CHAPTER

18

Low Countries Finance, 1348–1700

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OUTLINE

INTRODUCTION

From the late Middle Ages onward, the Low Countries played a central role in global conflicts and trade, and displayed remarkable economic dynamism. Public financing challenges were at the center of financial innovation, and those challenges reflected the influences of trade and war on government fiscal affairs.

During this period, commercial farming, trade, and manufacturing grew rapidly in the coastal provinces of Flanders, Brabant, Holland, and, to a lesser extent, also in Friesland and Zeeland. The area remained politically fragmented until the second quarter of the fifteenth century when Philip the Good, Duke of Burgundy, brought Flanders, Brabant, Hainaut, Namur, Limburg, Holland, Zeeland, and Friesland under his rule. During his long reign (1419–67), Philip made considerable headway in the legal and administrative centralization of his territories. After his death, this process stalled for several decades, before being pushed forward again by Charles V, who ruled the Netherlands from 1515 onward. By the mid-sixteenth century, he had brought almost the entire area of what is now known as the Benelux under Habsburg rule, and had achieved a considerable degree of administrative, legal, and fiscal harmonization in the three leading provinces of Flanders, Brabant, and Holland.

The political unification of the Netherlands survived Charles' reign only briefly. During the 1560s, the Dutch Revolt sent the northern and southern part of the Netherlands on very different paths of economic and political development. The Spanish and subsequently Austrian Netherlands continued to be ruled by foreign monarchs who relied on deputies and a small Brussels bureaucracy to govern the country. Working within the narrow financial margins set by cities in Flanders and Brabant, which refused to relinquish their control over local taxation, this regime had to contend both with serious economic decline and repeated foreign invasions. Simultaneously, the Dutch Republic, a federation of seven provinces, emerged as Europe's leading economy and a major player in the seventeenth-century power struggles, a position built on the economic growth and fiscal muscle of the province of Holland.

The Habsburg Low Countries are of great interest for the light that they throw on a cornerstone of public finance history, that is to say, the importance of limited government for the growth of taxation, spending, and borrowing. They show first of all how limited government evolved over time from a long struggle between centralizing princes and autonomous cities over the conditions for rendering local financial markets, local taxation, and local political decisions subservient to central controls. Second, they demonstrate the importance of contingent factors in determining the direction into which limited government evolved. Once the Habsburg Low Countries had split into two, a combination of

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economic growth and the joint resistance against Spain transformed limited government in the Dutch Republic into a lever for an unprecedented rise in public spending and borrowing through the building of efficient fiscal institutions. Key to this process was the delegation of fiscal control from individual cities to the provincial Estates. Holland pioneered this during the early phases of the Revolt as a temporary expedient but, as the war with Spain dragged on and the economy expanded, Holland's cities acquiesced in the delegation of taxation to the provincial level. Conversely, in the Spanish Netherlands, Philip II restored the fiscal autonomy of the cities of Flanders and Brabant to break their resistance and then, in the seventeenth century, sluggish growth combined with repeated foreign incursions and mistrust between the cities and the sovereign to turn limited government into a constraint on public finance.

COMMON ORIGINS

Like all European monarchs of their time, the rulers of the diverse lands that made up the medieval Low Countries drew their revenues essentially from two sources: their domains and subsidies granted by the Estates, the political bodies representing their subjects in each of the lands. Around the middle of the fifteenth century, these two sources were still about equally important, but domain income gradually declined in relative importance to less than a fifth of total revenues by the 1520s, and even that part was heavily mortgaged.

As a result, successive sovereigns came to rely more and more on subsidies. There existed two kinds: regular ones and extraordinary wartime ones. The former required consent from the Estates, but this was more or less a formality as most provinces granted them for periods of up to 10 years. To get extraordinary subsidies, however, monarchs needed to negotiate terms and conditions with the Estates. Specially appointed officials raised the subsidies in the form of taxes once amounts had been agreed. In addition to regular and extraordinary subsidies, the Estates could grant sums of money to mark occasions like a sovereign's accession to the throne. Though not set by negotiations, such special subsidies also formed an integral part of the political process between rulers and subjects, incoming monarchs being required to confirm established customs, rights, and privileges in return for them, or otherwise grant tax rebates. The inefficiency of recurrent lengthy negotiations with each individual province combined with financial pressures to inspire efforts at fiscal coordination. During the 1420s and 1440s, Philip the Good concentrated the management of his Low Countries finances in three offices, strategically located in Lille, Brussels, and The Hague. Though subsequent efforts to transfer these tasks to a single administration for the entire Low Countries failed, Philip did succeed in streamlining the political process by forming an Estates General. Composed of delegates from the provincial estates, this body debated subsidies levied over all the Duke's Low Countries possessions instead of over individual provinces. The first session took place in 1464. During the brief reign of Charles the Bold (1467–77), the Estates General evolved toward a true parliament for the Low Countries, only to return to a more passive, consultative role when the provincial estates asserted their fiscal and political autonomy under his daughter Mary of Burgundy and her husband Maximilian of Austria.

By tradition, fiscal burdens in the Low Countries were very unevenly distributed. The clergy and nobility were largely exempt from taxation, and both the provinces and individual cities competed with each other to have their contributions reduced. Flanders and Brabant had more influence with the Brussels government and therefore paid proportionally less tax per capita than Holland. The three main Flemish cities – Bruges, Ghent, and Ypres – strove to shield their citizens from central taxation as their impositions on consumption and wealth were already considerable. Through their control of the provincial states, they succeeded in shifting almost the entire burden of taxes onto the politically underrepresented countryside and paid only 10% of their allotted share in subsidies. The bargaining strength of those same cities rested on their ability to raise credit. Ghent pioneered issuing life annuities and redeemable annuities as early as the thirteenth century, followed by cities in Brabant and Holland during the fourteenth century. As often as not, such loans were raised to finance urban expenditure on fortifications or other war costs, but they were also used to fund the extraordinary subsidies.

That practice led the dukes, constrained by their own, fairly limited, borrowing capacity, asking and sometimes forcing cities to raise loans for them, in anticipation of future subsidies, in return for privileges, or simply on collateral of ducal domains. In doing so, the princes undermined their own centralization policy in two ways. First, the amount of money spent locally rose to the detriment of centrally available funds; second, in return for permissions to borrow, city councils and provincial Estates obtained control over taxation and spending so as to assure proper debt service. Cities like Bruges and Ghent gained this right as early as the 1470s. By the 1520s, the four biggest and richest provinces – Flanders, Brabant, Holland, and Zeeland – possessed it as well. Such controls provided the basis for the emergence, during the first half of the sixteenth century, of local and provincial administrations that rivaled the central one, thereby countering the fiscal centralization efforts by more firmly rooting public finance into local institutions.

By the late fifteenth century, the continuing pressure from successive dukes for new loans had exhausted the financial capacity of individual cities, forcing five cities in Holland and one each in Flanders and Brabant into default. The way forward lay in pooling resources at the provincial level on a regular basis, which required a higher degree of political and fiscal coordination than that required by the loans which Dutch cities, for instance, had jointly raised to meet emergencies since the late Middle Ages. The public financial crisis of the 1490s underlined the need for coordination at the provincial level, but it took another 50 years before fundamental fiscal reforms enabled the provinces to start borrowing in their own name. By 1540, Charles V's nearly continuous warfare had exhausted both his domain revenues and his credit on the Antwerp money market based on those revenues. To increase tax revenue, his government pushed for further fiscal and administrative centralization, with the same, partly counterproductive, result as before.

During 1542, Charles's government succeeded in obtaining the consent of a majority of provincial Estates to *nieuwe middelen* or 'new expedients,' that is to say, a subsidy based on various new taxes raised everywhere on a uniform basis, the revenues of which would be advanced to the central government in Brussels by issuing term annuities funded by the same taxes. In return for their consent, the Estates obtained the right to manage these taxes and the debt issues based on them, which in turn gave them the ability to raise loans in the province's own name, a landmark in Low Countries public finance. These loans enabled the Flanders Estates to speed up paying their share of the subsidy, but Holland encountered difficulties in persuading investors of the Brussels government's good intentions. About one-third of Holland's total loan had to be sold in neighboring provinces. Voluntary buyers for the rest were found only in Amsterdam, so most of the debt had to be forcibly pushed onto office holders or onto wealthy citizens. Most provinces agreed to the new expedients, including the key ones of Flanders, Brabant, Holland, and Zeeland, which together raised two-thirds of tax revenues; but the Walloon provinces in the south and east of the country, plus Utrecht in the north, did not, and raised the sums required in the normal way.

Thus, the new expedients substantially raised central government revenues, but at the cost of buttressing the mediated public finance regime that safeguarded the fiscal autonomy of individual cities and provinces. Having wanted to obtain full control over the revenues of what he regarded as his personal domain, Charles V ended up shifting the balance of power further in favor of local control. Nor were the newly increased revenues enough to restore the Emperor's precarious finances, which, drained by the continuing war with France, worsened further during the 1550s. Brussels increasingly kept going with transfers from Madrid, which amounted to two-thirds of its income by 1567. Given Spain's own fragile finances after the 1557 debt moratorium, this hemorraging had to stop. In 1558, Philip II booked a partial success when he obtained substantially higher contributions from the Low Countries for a duration of 9 years. This put a heavy burden on the provinces. Most had to suspend debt redemptions, and Brabant even had to raise new debt during the 1560s.

Even so, the Spanish Habsburg monarchy continued pressing for still higher contributions to cut its deficit. Fiscal problems came to a head in 1567 when the 9 years' agreement expired and the Duke of Alba arrived, sent by Philip II to bring the Low Countries, heaving with religious turmoil and social unrest from an economic recession, to heel. Together with the Duke's ruthless persecution of religious dissent, his proposals for drastic fiscal reform, intended to wrest control over taxation and spending away from the provincial estates, proved instrumental in pushing the country into open revolt. Alba succeeded in getting a 1% levy on wealth accepted, but his proposal for levying a 'tenth penny,' that is, a 10% sales tax, ran into such opposition that this tax lives on in popular memory as the spark that set the country afire.

GOING SEPARATE WAYS: THE DUTCH REVOLT

The Dutch Revolt cut violently across the evolution of provincial debt markets in Holland, Brabant, and Flanders. Of those provinces, Holland was hit hardest at first, both militarily and financially. From 1572, Holland had to suspend interest payments, rendering new debt issues impossible. In the following years, the province could only meet the cost of fighting Spain by obtaining credit from military commanders and contractors at very high interest rates. To streamline public finance in the face of the emergency, Holland's cities agreed to transfer the management of urban taxes to the provincial government – a temporary measure destined to last.

From 1577, however, the Spanish offensive was concentrated on Brabant and Flanders. Open warfare drastically reduced fiscal revenues, despite new taxes on trade, consumption, and wealth, and undermined the provinces' capacity to defend themselves. The three main cities – Bruges, Ghent, and Antwerp – raised loans to keep their war efforts going and sought help from the breakaway northern provinces by formally joining the Union of Utrecht concluded between them in 1579. However, the financial and military assistance provided by the north proved woefully inadequate. The Spanish army rolled up one city after another, and the fall of

Antwerp in 1585 drove a wedge between north and south that turned out to be permanent.

As the thrust of military operations shifted to the north, the Spanish Netherlands started reorganizing their finances. The 1579 Union of Arras binding the provinces loyal to Philip II together did not mention public finance explicitly, but its emphasis on maintaining the status quo effectively ended the trend toward fiscal centralization, indeed partially reversed it because control over taxation and spending reverted to the main cities.

Heavily indebted to their own citizens because of the war, they deducted debt service payments from taxes collected, reducing the transfers to Brussels to a trickle: Antwerp's contribution to Brabant's budget fell to less than 9% of city revenues. The recurrent foreign invasions of the Spanish Netherlands ensured that this situation continued well into the eighteenth century. Local and regional particularism flourished with abandon. The various provincial Estates jealously saw to it that the fiscal leftovers for Brussels were spent on their respective provinces only. In Flanders, the Four Members – Ghent, Ypres, Bruges, and the Franc – ensured that tax burdens continued to weigh disproportionally on the countryside, which, given the province's high debts and interest payments, meant a massive transfer of wealth from rural producers to urban rentiers. Around 1590, Flanders had accumulated interest arrears of more than 2 million guilders over loans dating back to 1543, about twice annual revenues. Brabant reversed the fiscal trend of pledging all provincial revenues for its debt by assigning specific taxes to particular debts. One does not know the precise volume of Brabant's debt, but at the end of the sixteenth century, payments on life annuities and term annuities amounted to between 260 000 and 350 000 guilders. This would put the debt at 4–6 million guilders in 1600, assuming the then common interest rate on redeemable annuities of 6.25% and a gradual extinction of life annuities. Thus, in the south, the political reaction to the revolt effectively stifled Alba's fiscal reform efforts and reinforced local control over public finance. As a result, the Brussels government depended entirely on income from its domains, the 1543 tax on trade with the enemy (which gradually developed into a customs duty), subsidies granted by the provinces, and transfers from Spain.

By contrast, with the 1579 Union of Utrecht, the northern provinces achieved a considerable degree of fiscal coordination. Serving as an unofficial constitution, this treaty laid down the fledgling Republic's political structure as a federation of autonomous provinces. The Union's foreign policy and warfare were entrusted to the Estates General, the member provinces binding themselves to fund the joint efforts by turning over a fixed percentage of their revenues from the so-called *gemeene middelen* or common means, uniformly defined as excises. Holland, Zeeland, and Utrecht adopted the common means first, and the other provinces followed once the military situation had stabilized sufficiently for them to adhere to the Union in full. Thus, while retaining their fiscal autonomy, the northern provinces did in fact adopt a flexible and uniform tax system over the Republic's entire territory capable of raising revenues beyond Alba's wildest dreams. Moreover, lodging fiscal autonomy in the provincial Estates limited the power of the cities to voting in the Estates, at least theoretically. The continuing pressure of war enabled Holland's Estates to retain the temporarily obtained control over local tax collection, which resulted in Amsterdam transferring no less than 60% of its revenues to provincial coffers, compared to Antwerp's paltry 9%. However, the urban autonomy transformed itself into a need for consensus, and individual cities could prove difficult to convince. In Overijssel province, the cities conducted a long rearguard action against interference from their Estates. Moreover, the Union Treaty's unifying intentions were not fully realized, and even partly undone. A compromise reached in 1583 left the provinces free to raise their contribution in whatever way they liked. Four years later, the Estates General decided, at the instigation of Holland, to delegate army payments to the provinces and allowed them to deduct those payments from their contributions.

From the late 1580s, the tide of war turned in favor of the Republic when Philip II redirected his forces to France. Hostilities in the Netherlands gradually declined to the level of small-scale operations, leading to a truce finally concluded in 1609. By that time, deep fiscal differences between the northern and southern provinces reflected the geographical split between them. In the north, Holland showed the shape of things to come. Its Estates had used the breathing space created by the turning war tide to restore its finances and resume its debt service. At the same time, economic growth boosted tax revenues, which enabled the province to borrow more, raising the debt total to 14.4 million guilders by 1609, that is, some 2.5–3 times Brabant's debt around that time. Other provinces remained wary about shouldering debt and continued to meet current spending from current income. Zeeland provides a good example of this policy. Once the fighting had died down there in 1576, the province managed to redeem its debt and raise its revenues, which far outstripped those of Holland. As a result, Zeeland did not have to borrow much in order to fulfill its obligations to the Union, its debt total standing at 0.8 million guilders in 1609, against Holland's 14.4 million. Other provinces also managed to balance their budget. Utrecht's 1609 debt was probably similar to Zeeland's; Groningen and Overijssel had borrowed no more than about 50 000 guilders.

The substantial differences in fiscal pressure and provincial indebtedness among the northern provinces demonstrate that the Union of Utrecht's aim to create greater fiscal harmonization succeeded only up to a point. The various provincial Estates remained free to set tax rates and definitions, as long as they paid their agreed contribution, usually arrived at after arduous negotiations. The Union treaty was also flawed in not providing sanctions for not paying up, leading to rising arrears as time went by. The Estates General had a hard time in covering these, having a small borrowing capacity based on the trickle of levies on overseas imports earmarked for naval expenses. During 1600–09, the Union borrowed a total of 3.8 million, of which Holland took over 3 million upon the signing of the Truce.

HOLLAND'S EXCEPTIONALISM

In 1621, the Republic and Spain resumed their war on a much larger scale than before. Both sides invested heavily in border skirmishes, they meddled in the Thirty Years' War, and they transferred the war overseas. The Dutch attempt to conquer Brazil during the 1630s was a notably expensive failure.

Despite the pressure of rising expenditure in north and south, the bargaining framework between the provinces and the central government over tax transfers hardly changed. In the Spanish Netherlands, the major cities retained control over the raising and spending of taxes levied by them in the name of the Brussels government. Flanders even ceded its hold on the new expedients introduced during the 1540s and returned to the old system of assigning specific sums for individual cities and regions to raise. Sluggish economic growth limited the scope for new or higher taxation. Both Flanders and Brabant stopped deficit spending and prioritized debt redemption over transfers to the central government, which were further reduced by the provinces' insistence that any military spending went to troops stationed within their borders. As a result, Brussels had to fund its war effort mainly with transfers from Spain.

By contrast, the province of Holland set out on an entirely different course. In 1609, its Estates had used the Truce to reorganize the debt by converting short-term bills into redeemable annuities and putting a stop to borrowing, save for a small amount raised to take over Union debt. However, the resumption of the war in 1621 caused the province to start borrowing again on a large scale, initially by issuing redeemable and life annuities. From 1628, new issues consisted entirely of bills, short-term instruments sold by tax receivers across the province and redeemable at short notice by their holders. Because of that liquidity, these bills proved so popular with investors that they gradually evolved into quasi perpetuities, being rolled over time and again. When Holland reduced interest rates on its outstanding debt from 6.25% to 5% in 1640, the Estates set aside only 800 000 guilders to repay investors unwilling to accept the conversion on a total debt of 94 million. Provincial debt subsequently continued to rise to 125.5 million by the time of the Peace of Westphalia in 1648.

These bills enabled Holland to embark on a deliberate policy of deficit spending. From a temporary bridge of gaps between revenues and spending, its borrowing was transformed into a structural public finance feature. This policy stood out among the other northern provinces. Zeeland, for instance, experienced such economic difficulties following the closure of the Scheldt River and the loss of satellite trade from Antwerp that the Estates repeatedly had to renegotiate their contribution to the central war effort, which dropped from 22.5% in 1575 via 14.7% in 1595 to only 9.2% in 1616, the last reduction achieved only after particularly arduous negotiations. As a result, Zeeland could shoulder the burdens of renewed warfare from 1621 with modest borrowing. Its debt rose to 4.3 million guilders in 1648, a fraction of Holland's amount and only 50 guilders per capita, against 164 guilders for its northern neighbor.

Other provinces also strove to pay their contributions from current income as much as possible and to restrict borrowing to bridging temporary gaps between income and spending. Debts remained small overall during this period because outside Holland markets for public securities were slow to develop. None of the provinces could adopt bills like Holland did; local markets for life annuities and redeemable annuities had a finite capacity and capital from Holland does not appear to have crossed borders of its own volition during these years. However, the provinces did enter the Holland market through a back door opened by the Estates General, which floated loans on its own credit to cover the rising provincial contribution arrears. By 1648, the Union's receiver-general in The Hague had raised a total of 12.8 million guilders in bonds toward this end, the interest of 6.25% being charged to the provinces. This allowed the provinces to profit from Holland's greater pool of savings, greater liquidity, and lower interest rates, reducing debt service costs. A string of foreign governments would discover, and exploit, these advantages during the eighteenth century, some of them also initially via the Estates General's intermediation.

The end of the war with Spain also ended the community of interests between the Republic constituents and put pressure on the reigning policy consensus. The land provinces thoroughly disliked being made to accept debt via the Estates General and resented carrying the can for what they regarded as the sea provinces', and especially Holland's, self-interested policies. For its part, Holland wanted to reduce the political risks that a large army under the Orange stadholders might pose, so in 1651, the Estates General decided to further undo the 1579 Union of Utrecht and delegate control over military spending and appointments almost entirely to the provinces. This provincial particularism has often been criticized as the most telling example of the Republic's institutional impotence, but events would soon force the northern provinces to accept yet heavier burdens and start deficit spending on a big scale.

ENTERING A VICIOUS DEBT CIRCLE

As one of Europe's leading powers during the second half of the seventeenth century, the Republic was engaged in almost continuous war with the other majors, Britain and France alternating and occasionally, as in 1672, combining as main opponents in efforts to cut the Dutch down to size. This prolonged power struggle culminated in the War of the Spanish Succession (1701–13), which raised military expenditure to unprecedented heights and taxed the belligerents to their financial limits. While France and Britain ultimately succeeded in stretching resources sufficiently for them to continue the international political competition, the Republic did not, and retreated in a watchful, but really impotent, neutrality.

The retreat masks the success with which the Republic had stretched its public finance resources during the war. The data reconstructed by Fritschy and her team enables us to calculate fiscal revenue per capita for five provinces: Holland, Zeeland, Friesland, Overijssel, and Drenthe. Overall fiscal pressure doubled between 1648 and 1713, rising during wartime and dropping after it. Taxation was highest in Holland and Zeeland, rising to around 30 guilders per capita during the War of the Spanish Succession. These two provinces possessed a stretch which the other ones lacked. Friesland, for instance, taxed its subject at more or less similar levels until about 1690, but could not raise tax per capita to more than 20 guilders. Even that was not enough to meet the province's obligations, causing the Estates to partially default on its debt by suspending interest payments on annuities sold outside the province. Overijssel and Drenthe raised even less revenue per capita, but the real tax pressure in those provinces probably neared that of Friesland, wages being on average 25–35% lower than in the sea-oriented provinces.

Tax increases alone did not suffice; all provinces had to raise additional large loans. Holland was exceptional in building up a large debt early, but during the Nine Years' War (1689–98) and the War of the Spanish Succession, Zeeland and Utrecht quickly amassed a similarly large debt in proportion to their population. This was clearly too high in the case of Zeeland and Utrecht. Debt continued to rise after the war because the provinces had to borrow to cover their primary deficit, whereas Holland still ran small surpluses. In Friesland and probably Groningen, debt also rose during the 1690s and early 1700s, touching more than 200 guilders per capita in Friesland, as much as their fiscal capacity would allow, and in Friesland's case, more than that, for the province resorted to a partial default by suspending interest payments on bonds sold outside the province in 1710. Overijssel and Drenthe also borrowed to the extent of their fiscal resources, which, being considerably smaller than those in Friesland and Groningen, resulted in a debt per capita of around 50 and 30 guilders, respectively. The factor limiting debt size was thus the volume of provincial tax revenues as set not by an aversion to pay, for most provinces had real tax burdens per capita similar to that of Holland, but by the capacity to pay, that is to say, the relative size of the economy: each province paid what it could.

Remarkably, the Republic's fragmented political and fiscal structure did not lead to provinces refusing to contribute to the war effort, or to a more pronounced free-riding on Holland's credit than the structural late payments. The Estates General in The Hague may have been weak, but the northern provinces displayed a high degree of political and fiscal cohesion, assuming joint burdens as far as their financial capacity would allow. This endorses Fritschy's rejection of the institutional impotence thesis: the Republic's central political structures may have been weak and impervious to change, and the blatant starvation of central funds exercised by all provinces may have enfeebled policymaking more than necessary, but at the provincial level authorities did what they could to make ends meet. Once joint decisions had been taken, the provinces loyally raised their contribution. The north's greater cohesion contrasts strongly with the south, where the fiscal devolution reaching down to the cities complicated policy at provincial level and frustrated it at the central level. The north's cohesion and its results are a delicious historical irony in the sense that the provinces which successfully revolted against their Habsburg overlord over the threat of fiscal centralization and the level of taxation ended up with a greater fiscal uniformity and higher taxes than the provinces which remained under Habsburg's control. The different political trajectory of the two countries of course explains a large part of this irony; while the Revolt forged a centripetal momentum in the north, the alienation from foreign regimes reinforced centrifugal tendencies in the south.

But the North could also afford greater sacrifices. Provinces moved to deficit spending because the available wealth created both a source of tax revenues and a demand for long-term investment in public securities. Most provinces adopted a device pioneered by Holland in the late sixteenth century and started to tax wealth around 1700, with such taxes rising to the third main revenue source after land taxes and excises. As for investors' demand, during the War of the Spanish Succession, Friesland, Overijssel, and Drenthe had no difficulties in selling redeemable annuities at issuing rates similar to those of Holland, that is to say, 4–5%, and even the poorest province, Drenthe, built up a debt of 1 million guilders, of which only 100 000 was sold elsewhere. The discrepancy between accumulating wealth and a stagnating tax base is demonstrated to telling effect by the strong increase of Union debt between 1672 and 1715. During this period, the receiver-general in The Hague not only issued bonds anticipating his own revenues from customs duties and domains, but also sold bonds to the tune of 37 million for various provinces, which used his credit to obtain slightly lower interest rates and thus reduce debt service costs. Such loans usually had a coupon of 9%, half-and-half interest and amortization, resulting in the loans being paid off in 20 years. The life annuities they replaced paid 9–10% and ran for an estimated 50 years. The ability to tap Holland's wealth indirectly thus obviated the need for further fiscal reforms. The provinces responded with ingratitude, building up interest arrears, which forced the receiver-general's office into suspending payments for more than 9 months during 1715. It was reopened only after a unilateral interest rate cut.

Thus, the wars fought by the Republic between 1672 and 1713 strained fiscal resources to their limits, yet as a whole the public finance system performed remarkably well. Due to the country's overall prosperity, tax per capita was high, interest rates were low, and all provinces accepted the need for deficit spending and high levels of debt.

CONSTRAINED BY LOCAL PARTICULARISM: THE AUSTRIAN NETHERLANDS

The sparse fiscal data concerning the Spanish Netherlands suggest that the country came under serious financial strains during the late seventeenth century, causing the Spanish government to borrow heavily from the Republic. The debts outstanding were transferred to the Austrian government which took over from Spain in 1714. Moreover, in accordance with the Treaty of Utrecht, the Brussels government had to pay 1.4 million guilders annually to the Republic for the maintenance of the so-called Barrier, a string of garrison towns along the Franco-Belgian border designed to deter a new French attack. The clauses of the 1715 Barrier Treaty between Brussels and the Republic show that the Austrian regime was too optimistic about its financial powers in the newly won territories. The annual payments were collateralized on the transfers from Flanders and Brabant, the Republic receiving a right to seize money at the provincial receivers in case of nonpayment. The two provinces protested with such vigor about this infringement of their rights that Brussels had to renegotiate the treaty and mortgage its own customs duties instead.

The continuing fiscal fragmentation seriously constrained borrowing capacity; so, even relatively small debts imposed heavy strains. There are no exact data about public debt in the southern Netherlands. A 1733 memo arguing for an interest rate cut from 5% to 4% put the expected annual savings at 300 000 Brabant guilders, suggesting a total debt of 30 million Brabant guilders for the entire country, respectively around 270 000 and 2.7 million Dutch guilders, comparable to Zeeland's or Utrecht's debt in the north, but on a population similar in size to that of the entire Republic. The Brussels government's own debt rarely exceeded 2.5 million Brabant guilders on an income rising gradually to 10 million Brabant guilders by 1760, or 2.2 million and 8.9 million Dutch guilders, respectively. This was very low; with roughly eight times the Dutch Estates General's own income, Brussels sustained only a quarter of its northern counterpart's debt. And yet the government had difficulty in obtaining credit. Until the mid-eighteenth century, Brussels could not approach investors directly, partly because of uncertainty over whether the funds raised would be used for the country itself or for Austrian imperial purposes. When pressed for money, as was usually the case, the government borrowed far and wide: from local, regional, and provincial bodies, from local or foreign bankers, from corporations such as the Brussels brewers' guild and ecclesiastical bodies, and even from its own officials by way of levies on salaries. These latter loans were sold on from one incumbent to the next as life annuities, causing the government to lose track of its original collateral. Regular interest and redemption payments restored the Brussels government's credit, so by the 1740s it could start issuing loans of its own, mostly through the private bankers Nettine's. Issuing rates hovered around 4% throughout the eighteenth century, on a few occasions rising to 5%, more often dropping to 3–3.4%. Thus, the Brussels government did not fully exploit its fiscal potential, borrowing rather less than its income would appear to have warranted, and judging from late eighteenth-century data, the same was true for the provinces. Around 1780, total tax revenues in the south were estimated at nearly 12 million Brabant guilders or 10.7 million Dutch guilders, less than a third of total revenues in the north. No reliable figures have been found yet for total debt. One contemporary estimate puts this at around 100 million Brabant guilders or 89.2 Dutch guilders, a sixth of the north's total, but since the debt is unlikely to have more than tripled since the 1730s, it was probably substantially lower than that. Flanders had a debt of 18 million Brabant guilders in

1780 on revenues of just over 5 million, respectively 16 million and 4.4 million Dutch guilders, that is to say, twice the revenue of Zeeland, but only two-thirds of its debt. The debt was small but issuing rates were nevertheless low at 3% in the 1770s. Therefore, the southern provinces as a whole, which possessed enough savings to sustain a larger debt, appear to have underused their fiscal potential.

Public finance in the south could not evolve because the political structure did not allow it. The cities held the fiscal reins, the provincial estates had little power of their own, the southern Estates General existed in name only, and the Brussels regime could do little more than exert influence through persuasion, patronage, and cajoling. The Four Members' control of the Flanders Estates, for instance, resulted in an uneven and relatively low tax yield, insufficient to cover expenses. The shortfall was made up by borrowing, which caused debts to rise inexorably. Representatives from rural districts strove hard for admission to the Estates so as to redress the fiscal iniquity and financial mismanagement, but succeeded only during the 1750s.

CONCLUSION

The Low Countries demonstrate both the strengths and the weaknesses of Early Modern public finance to good effect. From the 1430s onward, the lands gradually evolved from a fiscal system dominated by the cities toward a more centralized policy in which the interplay between Brussels and the provincial estates called the tune. The financial emergency posed by the Revolt then pushed the Northern provinces into driving this development to the half-way mark of vesting fiscal autonomy in the provinces, reducing urban power but at the same time keeping the Union at a distance. By contrast, in the south, fiscal power reverted to the cities. This constrained not only the Brussels government, kept at arm's length as the Union was in the north, but also provincial finance, which struggled with low tax yields, a small borrowing capacity, and vested urban interests.

Thus, Alba's attempt to harmonize and raise taxation succeeded in the part of the country that Spain lost, and failed in the part which it managed to keep. One must see this irony of history as a conjunction of structural with coincidental factors. Without the religious unrest, without the recession of the 1560s, without the vicissitudes of war, the whole of the Habsburg Netherlands might well have continued its gradual evolution from urban autonomy to provincial sovereignty, perhaps even to a countrywide representative government: though still little more than an assembly of provincial delegates, by 1560 the Estates General proved itself quite capable in its opposition to Philip II's demands. The structural factor that allowed the North to borrow much larger sums at gradually declining rates was its spectacular economic growth, boosted by the effective blockade of its nearest commercial rival and by the temporary reduced presence of competitors such as Britain and France for internal political reasons. By generating rising incomes, the Golden Age boom created the room for shifting fiscal controls upward to the province, since provincial taxes did not starve local taxpayers, nor did they rob the cities of necessary revenues. Conversely, during the second half of the seventeenth century, the slowing down of growth combined with a resurging interstate rivalry to reverse the rudimentary further shift upward to the national level. Having reached the limits of its economic expansion and political power, the Republic had nothing to gain from increased spending and greater fiscal centralization, while existing fiscal bottlenecks could be eased by borrowing on Holland's credit by way of the Estates General. The receiver-general's suspension of payments in 1715 showed that that particular solution, too, had been exhausted, underlining the Republic's need to step back from the interstate competition and try to survive by juggling alliances with a view to keeping deficit spending to an absolute minimum.

By showing how and why financial restraints on central government emerged and operated in the way they did, the case of the Low Countries between the fifteenth and eighteenth centuries deepens one's understanding of the link between limited government and the evolution of public finance. It demonstrates that constraints on the executive can produce very different outcomes depending on political and economic circumstances. The southern Netherlands formed part of larger political units that subordinated the interests of individual provinces to the political agenda of regimes in remote capitals; in their turn, the interests of its main provinces Flanders and Brabant were subordinated to those of a few powerful cities. These cities raised most of the country's taxes and thus forced the central government into strenuous bargaining about financial transfers. In the Dutch Republic, by contrast, sovereignty was lodged in the individual provinces that controlled the bulk of the country's fiscal revenue. The provinces could block the Estates General's decisions on foreign policy and warfare, but within the Provincial Estates, no city, not even Amsterdam, possessed the financial muscle to pose a credible threat of obstruction. Thus, the Dutch Revolt and the related economic divergence between the two regions sent the northern and southern Netherlands on entirely different trajectories, the United Provinces becoming one of the most powerful and rich states of Europe, and the Spanish Netherlands entering a prolonged period of stagnation.

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