constitution*, I, p. 130; II, pp. 10–15.

51 Scott, *Constitution*, I, pp. 46–7; II, pp. 53–5.

52 Scott, *Constitution*, I, pp. 179–80.

Funding problems were most acute in England's trade with Asia. Military protection and the build-up of trading posts required large-scale investments, but English merchants refused to pledge their capital for more than one voyage at a time. Many waited for dividends to be paid before making any new investments, while others shunned colonial trade altogether in favour of more secure operations in Europe.[53] Structural solutions for these financial problems were difficult to find. Intra-company borrowing was insufficient since other companies also suffered from capital shortage.[54] Government support was not an option as the crown itself was also desperately seeking new sources of funding . Even the claim of London's business elite that the establishment of joint-stock companies expanded the circle of investors in foreign trade proved misleading.[55] The available evidence suggests that aristocrats and other outsiders made up no more than ten per cent of the membership of companies trading with Russia, the Baltic, Spain, Portugal, the Levant, and East India.[56]

The net effect of these problems was a long series of investments in separate voyages. It took approximately 30 years and 20-odd such initiatives before a permanent joint-stock company was created. The narrow margins that the East India Company and its predecessors operated within are depicted in Figure 9.1. The reported balance of cumulative investments in the East India trade shows that it took nearly 15 years for the Asian trade to be financed entirely from retained earnings. At the same time the total capital pledged in excess of dividend payments never exceeded one million guilders during this period.

The financial difficulties experienced by the East India Company are clearly visible when compared to the funding of the VOC. While English merchants invested only four million guilders between 1601 and 1611, the Dutch spent an estimated 12 million guilders in their first decade on trade with Asia.[57] Furthermore, Dutch investors sustained a much larger negative cash flow—as much as 2.5 million guilders—in the early years of expansion. The exceptional reward for this spate of investments in the VOC and its predecessors was a positive balance of cumulative investments and returns of no less than 17.5 million guilders in 1611, and this occurred at a time when English voyages merely broke even. By 1630 the capital accumulated by Dutch investors in the Asian trade – 25 million guilders – was five times the amount of their English counterparts.

53 Scott, *Constitution*, I, p. 129; Chaudhuri, *English East India Company*, pp. 10–11.

54 Scott, *Constitution*, II, pp. 55–6.

55 Scott, *Constitution*, I, pp. 442–3; Chaudhuri, *English East India Company*, pp. 35–6, 58–60.

56 Rabb, *Enterprise*.

57 Scott, *Constitution*, I, pp. 193–7; Chaudhuri, *English East India Company*, pp. 57, 66, 209–20; For VOC: 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*, 64/3, September 2004, 641–72.

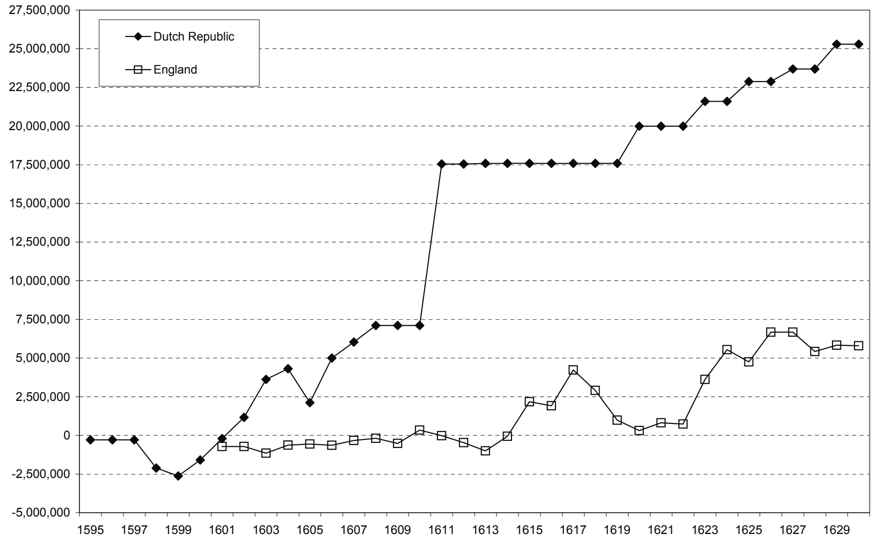


Figure 9.1 The balance of cumulative investments and returns in Dutch and English East India trade (1595–1630), in guilders. Cash flow calculated as the difference between cumulative investments and cumulative returns

*Source*s: The annual cash flow is calculated as the difference between cumulative investments and cumulative returns. The English series is based on the reconstruction of capital investments and dividend payments by Scott, Constitution, 89–128 and Chaudhuri, English East India Company, 207–23. Since we do not have information on annual dividend payments in the 1st, 2nd, 3rd, 5th, 6th, 11th and 12th Voyages, the annual distribution of dividends for these voyages (which are provided by Scott and Chaudhuri) is calculated on the basis of the annual distribution of dividend payments in the 7th–10th Voyages and the First Joint-Stock Company. These are, after three years: 17.5 per cent; after four years: 37.5 per cent; after five years: 5.0 per cent; after six years: 15.0 per cent; after seven years: 10.0 per cent; and after eight years: 15.0 per cent. Calculations of Dutch investments are from Gelderblom and Jonker, 'Completing' for the Amsterdam chamber. Adjustments for investments and returns of early companies in other Dutch cities are made on the basis of the shipping figures provided by Jaap R. Bruijn, Femme S. Gaastra, and I. Schöffer (eds), Dutch-Asiatic Shipping in the 17th and 18th Centuries, vol. II. Outward-Bound Voyages from the Netherlands to Asia and the Cape (1595–1794) (The Hague, 1979), pp. 3–17: These are: Extra investments and returns for 1598 (+ 65.2 per cent), 1601 (+ 45 per cent) and 1602 (+56.7 per cent), and extra investment for 1602 (VOC): +42,8 per cent.

The auspicious commencement of Dutch colonial trade did not result from wealthier investors. Rather, simultaneous initiatives in different towns had the effect of broadening the circle of investors to include businessmen outside the principal port of Amsterdam. In addition, competition between companies within the same cities stimulated directors to look for funds beyond their relatively closed circles of family and friends. In 1602 the VOC to some extent internalized this competition, by dividing its operations among six different 'chambers'. As a result, the Dutch company numbered roughly 1,900 shareholders, against 1,300 investors in 16 separate voyages and three joint-stocks of the English East India Company between 1601 and 1632.[58] Moreover, up to 30 per cent of the capital stock of the VOC was provided by non-merchants.[59]

However, the success of the Dutch East India trade did not come about only because it had a larger number of shareholders. Equally important were the huge profits made by the first companies sailing to Asia. Between 1598 and 1608 the ventures of Amsterdam's companies alone yielded an annual average return of 27.4 per cent.[60] The net return amounted to nine million guilders in 1608, or two-and-a-half times the capital subscribed to the Amsterdam chamber of the VOC in 1602. It did, however, take a long time for the early ventures to be liquidated and for their returns to be available for re-investment in subsequent voyages, hence the negative cash flow of up to 2.5 million guilders sustained by investors between 1600 and 1602 (Figure 9.1).

The ability and willingness of Dutch investors to invest profits from previous voyages even before the ships had returned to the United Provinces was enhanced by the emergence of a money market in Amsterdam after 1595. In order to share in the prospective profits of the East India trade, investors raised money by selling IOUs to various fellow merchants and widows who preferred a safe eight per cent return on these loans to the high risk investments in the Asiatic trade. A further means of easing the liquidity constraints of individual investors was the decision by the VOC to allow shareholders to pay for their shares in four annual instalments between 1603 and 1607 – enough time for earlier dividends to provide them with the requisite capital.

The company charter additionally provided for the transferability of its shares, allowing those who were unable or unwilling to pay up their shares to sell their stock. The unintended consequence of this provision was the emergence of a

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58 Rabb, *Enterprise*, 104.

59 The estimate of the total number of VOC shareholders is based on subscriptions to the shareholders' registers of Amsterdam (1,143), Zeeland (264) and Enkhuizen (358). Since these 1,756 shareholders subscribed 85 per cent of the total capital, the total number of shareholders may have been as high as 2,000. Allowing for double entries in different chambers, a total of 1,900 shareholders seems plausible. The Figures for the VOC are calculated from: Van Dillen, *Aandeelhoudersregister*; Unger, 'Inschrijvingsregister'; Willemsen, 'Beleggers'.

60 Gelderblom, 'From Antwerp to Amsterdam', 268.

secondary market for VOC shares within months of the company's establishment. High liquidity then turned these shares into a very convenient collateral for short-term loans (IOUs).[61] Both this new financial technique and the several millions guilders in surplus capital gained from earlier voyages increased the supply of loanable funds on the Amsterdam money market. Consequently the interest merchants paid on their IOUs dropped from eight per cent in the late 1590s to seven per cent in 1610, 5.5 per cent in 1620, and four per cent in 1650.

The contrast with England was stark. Although the English East India Company occasionally auctioned off its shares to ascertain their market value, regular stock trading did not develop in England until after 1650.[62] Since loanable funds were scarce, interest rates in London were higher than in Amsterdam. Even the most reputable merchants could not borrow below ten per cent in 1610, eight per cent in 1620, and six per cent from the 1650s onwards.[63] Interest rates in the outports must have been even higher.[64] Meanwhile these differential rates on private IOUs also applied to loans contracted by both the Dutch and the English East India

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61 The argument is based on: Gelderblom and Jonker, 'Completing'.

62 Scott, *Constitution*, II, pp. 284–5, 326–52; Dickson, *Financial revolution*, 486–9; Larry Neal, *The Rise of Financial Capitalism, International Capital Markets in the Age of Reason* (Cambridge, 1990), pp. 14–16.

63 Greg Clark has convincingly shown that returns on private annuities (rent charges) ranged between four per cent and eight per cent in England between 1550 and 1650. Unfortunately, Clark does not provide interest rates on what he terms 'mortgages and bonds' – the latter credit instrument being similar to the IOUs sold on the Amsterdam money market. Greg Clark, 'The Political Foundations of Modern Economic Growth: England, 1540–1800', *Journal of Interdisciplinary History*, 26/4 (1996), 563–88.

The official maximum interest rate was set at ten per cent in 1571, eight per cent in 1624, and six per cent in 1651 (H. Roseveare, *The Financial Revolution 1660–1760* (London, 1991), pp. 9, 11). Various references suggest interest rates for private borrowing by individual merchants and chartered companies in London at 12 per cent around 1560 (Scott, *Constitution*, I, p. 37), at ten per cent in 1610 (F.J. Fisher (ed.), *Calendar of the manuscripts of the Right Honourable Lord Sackville of Knole Sevenoaks, Kent, vol. II. Letters relating to Lionel Cranfield's business overseas, 1597–1612* (London, 1966), pp. 346–50; Tawney, *Business*, 102n, p. 110); nine per cent around 1615 (Scott, *Constitution*, I, p. 141); eight per cent (for the Russia Company) and ten per cent (for the crown and the EIC) in 1618 (Scott, *Constitution*, I, p. 146). In 1664 loans were made by the London merchant Charles Marescoe at six per cent (H. Roseveare (ed.), *Markets and merchants of the late seventeenth century. The Marescoe–David letters 1668–1680* (Oxford, 1987), p. 17.

64 Merchants in the outports realized that information and credit were easier to obtain in London, witness the following remark by Lord Chief Justice Popham in September 1605: '…the young merchants of those parts [West England] begin with very small stocks, and cannot deal here upon credit as young merchants may do in London…'; The passage is cited in: Ashton, 'Parliamentary Agitation', 46.

companies, thus putting the former in a much more favourable position when temporary cash shortages had to be bridged.[65]

## Taxing trade

Although the chartered companies failed to maximize investment in England's foreign trade, they may have been very efficient from the point of view of state finance. Both England and the Dutch Republic were heavily involved in European politics throughout the period under investigation. The Dutch state needed money to finance the ongoing war with Spain. The English crown supported the Dutch in their struggle against Spain, and waged their own war against France. Taxing foreign trade and borrowing from merchants were time-honoured practices used to finance such military operations.[66] But the use of such expedients differed markedly between England and the Dutch Republic in the period under investigation.

The simplest way for a ruler to exact revenue from trade was to ask merchants for financial compensation for charters granted to them. Thus, the Levant Company lent, and eventually donated 50,000 guilders to the crown for its charter in 1581.[67] In 1600 the company agreed to pay an annual fee of 40,000 guilders for the renewal of its charter.[68] In 1635 the Merchant Adventurers agreed to pay 60,000 guilders to prevent any further infringements on their privileges. The money was paid by the city of Rotterdam, their new host in the Low Countries.[69] However, not all the money paid to secure charters ended up in the treasury. The Merchant Adventurers paid bribes of up to 700,000 guilders in 1617 to ensure that the Crown abandoned Alderman Cockayne's project, and re-established the company's monopoly.[70] Various courtiers are estimated to have received at least 400,000 guilders from the renewal of the charter of the Staplers Company in 1621.[71]

In the Dutch Republic payments for the extension of charters were a different matter altogether. The VOC reserved only 25,000 guilders in shares for Prince

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65 The interest paid on VOC bonds in the first decade of the seventeenth century was comparable to that of private IOUs:eight per cent in 1602, seven per cent from 1604 onwards, and 6.5 per cent in 1608 (Dutch National Archives, 1.04.02 Inv. Nr. 7142); In the late 1630s the EIC was able to borrow at the market rate of eight per cent ( Scott, *Constitution*, I, p. 199).

66 Charles Tilly, *Coercion, capital, and European states, AD 990–1990* (Cambridge, 1990); See also various contributions to: Bonney, *Economic Systems*; and Bonney, *The rise*.

67 Brenner, 'Social basis', 369.

68 R. Ashton, *The Crown and the Money Market: 1603–1640* (Oxford, 1960), p. 91.

69 David Ormrod, *The Rise of Commercial Empires. England and the Netherlands in the Age of Mercantilism, 1650–1770* (Cambridge 2003), p. 36.

70 Scott, *Constitution*, I, pp. 145, 169.

71 Scott, *Constitution*, I, p. 149.

Maurice in 1602 in return for granting their charter. Furthermore, between 1609 and 1617 the government made a net contribution of 1.7 million guilders to the armament of VOC ships.[72] The *Noordse Compagnie*, established in 1614 to co-ordinate the protection of Dutch whaling in the Northern Sea, was not charged at all for its charter, nor was the *Nieuwe Nederlandsche Compagnie*, the short-lived (1614–1617) predecessor of the West-India Company.[73] When the latter company was founded in 1621, the state held a much larger share of the initial capital, but this was not considered compensation for chartering the WIC. Rather, it was a necessary supplement to the otherwise meagre investments made by Dutch merchants. Even after successful calls for people to invest in the 1630s, the state continued to finance the company's costly military operations.[74]

Another means of extracting revenue from trade was through the sales of import and export licences. From the 1590s onwards the Dutch Republic required merchants exporting weapons and ammunition to purchase a passport,[75] though the Dutch government used this instrument to regulate trade rather than to appropriate the profits made by arms dealers. The passports sold between 1620 and 1648 yielded only 50,000 guilders on average.[76] In England, similar regulation damaged commercial interests because the crown granted import and export licences to courtiers who had no intention of using them. The ensuing trade in licences reduced the profits of merchants who eventually did use them.[77] For example, the prominent merchant Lionel Cranfield made 28.5 per cent profit on the buying and reselling of (a share in) an export licence for 17,500 pieces of unfinished cloth initially owned by two courtiers of James I.[78]

Although company charters and export licences brought in considerable sums of money for the English crown, these were far too small and erratic to fund

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[72] Michiel A.G. de Jong, '"Staet van Oorlog". Wapenbedrijf en militaire hervormingen in de Republiek der Verenigde Nederlanden (1585–1621)', *Unpublished PhD thesis Leiden University* (2002), 82.

[73] In 1642 the States General refused to renew the charter of the *Noordse Compagnie*: Muller, *Geschiedenis*, 87–91, 95–102.

[74] Den Heijer, *De Geschiedenis*.

[75] Michiel A.G. de Jong, 'Dutch public finance during the Eighty Years War: The case of the province of Zeeland, 1585–1621', in M. van der Hoeven (ed.), *Exercise of Arms. Warfare in the Netherlands (1568–1648)* (Leiden 1998), pp. 133–52.

[76] Marjolein C. 't Hart, *The making of a bourgeois state* (Manchester, 1993), p. 94; Between 1586 and 1621 a total of 484 passports were sold by the Dutch admiralties: Resoluties Admiraliteit 1586–161, Inv. Nr. 1334–1366 (personal communication by Michiel de Jong).

[77] In actual fact, most patents of monopoly Charles I granted to his courtiers did not harm foreign trade for they involved domestic trade and industry (Scott, *Constitution*, I, pp. 108–18, 219–25; Ashton, *City*, pp. 17–20, 30).

[78] Tawney, *Business*, p. 89, also pp. 81, 85; See also the sales of a licence for cloth exports by a lender to the crown (Ashton, *City*, p. 19).

public expenditure.[79] To create a more regular stream of income from trade, rulers could try to tax the personal wealth and income of merchants. In England three parliamentary taxes served this purpose: the fifteenth, the tenth, and the subsidy. However, since the first two taxes were based on fixed quota pre-dating commercial expansion, they did not allow the crown to appropriate much of the profits made by merchants after 1550.[80] Moreover, the preferential treatment of London's business elite backfired on the Crown. Abatements granted by the collectors of the *subsidy*, an assessed tax first levied under Elizabeth, allowed London merchants to escape the taxation of their increased wealth.[81] Indeed, the yield of the subsidy tax fell by 50 per cent between 1558 and 1590 and again by 70 per cent between 1590 and 1630.[82] In Holland, where most foreign traders simply lacked the political connections to obtain tax reductions, impositions on their personal wealth were far more successful. Between 1600 and 1620 incidental levies on burghers' wealth yielded 7.2 million guilders. With the introduction of a more regular system of impositions in 1620, revenue rose to a total of 12.3 million guilders between 1620 and 1640.[83] The contribution of merchants to these taxes was considerable. For example, in Amsterdam in 1631, the local merchant community contributed 56 per cent to a tax on movable and immovable goods.[84] This should not be taken to imply that Dutch merchants suffered from an excessive tax burden. For example, less than three per cent of the estimated 25 million guilders earned during the

79 Yet another means to extract resources from foreign trade was direct participation in the chartered companies. The first English voyages to Russia, Africa, and the Levant yielded only moderate profits for Elizabeth but her share of 2.6 million guilders in the Spanish silver captured by Francis Drake in 1580 at once solved all her financial problems (Scott, *Constitution*, I, pp. 81–2, 98–101) Whether this participation set England apart from the United Provinces is questionable, however. Both the Dutch admiralties and the colonial companies were actively – and successfully – involved in the marauding of Spanish and Portuguese ships: Victor Enthoven, *Zeeland en de opkomst van de Republiek. Handel en strijd in de Scheldedelta, c. 1550–1621* (1996); Den Heijer, *De Geschiedenis*.

80 Scott, *Constitution*, I, pp. 93–5.

81 Compare also the failed attempt by Lionel Cranfield to impose a tax comprised of one year's income for all those who benefited from grants, offices, pensions, and other gifts from the crown: Tawney, *Business*, pp. 146, 202–3.

82 Braddick, *Nerves*, 91–8, 165.

83 Fritschy, 'Financial Revolution', 83–5.

84 The *Tweehonderdsten penning* of 1631 yielded 316,545 guilders in Amsterdam – 177,291 guilders of which was paid by merchants. Oscar Gelderblom, *Zuid-Nederlandse kooplieden en de opkomst van de Amsterdamse stapelmarkt 1578–1630* (Hilversum 2000), 227; The register of a forced loan in Leiden in 1600 also suggests considerable resources were tapped from the merchant community: R.C.J. van Maanen, 'De vermogensopbouw van de Leidse bevolking in het laatste kwart van de zestiende eeuw', *Bijdragen en Mededelingen tot de Geschiedenis der Nederlanden*, 93 (1978), 1–42, 22–5.

first three decades of Dutch East India trade was taxed away through various impositions on wealth.[85]

The failure to tax the wealth of the mercantile community, left the English crown with but one option to extract revenue from trade: the levying of import and export duties.[86] This could be done without parliamentary approval for customs belonged to the Royal Prerogative. With the exception of a few years of direct administration in the 1590s, the crown farmed out these customs to syndicates of London merchants.[87] In exchange for an annual rent these farmers, often leading members of the chartered companies, collected the general customs (the Great Farm) and additional duties on silk, wine, currants, tobacco, and a few smaller levies (the Petty Farm).[88] From the Crown's point of view, this was an extremely successful expedient. Between 1580 and 1640 customs revenues more than tripled from 0.75 million guilders to 2.5 million guilders (Figure 9.2), while their average share in public revenue rose from 15 to 30 per cent.[89] At least a quarter of the rising revenues can be attributed to various new impositions on French and sweet wines (1558, 1573), currants (*c.*1594), silk (1605) and tobacco (1605).[90] A revision of customs rates in 1604 added another 13 per cent to total revenues.[91] Further attempts to revise the rate structure failed, however the crown was able to boost revenues by playing off syndicates competing for the customs farms against one another.[92]

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85 Fritschy and Liesker have calculated that eight consecutive wealth taxes between 1621 and 1631 amounted to a total levy of 2.8 per cent on the capital owned by burghers in Holland (Wantje Fritschy and René Liesker (eds), *Gewestelijke financiën ten tijde van de Republiek der Verenigde Nederlanden. Deel IV Holland (1572–1795)* (The Hague, 2004).

86 Hinton, 'Mercantile System', 278; One could also argue that the levying of customs duties was relatively easy because most trade was in the hands of well-organized companies. This would make large scale tax evasion difficult (P. Ramsey, 'The Tudor State and Economic Problems', pp. 28–38, at 31). However, it should be noted that collusion of tax farmers and company merchants could also lead to tax evasion (see below).

87 Dietz, *English Public Finance*, pp. 305–27.

88 Ashton, *City*, pp. 20–23; Ashton, *Crown*; Tawney, *Business*, 96n; Not included here is the farm for the collection of duties on the domestic reselling of wines at £3,000 in 1604 (Tawney, *Business*, pp. 118–19).

89 These shares are based on the customs revenues presented in Figure 2, and the total revenue as provided by P. O'Brien and P.A. Hunt (http://www.le.ac.uk/hi/bon/ESFDB/obrien/ for their article 'English revenues, 1485–1815', in Richard Bonney (ed.), *The rise.*

90 In the 1630s the Petty Farm of Customs yielded £60,000 pounds as against £150,000 for the Great Farm: Scott, *Constitution*, I, pp. 180–81; Dietz, *English Public Finance*, pp. 345–50; Ashton, *Crown*, pp. 88, 95, 97.

91 Braddick, *Nerves*, 54.

92 The additional tax on the imports and exports of alien merchants which Cranfield succeeded in securing only yielded an extra £2,000 per year: Tawney, *Business*, pp. 130–36, 213.

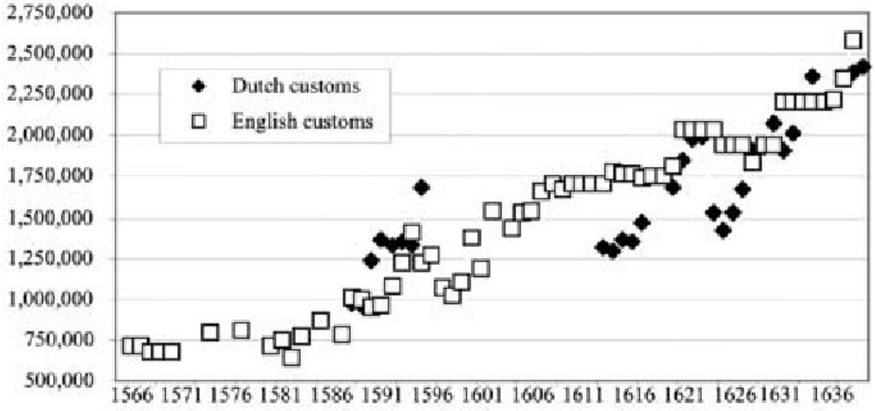


Figure 9.2 Customs revenues in England and the Dutch Republic (1566–1640)

*Source*s: For English customs: Scott, *Constitution*, III, 514, 516–19; Dietz, *Public Finance*, 15, 44, 74–5, 88, 90–91, 119, 154n, 177, 314–16, 328–30, 345–57; Tawney, *Business*, 93n; Ashton*, Crown*, 88, 95, 97; Data on Dutch customs collected by M. 't Hart (http://www.le.ac.uk/hi/bon/ESFDB/) and used in the preparation of the chapter on 'The United Provinces, 1579–1806' in R. J. Bonney (ed.), *The Rise of the Fiscal State in Europe, c. 1200–1815* (Oxford, 1999), pp. 309–26; Note that data for all five admiralties is only available for the years 1621–1631 and 1633–1634. To enhance comparability between the English and the Dutch series, extrapolations have been made for consecutive years in which data from at least three admiralties is available (1614–1618; 1632; 1635; 1639–1640), on the basis of the average relative weight of the 'missing' admiralties in the 'complete' years. For the 1590s customs revenues are available for the three principal admiralties (Amsterdam, Middelburg, and Rotterdam). Since these three admiralties consistently supplied 90 per cent of customs revenues in the 1620s and 1630s, an extra ten per cent was added to their revenues in the 1590s. (Frits Snapper, *Oorlogsinvloeden op de overzeese handel van Holland, 1551–1719* (Amsterdam 1959).

While competition between farmers filled the state's coffers, it harmed the interests of the mercantile community. Obviously, tax farmers had a strong incentive to maximize customs revenues in order to recover their costs and make a profit. Numerous references suggest that the rate of return on capital invested in the various farms ranged from 17 per cent to 90 per cent, and occasionally even higher.[93] Furthermore, members of the Levant Company who had a share in

[93] *Dietz*, *English Public Finance*, pp. 359–61; R. Ashton, 'Revenue Farming under the Early Stuarts', *The Economic History Review*, 8–3 (1956), 310–22*,* at 318–19; Note that the high returns for the customs farmers reveal that the crown often failed to play off syndicates against one other in order to augment the rent they paid for the Great and Petty Farms: Scott, *Constitution*, I, pp. 204–15.

the customs farms, abused their position when they instructed London's customs officials to prevent interlopers from importing currants and other southern products into the country.

The flaws in England's manner of customs farming are all too clear when compared with the Dutch Republic. Starting in the 1570s, the Dutch government also required merchants to pay *ad valorem* duties on imports and exports. However, unlike the English customs, which were considered the personal income of the King, the States General had to commit to spending customs revenues on the protection of the merchant fleet.[94] Admittedly, customs rates were revised on several occasions, but the average burden on imports and exports did not change much over time.[95] In reality, the tax burden was even lower than the tariffs indicated, since local admiralties turned a blind eye to tax evasion to prevent the diversion of trade to another Dutch port.[96] Furthermore, the VOC and WIC were allowed to pay a lump sum that was a trifle compared to the true value of their trade. Nevertheless, total customs revenues in Holland, Zeeland and Friesland rose from one million guilders in 1590 to 2.5 million guilders in 1640 – a figure similar to that of England (Figure 9.2).

If Dutch foreign trade was indeed two or three times the size of that of England, the burden of customs was two or three times less. With an estimated average rate of 2.5 to 3.5 per cent on English imports and exports, transaction costs for Dutch merchants may have been as much as two per cent lower.[97] Admittedly, merchants in the United Provinces sometimes faced additional levies to finance protection, for example, against pirates in the Mediterranean. However, the *lastgeld* raised for the convoying of Mediterranean fleets since 1625 was a very minor tax in comparison with regular customs duties. The annual revenue never exceeded 9,000 guilders before 1650.[98] Any further attempts by Dutch merchants to deal with the perils

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94 H.E. Becht, *Statistische gegevens betreffende den handelsomzet van de Republiek der Vereenigde Nederlanden gedurende de XVIIe eeuw, 1579–1715* ('s-Gravenhage, 1908). The rule of thumb seems to have been that evasions below a sixth of total customs payable were not pursued: A.J. Veenendaal, Jr., 'Fiscal Crises and Constitutional Freedom in the Netherlands, 1450–1795', in Philip T. Hoffman, and Karin Norberg (eds), *Fiscal Crises, Liberty, and Representative Government 1450–1789* (Stanford, 1994).

95 Becht, *Statistische gegevens*, 78–105; 't Hart, *The making*, 103.

96 't Hart, *The making*, 101–2, 109–10; Dormans, *Het Tekort*, p. 34; On the competition between the Admiralties, also De Jong, 'Staet van Oorlog', 37.

97 Unfortunately, we only have very rough and sometimes contradictory estimates of the average taxation of imports and exports in both countries. Without going into further detail, Braddick has suggested that an average levy of between 2.5 and 3.5 per cent was in use in early Stuart England (Braddick, *Nerves*, 92–3). Braddick's figure seems irreconcilable with 't Hart's estimate of a tax burden of three to five per cent for the Dutch Republic ('t Hart, *The making*, 103, 113).

98 W.F.H. Oldewelt, *De oudste lastgeldrekeningen van Directeuren van de Levantse handel (1625–1631)* (Amsterdam 1958).

of seafaring took the form of private arrangements, notably maritime insurance which was known for its competitive rates throughout the seventeenth century.[99]

*Government borrowing*

The Dutch government was able to forego the heavy taxation of foreign trade between 1550 and 1650 because it had alternative sources of income. Already in the second quarter of the sixteenth century, the province of Holland had pioneered a new system of public finance: the voluntary sales of annuities *(renten)* on the security of excise duties levied on foodstuffs and fuel.[100] Earmarking the revenue from these indirect taxes for interest payments greatly enhanced the government's ability to borrow. In the 1550s the States of Holland could sell annuities worth 1.2 million guilders to urban officeholders, charitable institutions, widows, and merchants in all major towns of Holland, Zeeland, Brabant, and Flanders.[101] The voluntary nature of these loans contrasted sharply with the forced loans that characterized English public finance throughout the period under investigation.

In the mid-sixteenth century the English crown relied on the Antwerp money market to finance its ongoing war efforts. In the 1540s and 1550s the rulers of England regularly borrowed large sums of money from Italian, German and Flemish bankers in the Scheldt port.[102] The support of English merchants was indispensable for these credit transactions. For example, Thomas Gresham, an agent to the crown, pledged bonds of the Merchant Adventurers, and later also the Corporation of London, as collateral for loans.[103] In addition, he obliged

For a similar measure taken in England in 1619: Dietz, *English Public Finance*, pp. 175–6.

99 F. C. Spooner, *Risks at Sea. Amsterdam Insurance and Maritime Europe, 1766–1780* (Cambridge, 1983), pp. 15–46.

100 James D. Tracy, *A Financial Revolution in the Habsburg Netherlands. Renten and Renteniers in the County of Holland, 1515–1565* (Berkeley, 1985), p. 221.

101 Tracy, *Financial Revolution*, pp. 108–38.

102 H. Lonchay, 'Etude sur les emprunts des souverains belges au XVI et au XVII siècle', *Bulletin de la Classe des Lettres et des Sciences Morales et Politiques et de la Classe des Beaux-Arts*, Académie Royale de Belgique 1907, 923–1013; Fernand Braudel, 'Les emprunts de Charles-Quint sur la place d'Anvers', in *Charles-Quint et sons temps* (Paris 1959), pp. 191–200; J.A. van Houtte, 'Anvers aux XVe et XVIe siècles. Expansion et Apogeé', *Annales ESC* 16 (1961), 248–78, at 273–6; Raymond de Roover, *Gresham on Foreign Exchange. An Essay on Early English Mercantilism, with the Text of Sir Thomas Gresham's Memorandum for the Understanding of the Exchange* (Cambridge/London 1949); R.B. Outhwaite, 'The trials of foreign borrowing: the English crown and the Antwerp money market in the mid-sixteenth century', *The Economic History Review* 19 (1966), 289–305.

103 Scott, *Constitution*, I, p.25; Outhwaite, 'Trials', 292, 295; R.B. Outhwaite, 'Royal Borrowing in the Reign of Elizabeth I: The Aftermath of Antwerp', *The English Historical Review* 86 (1971), 251–63.

the Merchant Adventurers to pay interest, extinguish debts, and remit money to England.[104] The company's cooperation was secured by the granting of privileges as well as threats to withhold licenses for the export of cloth.[105]

In the second half of the 1560s, Queen Elizabeth withdrew from the Antwerp money market. The immediate reason for this was a political conflict resulting from the English seizure of Genoese ships carrying silver for Philip II in 1567.[106] However, there were more fundamental problems like export bans on English bullion, fluctuations of the exchange rate, and failed attempts to force foreign lenders to prolong their credit which lay behind this decision to withdraw.[107] Moreover, in addition to interest rates of 12 per cent, brokerage, commission fees, and occasional presents to sooth creditors proved costly.[108] Gresham therefore advised the Queen to rely only on domestic lenders in the future.[109] Elizabeth, though, went one step further by working towards a surplus in the state's budget. In the 1570s she borrowed only occasionally from private merchants or the city of London.[110] Eventually, profits from Francis Drake's privateering enabled her to extinguish the public debt in 1581.[111]

After 1588 warfare with Spain made it impossible to maintain a budget surplus. On more than one occasion, Elizabeth was forced to borrow money from merchants in the city of London to finance military expenditure. Nevertheless, public debt never exceeded three million guilders, and direct loans from merchants remained limited.[112] It was only under the early Stuarts that public debt rose to unprecedented heights.[113] In addition to several forced loans contracted from the population at large – including one for 2.4 million guilders in 1627–1628 – the crown relied on lenders in the city of London.[114] Under James I credit from the Corporation of London was of paramount importance. The Corporation raised money from the Livery Companies and city wards; its aldermen and commoners

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104 Unwin, 'Merchant Adventurers', 37; Outhwaite, 'Trials', 299.

105 Outhwaite, 'Antwerp', 298–9.

106 C. Read, 'Queen Elizabeth's seizure of the Duke of Alva's pay-ships', *The Journal of Modern History*, 5/4 (1933), 443–64.

107 Outhwaite, 'Antwerp', 292–3, 296–7.

108 In 1563 Gresham had already decided to reduce outstanding debt on the Antwerp market. By 1574 all English debts had been repaid: Outhwaite, 'Trials', 294, 301–4.

109 Dietz, *English Public Finance*, p. 27.

110 Scott, *Constitution*, I, p. 58; III, p. 511; Outhwaite, 'Trials'.

111 Scott, *Constitution*, I, p. 92.

112 In 1596 the Crown's debt to the Russia Company for the provision of naval stores amounted to 140,000 guilders: Scott, *Constitution*, I, p. 30; II, p. 50. In the 1550s the Russia Company had already extended loans to Elizabeth for the purchase of gunpowder and the company also sold her naval stores on credit: Scott, *Constitution*, I, pp. 29–31.

113 Scott, *Constitution*, I, pp. 139, 205.

114 Scott, *Constitution*, I, pp. 137, 171,187–8, 190; R. Cust, *The forced loan and English politics 1626–8* (Oxford, 1987).

contracted loans on their own account; and the city's treasury borrowed from wealthy inhabitants.[115] Local merchants were involved in these loans as members of the Livery Companies, as aldermen and commoners, or simply because they were among the wealthiest citizens.[116]

A small number of merchant bankers of English, Flemish and Italian origin also lent money directly to the crown.[117] In addition to incidental loans or advances on military expenditure by men like Peter van Lore, Philip Burlamachi, or William Russell, the crown devised a more structural solution to its perennial shortage of money.[118] The syndicates of customs farmers were made to pay the rent for their farms in advance, and were sometimes even expected to estimate future customs revenues.[119] Thus, merchants, such as William Cockayne, Lionel Cranfield, Nicholas Crispe, Baptist Hicks, and Paul Pindar, combined their participation in the customs farms with their membership in various chartered companies and a diversified wholesale trade.[120] The reconstruction of new loans contracted by the crown between 1604 and 1639 demonstrates the growing importance of these tax farmers to Charles I (Figure 9.3).[121]

The crown's reliance upon the customs farmers followed its failure to meet previous obligations to the Corporation of London.[122] Since forced loans had not been repaid either, the circle of financiers willing to lend their credit to the crown became ever smaller.[123] The members of the customs syndicates were, however, able to transfer part of their risk to others. They resold shares in the Great and Petty farms to other merchants. At the same time, they discounted tallies for future revenues, and relent their money once customs revenues began to accrue. The result of these actions led to the growth of an embryonic money market, largely based on the personal relations of the leading farmers.

115 Ashton, *Crown*, pp. 113–53.

116 A few merchants also advanced money to the Livery Companies to enable them to meet their obligations to the Corporation of London: Ashton, *Crown*, pp. 162–3.

117 Between 1620 and 1628 the total expenses of Burlamachi on account of the crown were £713,364. In 1629 the crown still owed him £128,573. In 1630 he held a monopoly on the transportation of iron ordnance: A.V. Judges, 'Philip Burlamachi: A Financier of the Thirty Years War', *Economica* VI (1926), 285–300, at 293, 297. See also: Van Dillen, *Aandeelhoudersregister*, 87–90.

118 Ashton, *City*, pp. 20–23.

119 Ashton, *Crown*, passim.

120 Ashton, *City*, p. 26; Brenner, 'Social basis', 373.

121 Ashton, *Crown*; Idem, 'Revenue', 316–318; Tawney, *Business*, pp. 107–13.

122 Ibid., 132–40.

123 Ibid., 154–5.

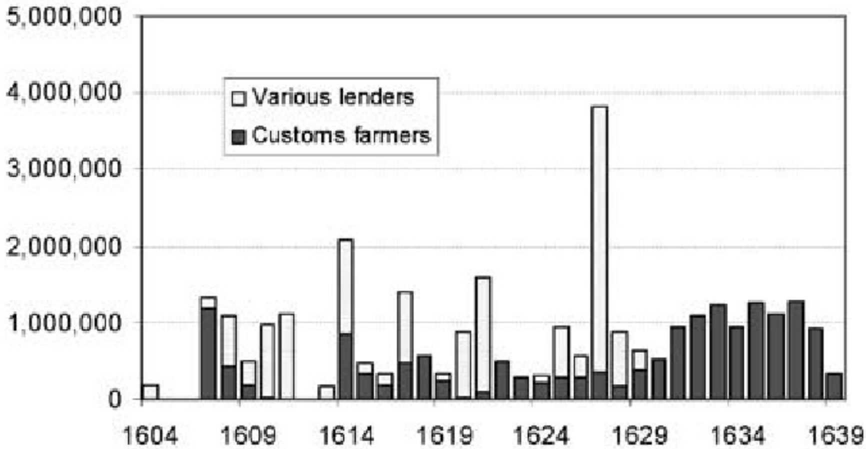


Figure 9.3 New loans contracted by the English crown from customs farmers and other lenders (1604–1639)

*Source*s: Ashton, 'Revenue farming', 314, 316; Ashton, 'Deficit Finance', 21n, 23–27; Ashton, *Crown*, 109, 113–30, 158–61, 167–8; Judges, 'Philip Burlamachi', 288n, 293, 293, 296; Outhwaite, 'Trials', 304–5; Scott, *Constitution*, I, 23–5, 58, 92, 136–7, 139, 140, 142, 149, 171,187–8, 190, 205; Scott, *Constitution*, III, 510–11.

However ingenious this may seem, it was rather makeshift compared to the extensive sales of government bonds on the security of excise taxes in the United Provinces – even if took until after 1600 for the Dutch system of public finance to reach its potential. In the 1570s and 1580s increased spending on the military and difficulties with the collection of taxes created an acute shortage of funds in Holland. Currency debasement and the postponement of interest payments further undermined the creditworthiness of the States of Holland. It was only through a combination of personal loans contracted by the Nassau family, subsidies and loans from England (!) and France, revenues from sales of ecclesiastical property, prizes from privateering, and obligations sold to military commanders, that the provinces in revolt managed to pull through in the first decades of the Eighty Years War.[124]

It was not until 1595 that Dutch creditworthiness was restored at which point first the individual cities, and then the States of Holland, resumed the sales of

124 Wantje Fritschy, 'A "financial revolution" reconsidered; public finance in Holland during the Dutch Revolt, 1568–1648', *The Economic History Review*, 56/1 (February 2003), 57–89. James D. Tracy, 'Keeping the wheels of war turning. Revenues of the province of Holland 1572–1619', in: G. Darby, *The origins and development of the Dutch Revolt* (London/New York 2001), pp. 133–50.

annuities to officeholders, charitable institutions, widows and merchants.[125] However, even though the immediate threat of a Spanish invasion had disappeared once Philip II turned against France in 1595, neither annuities nor the continued loans from France and England sufficed to finance the Republic's defence. In order to raise additional funds, the States of Holland began to contract short-term loans from the merchant community in various cities. Unlike in England, where such loans were typically sought from a trusted merchant elite, the rulers of Holland chose to sell IOUs or *obligaties* on the money market in Amsterdam and a few other towns.[126]

The success of these obligations was immediate. Growing revenues from excise taxes allowed the receivers of Holland from about 1594 onwards to supplement the sales of annuities with the sales of obligations.[127] By 1609 the value of the obligations sold had already reached 4.3 million guilders.[128] In following decades they became ever more popular, comprising 60 per cent of Holland's debt of 130 million guilders in 1650.[129] Interest rates on state obligations dropped from eight per cent in 1595 to four per cent in 1655.[130] The efficiency of the Dutch market for obligations is even more telling when compared with the eight per cent to ten per cent interest the English crown continued to pay on bonds before 1650.[131]

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125 Martijn van der Burg and Marjolein 't Hart, 'Renteniers and the Recovery of Amsterdam's Credit (1578–1605),' in Marc Boone, Karel Davids, and Paul Janssens (eds), *Urban public debts: urban government and the market for annuities in Western Europe (14th–18th centuries)* (Turnhout, 2003) 197–218.

126 Fritschy, 'Financial Revolution', 206–8. The States of Holland and Zeeland did occasionally use the services of a small group of elite merchants to transfer money from abroad, to act as guarantors for loans, and to make advance payments on military spending. However, the loans involved were typically very short-term and never reached the amounts raised through the sales of annuities and obligations: 't Hart, 'Public loans', 122; De Jong, 'Dutch public finance', 147–50; De Jong, 'Staet van Oorlog', 232–43.

127 Note that the States of Holland was not the only organization that used this credit instrument. The VOC and Amsterdam admiralty also drew funds from Amsterdam's money market. On borrowing by the VOC: Gelderblom and Jonker, 'Completing'; On borrowing by the Dutch admiralties: De Jong, 'Staet van Oorlog', 59; 't Hart, *The making*, 54.

128 Gelderblom and Jonker, 'Completing'.

129 Dormans, *Het Tekort*, pp. 58, 66.

130 Fritschy, 'Financial Revolution', 64.

131 Clark, 'Political Foundations', 567.

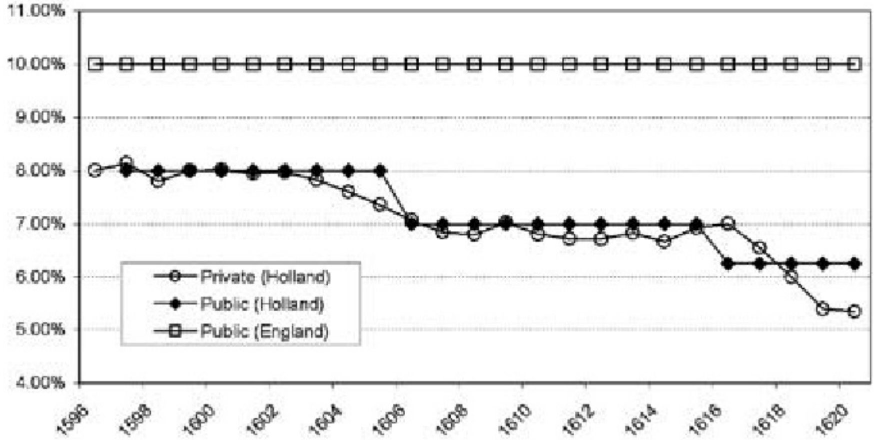


Figure 9.4 Interest rates on government bonds in England and the Dutch Republic, and on private IOUs in the Dutch Republic (1596–1620)

*Sources*: For England: Ashton, *Money Market*, 113–30.

The successful introduction of obligations as a principal source of credit for the Dutch government was closely linked to the Republic's commercial expansion after 1580. Foreign trade created a growing number of wealthy merchants – and their heirs – with excess funds in need of profitable investment.[132] The effect this had on financial markets must have been considerable given that capital accumulation in the East India trade alone amounted to 25 million guilders by 1630. At the same time the government turned to Amsterdam's emerging money market to issue new loans. The tax receivers of the States of Holland could sell their obligations easily because they were able to tap into a pre-existing market for IOUs created by merchants lending their surplus funds to fellow traders. This close relation between public and private finance in Amsterdam in the early seventeenth century is confirmed by the interest rates on state obligations and private IOUs which moved in tandem between 1596 and 1620 (Figure 9.4).

## Conclusion

In 1673 the English diplomat William Temple celebrated the achievements of Dutch commercial organization in his *Observations upon the United Provinces of the Netherlands*: 'Low interest … the use of their banks … the severity of justice

[132] Research by Marjolein 't Hart suggests that merchants and their heirs were among the buyers of annuities and bonds: Marjolein C. 't Hart, 'Public Loans and Money Lenders', *Economic and Social History in the Netherlands* 1 (1989), 119–39, at 123–35.

… the convoys of merchant fleets … the lowness of their customs … order and exactness in managing their trade …the vastness of the Stock that has been turn'd wholly to [East Indian] trade.'[133] The praise of England's former ambassador for the Dutch Republic was not intended for Dutch ears. Temple tried to set an example for his fellow countrymen as various other critics of England's polity had done before him.[134] He believed England should emulate the Dutch commercial regime: "And whoever pretends to equal their growth in Trade and Riches, by other ways than such as are already enumerated, will prove, I doubt, either to deceive, or to be deceived."

The present analysis supports Temple's observations about the cost efficiency of the Dutch commercial regime. Restraint in the chartering of trading companies limited the extraction of monopoly rents and maximized investment of small businessmen and merchants from the outports. The ability of the States of Holland to tax trade indirectly through excise duties and impositions on wealth put the burden of customs at one-half, or perhaps as little as one-third of that in England. Meanwhile, growing tax revenues stimulated the government sales of annuities and bonds on the open market. Finally, throughout the first half of the seventeenth century, interest rates on both public and private debt were consistently two to three per cent lower in Holland than in England. At least part of the explanation for this difference was an increase in the availability of loanable funds brought about by both the advancements in foreign trade, and (in the private market) by the use of VOC shares as collateral for loans.

This is not to say that the growth of long-distance trade in the United Provinces can be fully explained by the inclusiveness of their commercial regime. The Dutch conquest of new markets can hardly be dissociated from the country's large merchant fleet, its commercialized agriculture, high quality manufactures, and bustling domestic markets.[135] Furthermore, the struggle for independence from Spain created windfalls for the Dutch Republic in the form of direct access to colonial markets, and the influx of large numbers of merchants and artisans from

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[133] William Temple, *Observations upon the United Provinces of the Netherlands* (1668), 3rd edn (London, 1676), pp. 209–46.

[134] Ashton, 'Parliamentary Agitation', 48; Dickson, *The Financial Revolution in England*, pp. 4, 20; Roseveare, *Financial revolution*, 16; H. Roseveare, 'Prejudice and policy: Sir George Downing as parliamentary entrepreneur', in D.C. Coleman and Peter Mathias (eds), *Enterprise and History. Essays in honour of Charles Wilson* (Cambridge, 1984), pp. 135–50.

[135] Jan de Vries and Ad M. van der Woude, *The First Modern Economy. Success, Failure and Perseverance of the Dutch Economy, 1500–1815* (Cambridge, 1997); See also the more recent contributions to the debate by Van Tielhof, *Mother of All Trades*; Jan Lucassen, and Richard W. Unger, 'Labour Productivity in Ocean Shipping, 1450–1875', *International Journal of Maritime History*, 12/2 (December 2000), 127–41; and Jan Luiten van Zanden, 'The "revolt of the early modernists" and the "first modern economy". An assessment', *The Economic History Review*, 55/4 (2002), 619–41.

Antwerp and its hinterland.[136] Indeed, in the long run, the very openness of their commercial regime prevented the Dutch from preserving these cost advantages. In theory, without any means of artificially inflating profit margins, lower costs for merchants in Holland should be reflected in lower prices paid by buyers at home and abroad. Unfortunately, we cannot test this assumption for lack of sufficient price data.[137] However, there is ample evidence to suggest that Dutch institutions were copied in other parts of Europe, most notably to England.[138]

The emulation of the Dutch commercial regime in England began in the second quarter of the seventeenth century, when the relaxation of entry barriers to foreign markets created investment opportunities for merchants who did not belong to London's business elite.[139] Thus, in the early 1620s the Spanish and French markets were opened up, and the Company of Merchant Adventurers was forced to accept the participation of outsiders in the export of English broadcloth.[140] Although this situation proved to be short-lived – the Company's monopoly was restored in 1634[141] – the idea of a single, state-sponsored monopoly was abandoned in the Atlantic trade. After the dissolution of the first Virginia Company in 1624 the colonization of North America was left in the hands of half a dozen companies, as was trade with South America and Africa.[142] Changes in

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[136] Gelderblom, *Zuid-Nederlandse kooplieden*; 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, 2006); Wijnroks, *Handel*.

[137] At the moment the most reliable data on prices for a large number of European markets are those on grain, collected by Allen and Unger: http://www.history.ubc.ca/unger/htm_files/new_grain.htm. However, there are so many factors that cause long-term and short-term fluctuations in grain prices (e.g. transportation costs, exchange rates, stockpiling, crop failure) that a gradually narrowing price gap between Amsterdam and its principal trading partners is easily obscured.

[138] Joost Jonker and Keetie Sluyterman, *At home on the world markets. Dutch international trading companies from the 16th century until the present* (The Hague 2000), pp. 73–115; For the introduction of Dutch institutions in Danzig, see M. Bogucka, 'Danzig an der Wende zur Neuzeit: Von der Aktiven Handelsstadt zum Stapel und Produktionszentrum', *Hansische Geschichtsblätter* 102 (1984), 91–103; M. Bogucka, 'Dutch Merchants' Activities in Gdansk in the First Half of the 17th Century', in J. Ph.S. Lemmink and J.S.A.M. van Koningsbrugge (eds), *Baltic Affairs; Relations between the Netherlands and North-eastern Europe, 1500–1800* (Nijmegen 1990), 19–32; Gelderblom, 'Governance'.

[139] Brenner, 'Social basis', 375, 381; Regina Grafe, 'Northern Spain between the Iberian and the Atlantic worlds: Trade and regional specialisation, 1550–1650', *European Review of Economic History*, 6–2 (2002), 269–75.

[140] Supple, *Commercial Crisis*, 65–70.

[141] Ormrod, *Rise*, 36.

[142] Scott, *Constitution*, I, pp. 121, 151, 153, 183–5; II, pp. 246–337; For the political consequences of this shifting policy: Acemoglu, 'The Rise of Europe'.

England's government finance began with the levying of excise duties in 1642 and ended with the establishment of what was very similar to the Dutch system of public debt management after the Glorious Revolution (1688).[143] This decision to emulate the organization of Dutch trade and public finance enhanced England's competitive strength in the second half of the seventeenth century. The United Provinces may not have been at a disadvantage at this point, but its merchants and rulers did gradually lose the cost advantages they had enjoyed during the Dutch Golden Age.

143 See for the imitation of Dutch practices in public finance before the Glorious Revolution: Roseveare, *Financial revolution*, 7–8; J. Scott, '"Good Night Amsterdam": Sir George Downing and Anglo-Dutch Statebuilding', *The English Historical Review*, 118/476 (April 2003), 334–56; See for the changes after 1688: Dickson, *The Financial Revolution in England.* The principal difference that remained between the two countries was the much higher customs duties levied in England up until the early nineteenth century: Ormrod, *Rise*, 26.