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978-0-521-14260-1 - A Financial History of the Netherlands

Edited by Marjolein 't Hart, Joost Jonker and Jan Luiten van Zanden

Excerpt

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1 Introduction

**MARJOLEIN 'T HART, JOOST JONKER AND
JAN LUITEN VAN ZANDEN**

The study of the financial and monetary history of The Netherlands shows a vacuum between about 1965 and 1985. Silence ruled for almost 20 years after J.G. van Dillen, the most important historian of the financial history of the Dutch Republic, laid his pen aside and A.M. de Jong completed his history of the Nederlandsche Bank (the Dutch central bank). M.G. Buist's history of the banking house of Hope & Co. proved for long the only exception among Dutch scholarship. The field was left to British and American historians who conducted pioneering research into government finance in Holland in the sixteenth century (J.D. Tracy) and the Amsterdam capital market in the eighteenth century (A.C. Carter and J.C. Riley). However, new outlooks of Dutch origin arose in the slipstream of an international boom in monetary and financial history. W. Fritschy (1988), M. 't Hart (1989a), E.H.M. Dormans (1991), J. Barendregt (1993) and R. van der Voort (1994) obtained their doctorate on studies of government finance in the seventeenth to the twentieth centuries. The first volume of Joh. de Vries' history of the Nederlandsche Bank in the period 1914–48 appeared in 1989. In the meantime the discussion about monetary policy in the 1930s was revived by contributions of Den Bakker and Bochove 1988, Van Zanden 1988c and J.W. Drukker 1990. Finally, this period witnessed the start of research into the Bank of Amsterdam (P. Dehing in progress) and into Amsterdam banking during the nineteenth century (J. Jonker 1996b). The work in progress shows that these studies have provided important new insights into Dutch financial history. In short, in the range of a couple of years time a moribund specialism revived.

Such considerations induced the editors to compile this book. Its main aim is to unlock the new findings of recent research to an international audience. By allowing the specialists of the new wave to contribute a chapter on their subject, a new overview is established of the financial history of The Netherlands. An important part of these results has not yet appeared in print. An even larger share of the contributions is published in English for the first time.

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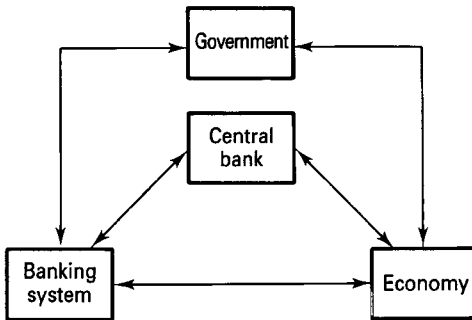


Figure 1.1 The actors in the financial system

This financial history of The Netherlands describes and analyses developments in three closely related fields, viz. the monetary system (such as currency and the gold standard), banking and public finance. Three groups of actors interact on this historical stage: the agents of the government, the governors of the banks and the other members of the financial elite – entrepreneurs, speculators, stockbrokers, (institutional) investors and more. Such interactions are only partly regulated by operations of the central bank, which acts in modern economies as the bank of the government, as the regulator of the monetary system, as the guardian of the value of money and as lender of last resort (see figure 1.1).

A lead in this book concerns the impact of public institutions upon the development of the financial and monetary system. Governments affect monetary developments in various ways. Rulers define the currency system, manipulate the value of money or create money to finance their expenditure. To mention yet another example, the creation of a funded debt is one of the most crucial moments in the financial history of a nation.

The close relationship between political–institutional and financial developments define the periodisation of Dutch financial history. The following periods can be discerned: from c. 1550 until the Revolt of 1572; the period of the Republic (1572–1795); the transition to a nation state (1795–1848); and The Netherlands as a nation state (1848 until today). This periodisation will be elaborated in more detail.

Around 1550, the starting point of this book, the northern Netherlands constituted a loose conglomeration of some well-developed provinces (Zeeland and Holland) and some fairly marginal parts of the large Habsburg Empire during the reign of Charles V (1515–55). The economy of the Low Countries was dominated by the commercial and financial metropolis of Antwerp. In a monetary field the maritime regions of The Netherlands were already fairly uniform due to the reforms of the fifteenth-

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century Burgundian princes and of Charles V. The currency system was unified and well-guarded in particular. However, the various provinces (*gewesten*) were characterised by a high degree of fiscal autonomy, which was carried by their striving to preserve urban and provincial privileges. The Provincial Councils and the States General at Brussels were in almost continuous negotiation with the monarch (Charles V, later Philip II) about the incidence and structure of taxation. In comparison with Antwerp and Bruges banking had made relatively little progress in the northern Netherlands.

The Revolt of 1572 and the successful war against the legitimate authorities – a war, fuelled by the broad resistance to plans for a highly centralised system of taxation schemed up by Philip II and his governor Alva – resulted in an institutional structure in which the various provinces and cities of the northern Netherlands were bestowed a high degree of autonomy. The States General of the Republic of the United Provinces constituted a comparatively weak party, most certainly in financial respect, that did not succeed in levying national taxes (see chapter 2). This highly fragmented institutional structure remained until 1795, despite some moves of *Stadhouders* of the House of Orange (Prince and King William III and Prince William IV) towards the centralisation of power. In connection with this framework the provinces developed their own financial and banking system to a significant extent. The well-known exchange banks of Amsterdam, Rotterdam and Middelburg were essentially local banks that regulated payments within the city. Generally, almost every city pursued its own economic policy: to encourage the establishment of exchange brokers and industrial entrepreneurs, or to forbid their settlement as in the case of the Amsterdam cashiers; to raise local taxes; to protect the local industry by prohibiting the importation of certain products; and so on and so forth. Due to the Burgundian legacy the currency system was less fragmented. Yet, every province had its own mint that was to some degree autonomous (see chapter 3). Each province administered its own public finances. However, the dominance of the wealthy Holland, which accounted for c. 60 per cent of the government expenditure of the Republic, parried the worst of early modern fiscal problems, like bankruptcies. Moreover, the loose institutional structure allowed for the development of Amsterdam as the world's most important capital market of the time. Its network was sustained by the joint settlement of a multitude of leading merchants and banking houses.

It has long been debated whether or not this fragmented political–institutional and financial structure contributed to the decline of the Republic in the eighteenth century. In any case, the discontent about the rapidly growing burden of the public debt of Holland after 1780 did play a porten-

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tous part in the efforts of representatives of the Holland patriot bourgeoisie to create a nation state. Such schemes became ultimately possible through the occupation of The Netherlands by French troops in 1795, which put an end to the Republic. The subsequent 53 years – between the end of the Republic in 1795 and the liberal constitution of 1848 – were characterised by a gradual and intermittent construction of the institutional structure of a centralised nation state. After the defeat of Napoleon the merging of The Netherlands and Belgium was designed. Although these plans were ended by the Belgian revolt of 1830, the transition to a national financial and monetary system moved firmly ahead. Several determining events can be mentioned here: the amalgamation of the public debt in 1798, the creation of a national system of taxation in 1806, the centralisation of the mint in 1806/7, the currency reform of 1843, the reorganisation of government debt in 1844/5, the establishment of the Nederlandsche Bank in 1814, and the remodelling of this bank from a strictly local, Amsterdam bank to a (more or less) national bank in the 1860s.

The next hundred years or so, up to the creation of the EEC in 1958, was dominated by the maturation of the bonds within the financial system. The nationwide interaction between government, the central bank, bankers, and entrepreneurs increasingly determined the ups and downs of Dutch finance. Whereas the early nineteenth-century state had been geared to primary tasks – defence and servicing the public debt were by far the most important items of expenditure – after 1850 it gradually developed a policy aimed at stimulating the wealth of the nation. More attention was devoted to education, poor relief, and infrastructural works. After 1900 a wide range of policies was added to encourage house construction, to provide social services, to protect the weaker economic sectors (such as agriculture after 1929), or to prevent unemployment.

Through trial and error, the Nederlandsche Bank gradually acquired a role as the bankers' bank and came to exert a significant sway on banking in all parts of the economy. The Dutch private banks, although later as compared with neighbouring countries, increasingly expanded their financial services to entrepreneurs, (institutional) investors and, in the long run, also to households.

With the Treaty of Rome in 1958 another turning point was set. This time the transformation headed towards a united Europe. As for these last 35 years it is still unclear what the final outcome will be like, and when the transformation process will be completed. The complexity can be compared with the earlier phase in Dutch history when the provinces strove into the effort of a nation-state during 1795–1848. Without doubt the recent transition to a new institutional structure will be a long process with many ups and downs. Following the so-called snake arrangement (1973–9) and the

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European Monetary System (since 1979) cooperation in the sphere of international monetary policy stuck, despite (or because of) the ambitious plans adopted in Maastricht in 1991. The attempts to accomplish institutional collaboration should be regarded in the context of a strong internationalisation of economic life in the after war period, also due to the success of the European Community in liberalising intra-European trade. While capital and product markets are increasingly tied together, the internationalisation has considerably limited the margins of national government policies. A national economic policy to stimulate the economy by means of lowering exchange rates or increasing government expenditure is hardly feasible and virtually ineffective. A national financial and monetary system no longer exists. Neither can the international political institutions shoulder the tasks of the nation-state.

The development of the political–institutional structure, outlined above, provides the framework of the financial history of The Netherlands. Another significant ingredient is the specific economic development of this region that was characterised by a relatively modern economic structure at an early stage. Already in the fifteenth and sixteenth centuries the provinces of Holland and Zeeland (and future Noord-Brabant) experienced an economic boom, based on the rise of export-oriented industries, fisheries, trade and shipping. Yet the region was outstripped by the expansion of the economy of the southern Netherlands where the centres of merchant capitalism (Bruges, later Antwerp) dominated economics. After the southern Netherlands were recaptured by the Spanish and the port of Antwerp was blocked by the Dutch in 1585, the economic centre of the Low Countries shifted towards Holland, in particular to the large industrial centres (Leiden, Haarlem) and to Amsterdam which then became the centre of world trade. In financial respects the establishment of the Bank of Amsterdam in 1609 added significantly to the key role of Amsterdam in the world economy. In addition, the abundance of capital that was amassed after 1585 allowed an enormous increase in government expenditure and debt, without the need for the creation of a powerful central tax authority.

At some time between 1650 and 1700 the remarkable expansion of the economy of Holland came to a standstill. After 1700 Holland was surpassed by Great Britain (Israel 1989). Yet the abundant wealth remained. Due to the high ratio of savings of the Dutch bourgeoisie this wealth even increased during the eighteenth century. However, because of the lack of domestic investment opportunities, funds were invested more and more in foreign countries. With the absence of a powerful central authority this flight of capital could not be prevented. Furthermore, the political crises of

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the 1780s and 1790s discouraged a large section of the bourgeoisie from buying the new government bonds, leaving the Dutch state an easy prey to foreign troops.

The economic stagnation that started in Holland around 1670 wore on until about 1825 (Van Zanden 1993). The years during which the country was part of the French Empire (1809–13) constituted a break in this extended period of economic stagnation. In the periphery of the Republic – in Groningen, Drenthe, Overijssel, Limburg, and Brabant – there may have been some degree of economic growth during the eighteenth century, a process that continued after 1825. Still, the economic (and political) centre remained in Holland. In 1850, on the eve of a new phase of expansion, Dutch wealth was still concentrated in this province. Between 1830 and 1914 economic growth gradually accelerated. After 1860 stagnation belonged definitely to a distant past and the rate of growth was more or less consistent with (northwestern) European standards. But the economic lead over western Europe, dating from the former Golden Age, was indisputably lost by about 1850. The secondary role of Dutch finance in an international respect coincided with the weakness of the Dutch state with regard to political connections.

In the twentieth century, the economy of The Netherlands was much less exceptional in a European respect as compared with the seventeenth and eighteenth centuries. Several features were characteristic of Dutch development, though. Demographic growth was unique. While the populations of the neighbouring countries increased at a slow rate, the population of The Netherlands doubled between 1900 and 1950. As a result, the growth of total GDP was higher than in neighbouring countries, although the rate of growth of GDP per capita was average. Also, the depression of the 1930s lasted longer in The Netherlands than anywhere else – the peak in unemployment was not reached until 1935! – which is generally attributed to the exchange rate policy (Van Zanden and Griffiths 1989). The Netherlands was the last country to abandon the gold standard. On the other hand, the economic expansion in the 1950s and 1960s seems to be in line with developments of the surrounding economies.

Summing up, in the period prior to 1850 the economic development of The Netherlands deviated considerably from the European pattern. The economy had relatively modern features as early as the sixteenth century. During the first half of the seventeenth century, the Dutch economy expanded, whereas most other countries faced economic crises. Subsequently, growth in Holland stagnated between 1670 and 1825, when economic development gained momentum elsewhere. After 1850 the economic advancement of The Netherlands was well on course with the rest of Western Europe.

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These two ingredients, the specific political–institutional development and the early economic modernity of The Netherlands, constitute the framework for Dutch financial history. Despite several turning points and structural changes, several constant ingredients form fundamental threads in the development of the financial system. Some of these threads, i.e., the abundance of capital, the high degree of capital exports, a stable currency, and a comparatively high tax burden, are highlighted below.

A remarkable continuous element in the financial history of The Netherlands is the wealth of capital. Due to the relatively high profits that were earned in international trade from the sixteenth century on, and as a result of the high savings ratio of the bourgeoisie, whether or not arising from a Calvinist way of life, the private sector continuously had a large (net) surplus of savings. The funds were diverted to two major, alternating destinations: foreign investments (predominant between 1720 and 1790 and between 1850 and 1940) and the public debt. There is no exact information or even an educated guess of the size of capital imports and exports in the sixteenth and early seventeenth centuries, but presumably The Netherlands was a capital-importing country until the first decades of the seventeenth century. Such can primarily be ascribed to the migration of numerous merchants from the southern Netherlands into Holland between 1580 and 1620. During the seventeenth century, direct investments in other countries became increasingly more important. The activities of the Dutch East India Company in Asia and of the Dutch West India Company in America and Africa can be interpreted as a kind of direct foreign investment in production and transportation on the spot. Entrepreneurs such as De Geer and Trip were involved in the expansion and modernisation of the Swedish iron industry. Others invested in various activities ranging from wine improvements around Bordeaux to the production of marble in Italy. During the phase of stagnation after 1670 investments in the public debt were the first to increase rapidly. In the eighteenth century, investments in foreign government bonds gained the upper hand. Direct investments were concentrated in one colony, Surinam, particularly in the period 1760–75 (Van Stipriaan 1993). After the French financial crisis following the French Revolution of 1789 the Dutch state absorbed the surplus savings of the private sector again. Liquidations during the Napoleonic Wars diminished their value significantly and investments abroad stagnated until 1850. However, after 1845 the spectacular growth of public debt came to a halt (see chapter 4) and the government began to redeem part of its debt, aided by the net revenue (*batig slot*) of the colonies in Dutch East India. Consequently indirect foreign investments increased tremendously between 1850 and 1875. After 1875 (when large losses were incurred on American railway companies) the

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growth of Dutch investments abroad slowed down, while opportunities to invest in domestic trade and industry expanded. In the twentieth century, direct foreign investments once again dominated, as they did in the period 1600–70. Around 1900 only 20 per cent of capital invested in other countries consisted of direct investments and 90 per cent of this amount was tied up in Indonesia. The former proportion would rise to more than 50 per cent in 1985, due to the ascent of major multinational corporations such as Shell, Philips, Akzo and Unilever. The expansion of foreign direct investments was violently interrupted by World War II. The war caused, among other things, forcible liquidations of foreign investments as well as the loss of Indonesia. During these years the surplus savings of the private sector were entirely absorbed by the increase in government debt. Nevertheless, throughout the twentieth century, The Netherlands remained one of the world's major investors in other countries, despite the small size of the country. Between 1920 and 1985 The Netherlands was recurrently the third or fourth international investor after Great Britain and the United States, at a level comparable to Germany and France. It was not until 1973 that it had to yield the third place to Japan (Gales and Sluyterman 1993). In per capita terms it has always ranked at the top of the list, a position that actually dates back to the seventeenth century.

The abundance of capital in Holland had major consequences for its financial development. Interest rates were generally lower than those in most other European countries; between 1670 and 1780 Holland was the leading nation in this respect. The ample supply on the capital market enabled government to finance its rapidly rising expenditure in times of war by increasing the public debt. Elsewhere in early modern Europe, governments had to resort to a devaluation of their currency in order to generate sufficient revenue. State bankruptcies were no exception for much of Europe up to the nineteenth century; for the Dutch, such crises were limited in scope. In the twentieth century, manipulation of several foreign currencies was performed by the printing press. The Dutch government managed to avoid such monetary financing and the value of the coin remained virtually intact. Since the early seventeenth century, the guilder had a well-nigh unchanging intrinsic value. Up to 1931 this stability was only equalled by that of the pound sterling. Thereafter, their ways parted: the pound was the first to be devalued in September 1931, the guilder was the last in September 1936. After 1945 and especially since the fall of the pound in 1967 the ratio between the guilder and the pound changed drastically. In the entire twentieth century, the stability of the guilder was matched only by the Swiss franc and by the post-1923 German mark.

But the fact that the Dutch guilder has been such stable currency since the seventeenth century cannot be ascribed only to the abundance of above-

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mentioned capital. As will be shown in chapter 3 other factors also played a part. In the seventeenth and eighteenth centuries coins struck in The Netherlands were export products, destined for circulation in Asia or the Baltic. The demand for this product was partly determined by its quality, i.e., its stability. Strong economic interests prohibited the weakening of the currency. In the main, the stability of the coin reflects the stability of the economic and political system of The Netherlands. Since 1572, when the urban bourgeoisie seized power, the political-economic structure remained basically the same. Even the 'break' of 1795 was less radical than it seemed at first sight: after 1795 the Holland bourgeoisie still ran the show. The comparatively stable socio-economic and political relations, and the absence of major social conflicts, contributed significantly to the stability of the monetary system (and vice versa). The emergence of social movements, the process of pillarisation (*verzuiling*), and the spread of political democracy were gradual – they did not disrupt the calm of Dutch economic life. The political elite continued to adhere to a fairly conservative economic ideology. Prominent politicians of the left and right, such as Colijn, Lieftinck, Drees and Zijlstra, were models of the proverbial Dutch frugality. Experiments with a more expansive economic policy were shunned. Only in cases of *force majeure* – in World War I and during the occupation by Nazi Germany between 1940 and 1945 – did government resort to the printing of new money, which affected the value of the currency. But after both wars the path of financial orthodoxy was soon recaptured.

In the light of the legacy of parsimony the immense expansion of government expenditure, in particular the spending on social services after 1960, is all the more peculiar. In a rather short period The Netherlands developed from a country with a tiny government apparatus into one with a disproportionately large collective sector. This u-turn was marked above all in social security. In the first half of the twentieth century, The Netherlands lagged behind its neighbouring countries in this field, but after 1960 the lag was quickly turned into a considerable lead (Van Zanden and Griffiths 1989). Still, the traditional conservative monetary policy of the Dutch government did remain in place, partly due to the enormous power of the central bank. The exchange rate of the guilder was therefore hardly affected by the expansive policies, the more so since a similar course was pursued in most of the surrounding countries. After 1980 economic policy returned to the mainstream of Dutch history. An explanation for this almost un-Dutch period from 1960 to 1980 is still lacking. The heritage of the years 1960–80, i.e., a high tax burden and a big government, claimed its toll on economic developments after 1980.

The high burden of taxation, which confronted entrepreneurs and households alike after 1960, had historical precedents. In the seventeenth and

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eighteenth centuries the tax burden was more elevated in The Netherlands, and especially in Holland, than in the rest of Europe. After the Revolt the Dutch provinces raised considerably the burden of taxation, a pursuit in which the Habsburgs had not been very successful before 1572. The wealth of capital in Holland and the high degree of commercialisation allowed an increase in taxes to such an extent that the small population of the Republic could compete with the great powers until 1713. Despite a more passive role in international politics after 1713 the tax burden remained high throughout the eighteenth century. The load even increased, forced by the large expenses needed to pay the interest on the public debt. In most countries around 1800 the tax burden probably amounted to no more than 5 or 10 per cent of national income, but in The Netherlands this percentage had reached 12 per cent (Fritschy 1990). In relation to a hodman's wage the incidence of taxation was raised fivefold in the early modern period in Holland. Around 1510 this burden did not exceed c. 7 working days; this augmented to about 20 days in 1700 and more than 33 days in 1790. In other provinces this rise can also be observed, although it was less extreme. Data on Overijssel show a rise from c. 3 working days in 1578 to 14 in 1720, followed by a decline to 11 working days for a hodman in 1790 (Van Zanden 1985).

In this regard the nineteenth century is a unique period: the burden of taxation gradually decreased from c. 12 per cent to almost 7 per cent of national income. In the first half of the nineteenth century this was mainly a result of cut-backs in expenditure. Above all, the army was strongly reduced in accordance with its marginal role in international politics. In the second half of the nineteenth century, the decline in the tax burden was enabled by a revival of economic growth that allowed the concurrence of a modest increase in government expenditure per capita and a continuous lowering of the tax burden. World War I and its aftermath suddenly ended this trend. From 1914 on the ratio of taxes to national income once more shows an upward tendency, in particular during 1960–80. At the end of the twentieth century, The Netherlands became again what it had been in the seventeenth and eighteenth centuries: a country with a high tax burden, large surplus savings, a sizable export of capital, and a strong currency. Above all, the interactions between government, banks, and the financial elite had created and preserved a highly stable, conservative financial–economic climate.

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