

CONTINUITIES AND DISCONTINUITIES IN DUTCH FISCAL HISTORY, C. 1515-1913

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Introduction

For over four hundred years the Netherlands has been one of the wealthiest and most stable regions in the world. According to De Vries and Van der Woude the Dutch Republic was the first modern economy. Already during the Golden Age (c. 1580-1650) the degree of urbanisation was unparalleled; the population was highly educated; markets were relatively free, integrated and monetised; and above all the Republic had “a well-ordered government long capable of protecting the security of its citizens, nurturing the economic interests of its merchants and fishermen, establishing vigorous institutions to advance its colonial ambitions, and maintaining domestic tranquility.”¹ A key feature of the Dutch state was a fiscal system, which was able “to tap a broad tax base with an almost progressive set of levies” and “to support a public debt in which the population invested with confidence.”²

In the nineteenth century the Netherlands was still among the richest nations. Even in 1820, when the British industrial revolution was well under way, per capita income in the Netherlands was still somewhat higher than in Britain. However, in geo-political respect, the Dutch had become a shadow of their glorious past. The country also failed to follow the example of its immediate neighbours on the path of industrialisation. De Vries stated that the Netherlands was not backward but simply obsolete: “Its population is skilled, but with the wrong skills; its capital stock is large, but unproductive; its economic and legal institutions are stable and highly developed, but irrelevant to modern needs.”³ Apparently, the very features that made the country modern in the Golden Age delayed its transition into the age of nationalism and industrialisation.

How efficient were the Dutch fiscal institutions in the long run? This paper focuses on long-term trends in the level and structure of government finances from c. 1515 till 1913. We are particularly interested in continuities and discontinuities in Dutch financial history: to what extent did Republican structures and solutions survive into the nineteenth century and when did breaks in Dutch fiscal history occur?

1. State Formation in the Netherlands

In his *Birth of the Leviathan. Building states and regimes in medieval and early modern Europe* (1997) Thomas Ertman stated that what set Europe apart from other parts of the world was the existence of

¹ Jan de Vries and Ad van der Woude, *The first modern economy. Success, failure, and perseverance of the Dutch economy, 1500-1815* (Cambridge 1997) 714. Angus Maddison, *Dynamic Forces in Capitalist Development* (Oxford 1991), 30, also attributes the advanced nature of the Dutch economy to the modernity of its institutions.

² De Vries and Van der Woude, *The first modern economy*, 714-715.

³ Jan de Vries, *Barges & capitalism. Passenger transportation in the Dutch Economy (1632-1839)* (Utrecht 1981), 215-218.

'sovereign territorial states' with dynamic market economies which permitted a breakthrough to self-sustaining growth.⁴ The process of state formation led to various types of state, characterised by Ertman along two sets of classification: absolutist-constitutional and patrimonial-bureaucratic. 'Constitutional' and 'absolutist' points to whether the regime shares the legislative prerogative with a representative assembly or not. 'Patrimonial' refers to a 'state-infrastructure' in which administrative tasks are appropriated by elite-groups, *either* as their hereditary property, *or* to run them for their own profit, *or* by extending local authority to a whole region. On the other hand, a 'bureaucratic' state infrastructure is characterised by a formal hierarchy of positions and specific educational qualifications.

The high degree of differentiation and commercialisation, in the numerous towns as well as in the countryside, drove state formation in the Netherlands in the constitutional direction. In the fifteenth and sixteenth centuries, when the Low Countries were first added to the heritage of the Dukes of Burgundy and then became part of the Habsburg Empire, the overlords had to grant significant bargaining powers to the regional representative assemblies (the Provincial States) in order to find the necessary funds for warfare.⁵ For the Dutch, geo-political competition became particularly strong in the late sixteenth century. The independent federation of the northern Netherlands (established in the period 1572-1581) enhanced the power of the regional assemblies. The provinces became the sovereign constituents, sending delegates to the States General, the meeting of the United Provinces that decided on war and peace and other matters that pertained to the Union. Each province, in turn, was made up from various delegates from the towns and rural quarters.⁶

War remained the major driving force in Dutch state formation. Foreign threats and the desire to influence the international balance of power induced the provinces to continue their cooperation during the time of the Dutch Republic (1572-1795). The Batavian-French interlude (1795-1813) was determined by revolutionary and Napoleonic wars. Even though the period c. 1813-1913 was relatively quiet, the War of Belgian Secession (1830s) caused a severe constitutional crisis and a restructuring of government finances.

Throughout the seventeenth century, the United Netherlands still found a place among the great European powers.⁷ However, in the eighteenth century the Dutch failed to keep up with the pace of development of some major competing nation-states. The republican structure collapsed in 1795. In 1798 the first national budget was presented to an elected parliament in the new, centralised northern Netherlands. The semi-absolutist reign of King William I of Orange that was established in 1813-15 was to include the territory of the southern Netherlands up to 1830. Yet

⁴ Thomas Ertman, *Birth of the Leviathan. Building states and regimes in medieval and early modern Europe* (Cambridge 1997) 3-4.

⁵ Herman van der Wee, *The Low Countries in the early modern period* (Aldershot 1993) 16.

⁶ Jonathan I. Israel, *The Dutch Republic. Its Rise, Greatness, and Fall 1477-1806* (Oxford 1995), 179-195.

much of the administration continued to depend upon regional and local structures. In the second half of the nineteenth century this fact was recognised in the shift back of many executive powers to the local governing boards.

Dutch fiscal history can be divided as to the following periods, each with a distinctive set of characteristics:

- (1) 1515-1572 : central rule, direct taxes and urban credit based on excises
- (2) 1572-c.1700: provincial indirect taxes and credit in a rising federal republic
- (3) c. 1700-1795: provincial direct taxes and credit in a declining federal republic
- (4) (1795) 1813-1848: semi-absolutist monarchy, centralised but chaotic fiscal institutions, dependency upon capital market
- (5) 1848-1913: constitutional monarchy, new direct taxes, shift to local public finance.

2. Fiscal Institutions

By tradition, the Burgundian and Habsburg overlords had repartitioned the sums necessary for their wars over the separate regions of the Netherlands. The year 1514 witnessed a step towards greater efficiency with the *Informacie*, a new assessment for the of Holland, not based on area, but on the relative income and wealth of cities and villages. A significant corollary was that the powerful city of Dordrecht lost its privileged position, putting an end to its ruthless exploitation of the countryside.⁸

In tax collection, the towns enjoyed a significant autonomy. In exchange for immediate financial support in emergencies, individual cities had been granted many of the ‘regalia’ or domanial rights originally belonging to their overlord. Yet again, from the start of his reign (1515) Charles V contested the right of cities to introduce new taxes or to raise rates without his consent. Along with his *Informacie*, these policies strengthened central bureaucratic rule.

Yet much of the bureaucratic advantages of the *Informacie* were undone as the assessment ledgers were not renewed during the sixteenth century. Instead, the distributional quotas were fixed, new privileges were granted, and within the rapidly changing economy the burden of the direct taxes became quite uneven again.

In the following centuries, much of these deficiencies in the collection of direct taxes persisted. Only in 1584, 1632 and 1732 new repartitions were made in the province of Holland. As a result, funds did not increase automatically along with population or economic growth. The local authorities remained responsible for their part in the assessment and for the actual implementation thereof. The inequalities grew more burdensome in the eighteenth century, as much of the direct

⁷ Cf. the comparable expenses of several European states: Martin Körner, ‘Expenditure’, in: Richard Bonney (ed.), *Economic Systems and State Finance* (Oxford 1995) 400.

⁸ Preventing ruthless exploitation by towns over their countryside, cf. in northern Italy: S.R. Epstein, *Freedom and growth. The rise of states and markets in Europe, 1300-1750* (London 2000) 146.

taxes were raised, while most localities experienced a massive de-urbanization. Even in 1835 the payable amounts in some cadastral districts were only 5% of the registered value, in others as much as 13%.⁹ The first renewal of the registry was realised only in 1875.

Fixed quotas also hindered fiscal development at Union or Generality level. The distribution of Union expenses was in permanent rates, the provinces remaining fiscally autonomous in finding the necessary means. Holland continued to pay about 60 per cent of the total expenditure of the Dutch Republic. The percentages of the other provinces varied between 3 and 12, despite strong divergences of developments in population and economy. Moreover, the inland provinces often paid less than they had promised. The quota distribution was finally abolished when centralised taxes were imposed in 1806.

The bulk of the quota funds were spent on land warfare. Traditionally, the protection of commerce by convoy at sea had been organized by the merchants themselves, for which they levied duties on their own account. Attempts at centralisation of the navy by Burgundian and Habsburg rulers failed.¹⁰ During the Republic, five separate admiralties were responsible for the collection of this “generality” (i.e. Union) revenue. Although the sums fell officially under the responsibility of the States General and the rates were decided upon centrally, evasions and frauds were difficult to control.¹¹ As the custom revenues were supposed to be employed directly for the upkeep of the local navy establishment, the members of the Admiralty Boards were able to divert a lot of the funds to their own profit.

A major consequence was that the finances of the navy languished.¹² Britain managed to profit from numerous extensions on its customs rates, extending its (centralised!) navy establishment during the eighteenth century.¹³ However, Dutch custom duties were hardly ever raised (see section 5 below). The necessary additional sums that had to be provided by the provinces often came in late and incomplete. In the eighteenth century, nevertheless, more warships were equipped and shipped out, yet in competition with the British navy this was not sufficient.¹⁴

On the other hand, the fiscal autonomy of the provinces was not in every respect inefficient. The provincial tax authorities were always in a position to take the specific economic conditions of their territories into account. Moreover, the expenditure on dikes for the protection against water and on the improvement of the countryside by the drainage boards were decentralized and financed in general by the inhabitants of areas with an interest in their upkeep. At the central level, no costly courts or central bureaucracies had to be paid.

⁹ F.N. Sickenga, *Geschiedenis der Nederlandsche belastingen sedert het jaar 1810* (Utrecht 1883) I, 36.

¹⁰ L. Sicking, 'Hollands voorsprong ter zee', *Holland* 31(1999) 244-251, 245.

¹¹ Johan de Vries, *De economische achteruitgang der republiek in de achttiende eeuw* (Leiden 1968) 20; J. Hovy, *Het voorstel van 1751 tot instelling van een beperkt vrijhavenstelsel in de Republiek* (Groningen 1966) 96-118.

¹² Jaap R. Bruijn, *The Dutch Navy of the seventeenth and eighteenth centuries* (Columbia 1993) 155.

¹³ John Brewer, *The Sinews of Power. War, money and the English state* (London 1989) 211.

¹⁴ J.M.F. Fritschy, *De patriotten en de financiën van de Bataafse Republiek. Hollands krediet en de smalle marges voor een nieuw beleid (1795-1801)* (Amsterdam 1988) 63-64.

As for debt service, the institutions of the Dutch Republic have recurrently been praised in historiography. The strongest public credit of all was found in the province of Holland. In 1515 five of the six major Holland cities agreed to find buyers together for a capital sum of 22,400 Dutch pounds with interest and capital to be paid out of future terms of the aide (the *ordinaris bede*). This institutional novelty was the first step on the road to Holland's provincial credit.¹⁵ An important characteristic of this loan was that it was completely raised in the form of heritable annuities at the low interest rate of 6.25 per cent in stead of the high rate on life-annuities of 16.67.

The next important step in fiscal respect date from the 1540s, labelled by Tracy as a 'financial revolution' comparable to the British one of the 1690s.¹⁶ The States of Holland were persuaded not only to sell annuities on the credit of the six great cities together, for the war of Charles V against France, but also to levy collective excises to secure the debt service on these loans instead of funding them on the receipt of the aides. No exemptions were allowed to clergy or nobility. Yet the emperor had to make the concession that the excise revenue would proceed to the coffers of the provincial receiver, and that the debt service would be effectuated and administrated by the province itself.

These new institutional arrangements implied an important reinforcement of the provincial level of the fiscal state, which led to the emergence of a free market of provincial *renten*. However, the provincial excises still existed only in the towns. The rural localities had to pay their part by way of a land tax.¹⁷ Only in 1572 did the 'provincial' excises become truly provincial. The sheer number of the different excises, and their revolutionary revenues, became the cornerstone of the seventeenth century Republic.¹⁸

The collection of most of the excises was farmed out. Naturally, this was a traditional 'patrimonial' device, yet not necessarily 'inefficient' in the early modern settings. After all, tax farming did ensure the provision of tax funds at a specified time, whereas the actual collection of the funds always implied insecurities. The selling of farms was supervised by representatives of the other towns as to avoid local arrangements. Moreover, the farms were relatively small and restricted to a maximum of one or two years, which prevented the formation of powerful monopolies.

However, tax farmers did occasionally become the object of popular discontent, as in most other countries with tax farms. In combination with wide-spread political troubles, the tax revolts in 1748 eventually resulted in an abolishment of most tax-farms. From then on, the excises were collected. I.J.A. Gogel, the first Finance Minister in the state of the Netherlands in the early

¹⁵ James D. Tracy, *A Financial Revolution in the Habsburg Netherlands* (Berkeley 1985) 58, 73.

¹⁶ *Ibidem*, 3.

¹⁷ *Ibidem*, 86-7.

¹⁸ Marjolein 't Hart, *The making of a bourgeois state. War, politics and finance during the Dutch Revolt* (Manchester 1993) 128.

nineteenth century, found that collection costs since then proved to have been very low, not about 15% as he had expected, but only about 9%.¹⁹

The raising of loans was decentralised, allowing to some degree for patrimonialism too. The receivers of Holland of the 16 (later 18) tax districts contracted the sums for the province, the interest being paid out of their part in the receipt of the provincial means. They received a brokerage money (first 1%, later 0.5%). In the army, the payments to the companies were mediated by military ‘solicitors’, which stimulated malpractices such as having more soldiers ‘on paper’ than in the field. These military solicitors were in a position to charge high interest rates (12% in the pressing war situation of the 1620s, for example) of their advances to the soldiers.²⁰ Yet even with these patrimonial elements, the label of ‘inefficient’ would be out of place as the military solicitors prevented mutinies (so devastating in many other states) on the Dutch territories. With the coming of the centralised state in the nineteenth century, these ‘patrimonial’ arrangements disappeared, yet the new institutions were by no means always that much more efficient.

3. The Tax Base

The fiscal potential of an economy depends on three factors, namely the number of inhabitants, their average annual income (which also serves as a proxy for consumption and property or wealth), and the development of population and incomes through time. In the seventeenth century, the possible ‘deficiencies’ in the Dutch fiscal system were offset by the astounding wealth of its small population. In the eighteenth century, though, increasing fiscal efficiency could not undo the effects of the small size of its population (see table 1).

¹⁹ J. Fritschy, *De patriotten en de financiën van de Bataafse Republiek. Hollands krediet en de smalle marges voor een nieuw beleid* (Den Haag 1988) 151.

²⁰ Only in 1676 did the States of Holland succeed in getting more control over this institution, by restricting the number of ‘military sollicitors’ to 36, by requiring oaths, and by setting a maximum to the interest they were allowed to ask, of nearly 7% per year. This was even further reduced to 5,2% in 1681, and at the end of the old Republic this short term interest rate was not allowed to exceed 3,48% per year. H.L. Zwitter, *De militie van den staat. Het leger van de Republiek der Verenigde Nederlanden* (Amsterdam 1991) 91-98.

Table 1
Population growth in Britain and the Netherlands,
1500-1913 (%)

	<i>Britain</i>	<i>Netherlands</i>
1500-1550		0.6
1550-1600	0.6	0.4
1600-1650	0.5	0.4
1650-1700	-0.1	0.0
1700-1750	0.3	0.0
1750-1800	0.8	0.2
1800-1850	1.4	0.8
1850-1913	1.2	1.1
size c.1700:	5 million	1.9 million

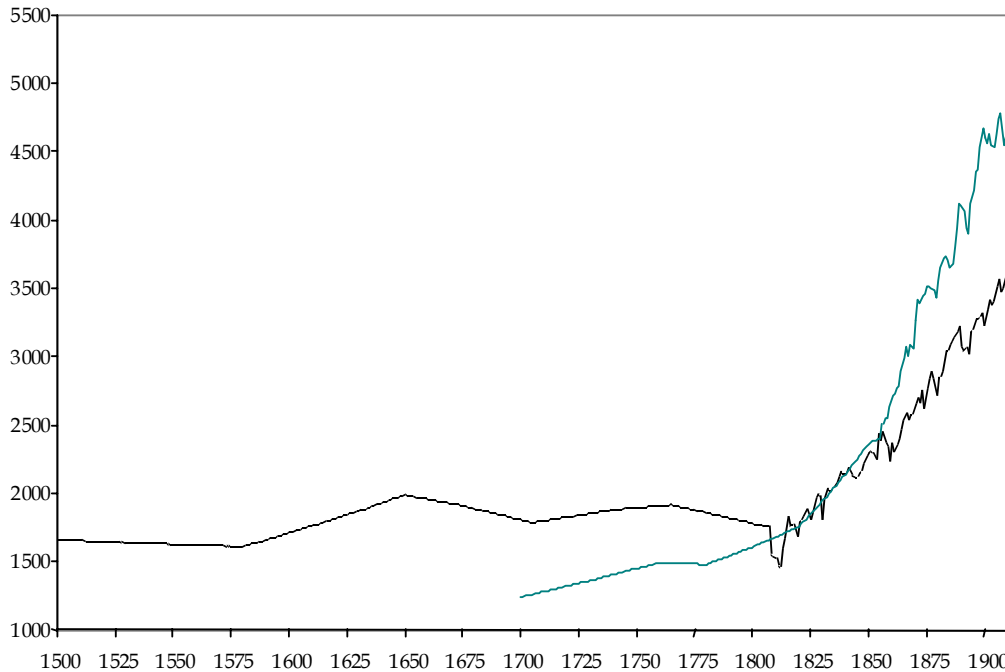
Sources: Wrigley and Schofield, *Population history*.
Nusteling, 'Periods and caesurae'.

Table 1 offers a comparison of population size and population growth in the Netherlands and Britain. Graph 1 offers a comparison of the size and the development of incomes in both countries. Until about 1800 per capita income in Holland fluctuated around a fairly stable level. The Golden Age (1580-1650) was the only period of significant growth and even then the economy grew at a mere 0.3 percent per year. The development of Holland corresponds with the general pattern of early modern European growth, which was characterized by long-term stagnation.²¹ Only after 1800 did the Dutch economy achieve a sustained increase in per capita income.

Britain seems to have achieved sustained growth already in the eighteenth century. After 1750 its demographic and economic experience fits in with Kuznets's definition of modern economic growth: a sustained increase in per capita income combined with rapid population growth.²² In short, whereas the Dutch tax base did not increase at all until 1800, Britain realized an explosive increase in its fiscal potential after 1700. The ability of the Dutch Republic to compete in the international arena was consequently gradually undermined in the eighteenth century.

²¹ Van Zanden, 'Early modern economic growth', 76.

²² Simon W. Kuznets, *Modern economic growth. Rate, structure and spread* (New Haven 1966)



Graph 1

Real per capita Gross Domestic Product in Holland (1500-1800) and the Netherlands (1800-1913) and Britain (1700-1913) at constant prices (1990 dollars)

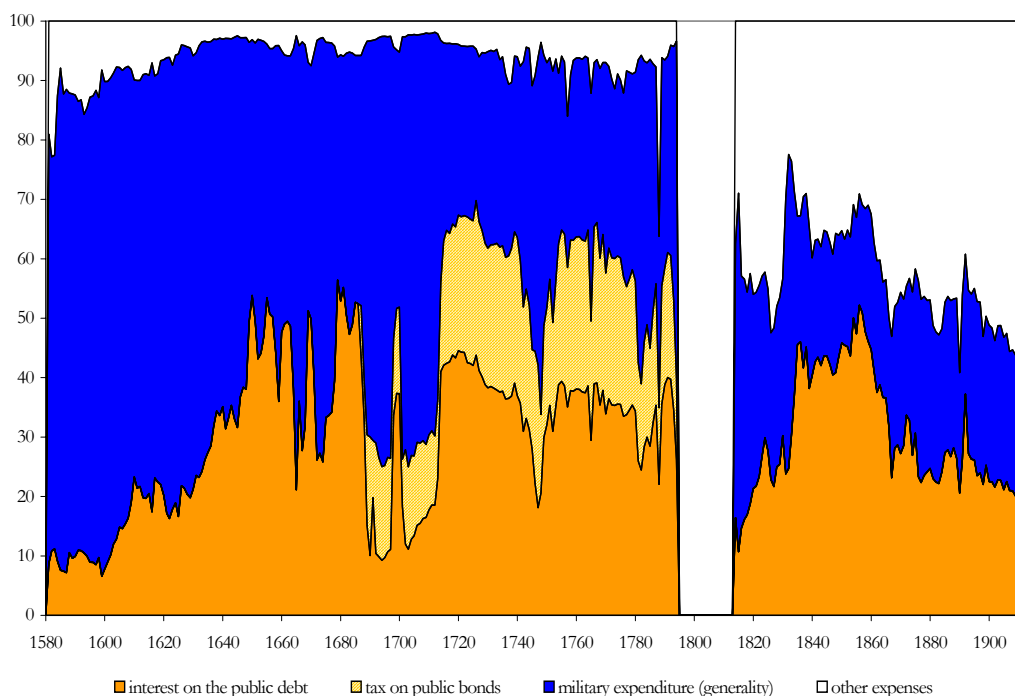
Sources: Smits, Horlings, and Van Zanden, *Dutch GNP*, 228-230. Van Zanden, 'The Dutch economy in the long run', 18 and 20. Van Zanden, 'Economic growth in the Golden Age', 270. Maddison, *Monitoring the world economy*.

Despite the break around 1810, there was much more continuity in the economic development of the Netherlands than the data suggest. Although the economy grew at unprecedented rates, the fundamentals of growth did not immediately change. The increase in per capita GDP between 1815 and 1850 was mainly based on policies and industries that survived from the Ancien Regime. In addition, higher average incomes did not translate into greater well-being for the entire population. The period was characterized by de-urbanization, wage rigidity, high mortality, and an increase in income inequality. It was not until after 1850 that there began a process of modern economic growth, based on structural productivity growth, market integration, an increase in consumer demand, and general improvements in the standard of living.

4. Loans and Interest Burden

Public borrowing was a structural element in the public finances of the Dutch Republic, although the part played by loans in total revenue was still restricted in the first decades after the Revolt. Throughout the seventeenth century, the interest burden constituted about one-third of the budget. After the War of Spanish Succession, however, interest payments required on average about two thirds of public expenditure, whereas war expenditure came to comprise about one third.

Throughout the early modern period the leading source of debt creation was warfare. In 1797 almost 80 percent of the public debt of Holland had been created in war years, while interwar periods were generally used to stabilize or reduce the debt, especially in the eighteenth century. By 1795 the entire Republic -including the West India Company, the East India Company, and the admiralties- was indebted to the extent of 766 million. In 1807 the total debt stood at about 2.5 times Dutch Gross National Product of 1807.²³



Graph 2

The composition of public expenditure in Holland (1581-1792) and the Netherlands (1814-1913) (%)

Note: The tax on interest payments concerns expenses that would have been made if there had not been a special levy on the value of public bonds, by which interest payments were reduced. It was included to show the effect of this particular tax.

How could Holland sustain the increase in its debt? The most obvious response was to introduce new excises to increase the yield of tax collection. Yet limits to these policies were reached after the tax base contracted after about 1675. A traditional, but insufficient, alternative to borrowing were the personal assessment lists [*personele quohieren*] that listed all moveable and immovable possessions of those with more than a minimum amount in property. However, in the final quarter of the seventeenth century personal assessments were gradually abandoned in favour of taxes on real estate and on the value of stocks and bonds which effectively lowered the rate of interest by

²³ Tom Pfeil, *Tot redding van het vaderland'. Het primaat van de Nederlandse overheidsfinanciën in de Bataafs-Franse Tijd 1795-1810* (Amsterdam 1998) 351.

approximately 40 percent.²⁴ Alongside heavy cuts in military expenditure this was how Holland was able to cope with its rising interest burden. Other provinces chose the much simpler solution of a voluntary conversion of the interest from 4 to 3 per cent, as soon as the capital market allowed it.

During most of the seventeenth and eighteenth centuries, the steady accumulation of debt was counterbalanced by a decrease in interest rates. In the early years of the Republic the scarce supply of capital and the uncertain future of the new federation raised interest rates as high as 13 percent. By 1640 it had fallen to 5 percent, which can be attributed to the increased demand for these easily tradeable investment opportunities. During the eighteenth century the return (after taxation) on government bonds during years of peace was 2.5 per cent in Holland, and 3 in the other provinces (much lower than in most other European countries by that time).²⁵

After 1754 a vigorous redemption policy was pursued. For instance, in Holland the debt was reduced from about 360 million guilders in 1753 to about 320 million in 1780. Still, the interest payments continued to comprise roughly 40 to 50 percent of total expenditure in Holland.²⁶ On the level of the Generality, where debts were contracted as well, an interest reduction from 4 to 3% was imposed, after the War of Spanish Succession in 1715 had created severe financial difficulties (even a temporary stop on interest payments had been necessary). The Generality long-term debt was reduced from about 59 million in 1746 to about 18 million in 1796.²⁷

When the Dutch Republic was turned into a unified (nation) state, all public debts were thrown into one single national debt. In order to service the outstanding 766 million, the tax system had to be reformed. In 1806 the Patriot regime introduced a single national system of taxation, devised by one of its leading financial experts, I.J.A. Gogel. The reform basically extended the tax system of Holland to the rest of the country, which resulted in a substantial increase in revenues. However, the gains of increased financial efficiency were cancelled out by high defence expenditure and the 'reparations' demanded by the French. As a result expenditure glaringly exceeded revenue by an enormous margin.²⁸ Forced loans were needed to finance the deficit, and as capital grew scarce, interest rates shot up. After the Netherlands were incorporated into the French Empire in 1810 Napoleon simply decided to cease interest payments on two-thirds of the debt, the so-called *tiërcering*.

²⁴ L. van der Ent, W. Fritschy, E. Horlings and R. Liesker, 'Public finance in the United Provinces of the Netherlands in the seventeenth and eighteenth centuries', in: Mark Ormrod, Margaret Bonney and Richard Bonney (eds.), *Crises, revolutions and self-sustained growth. Essays in European fiscal history, 1130-1830* (Stamford 1999), 249-293, 266.

²⁵ *Ibidem*, 264-270.

²⁶ Dormans, *Het tekort*; Van der Ent et al., 'Public finance, 268. Eighteenth century: Overijssel from c. 50 percent around 1720 to less than 20 percent by end of century; Groningen from 30 percent around 1720 to just over 10 percent by end of century.

²⁷ E.H.M. Dormans, *Het tekort. Staatsschuld in de tijd der Republiek*

²⁸ In 1798-1810 average expenditure was 102 percent higher than average revenue (Tom Pfeil, 'Het Nederlands bezuinigingsbeleid in de Bataafs-Franse tijd (1795-1810): illusie en werkelijkheid', in: W. Fritschy, J.K.T. Postma and J. Roellevink, *Doel en middel. Aspecten van financieel overheidsbeleid in de Nederlanden van de zestiende eeuw tot heden* (Amsterdam 1995) 133-150.

William I of Orange, the new King of the independent Netherlands in 1813, displayed a stronger belief in the efficiency of a good relationship with the capital market. Already in 1814 a law was pushed through parliament with a scheme to gradually undo the French *tiërvering* of the debt in order to win over investors in new state bonds.²⁹ He could not do without loans for his aspirations to modernise the economy of the Netherlands, which involved large infrastructural investments and industrial subsidies. The period 1814-1839, in which parliamentary influence on state budgets was curtailed, was characterized by massive loans, especially during the 1830s, when the King still –in vain- aspired to recapture Belgium.³⁰ As a result, interest payments absorbed almost 6 percent of GNP.³¹

The dependency on loans in the first decades of the nineteenth century was not characteristic for the Dutch fiscal state alone. As has been rightly observed by Schremmer, also in Britain and France loans rather than taxes were the decisive factor in public revenue.³² For almost all West-European states the relationship of government with the Bourse was at least as important as its relationship with parliament. Ministers of Finance had to be Bourse-specialists. In the Netherlands, however, these loans reached extreme proportions. Whereas occasionally France and Britain experienced a budget surplus, caused by economic growth, the Netherlands suffered from continuous deficits as government was unable to tap the sources of wealth efficiently. Parliament grew more and more discontented about the absolutist financial strategies of their King, on which they could hardly exert any influence (budgets were voted for ten-year periods and loans were raised continually without parliamentary consent). The War of Belgian Secession in the 1830s finally sealed the fate of the economic and political ambitions of William I; he abdicated in 1840. The reorganization of the debt was begun in 1844/45 by Minister of Finance Van Hall and caused a long-term decline in the interest burden. The share of interest payments dropped from a level of about 6 percent of GDP in 1844 to below 2 percent after 1870.³³

5. The Burden of Taxation

Tables 2 and 3, which present the estimates of the aggregate tax burden relative to the population and national income of the northern Netherlands, show a surprising continuity from the early eighteenth until the late nineteenth century. With the exception of 1820, when part of the burden

²⁹ W. Fritschy, 'Staatsvorming en financieel beleid onder Willem I', in: C.A. Tamse en E. Witte (eds.), *Staats- en Natievorming in Willem I's Koninkrijk (1815-1830)* (Brussel 1992) 215-237, 220.

³⁰ R.H. van der Voort, *Overheidsbeleid en overheidsfinanciën in Nederland 1850-1913* (Amsterdam 1994). Smits, Horlings and Van Zanden, *Dutch GNP*.

³¹ Smits, Horlings and Van Zanden, *Dutch GNP*.

³² E. Schremmer, 'Taxation and public finance: Britain, France and Germany', in: *Cambridge Economic History VIII* (Cambridge 1989) 318.

³³ Smits, Horlings and Van Zanden, *Dutch GNP*.

was borne by the southern Netherlands, real revenues remained virtually constant at about 24 guilders. Only after 1870 did per capita revenues increase rapidly.

A more detailed analysis for the Republic reveals considerable provincial differences. Whereas Holland experienced a 40-percent increase in real per capita taxes between the 1670s and 1790s, the tax burden in two other provinces inland (Drenthe and Overijssel) was more than halved. This was the result of the fixed quota system. The eighteenth century was a period of stagnation in Holland, whereas the economic circumstances in the agricultural inland economies improved due to a rise in agrarian prices. Still, even the sums paid by the inhabitants of an inland province such as Overijssel should not be underestimated. Around 1700, they paid per head twice the amount that was paid per head in Britain.³⁴

The estimates in table 3 show that increase in per capita revenues in Holland was also a rise in the tax burden relative to total provincial GDP. The share of taxes in income almost tripled in the final quarter of the sixteenth century, it almost doubled between 1650 and 1700, and then rose to an unprecedented 13.5 percent around 1750. The level of Holland's taxation was higher in the eighteenth century than in the nineteenth century. The figures for Overijssel and Drenthe indicate a similar drop between 1750 and 1820, even though the mid-eighteenth century estimates may be too high. After 1820 the provincial tax burden seem to have converged to some extent: the levels of taxation in Drenthe and Overijssel were comparable with the national average.

³⁴ Fritschy (1990) 64.

Table 2
Nominal and real tax revenues per capita in the Dutch Republic and the Kingdom of the Netherlands in comparison with the development of real wages and real per capita Gross Domestic Product, 1670s-1913 (real tax revenues at prices of 1800 using a consumer price index)

	real wage 1820=100	real p.c. GDP 1820=100	Netherlands		Holland		Overijssel		Drenthe	
			nominal <i>f</i>	real 1800 <i>f</i>	Nominal <i>f</i>	real 1800 <i>f</i>	nominal <i>f</i>	real 1800 <i>f</i>	nominal <i>f</i>	real 1800 <i>f</i>
1670s	126	107			19.4	28.7	10.3	14.9	7.5	11.3
1716	124	102	16.3	23.7						
1740s	127	106			26.0	38.7	8.1	12.1	5.5	9.4
1790s	102	101	18.6	24.3	30.8	40.0	6.6	6.5	5.5	5.5
1820	100	100	16.3	18.6						
1850	121	129	18.3	24.3						
1870	127	149	20.8	24.5						
1913	228	221	32.2	38.2						

Notes:

–Overijssel: 1672, 1740/45 and 1795.

–Drenthe: 1672, 1754 and 1795.

–Holland: 1672/75, 1740/45 and 1788/92.

–Real per capita GDP: until the 1790s Holland in 1672/75, 1716, 1740/45 and 1795; 1820-1913 the Netherlands.

Sources: De Vries and Van der Woude, *The first modern economy*, 54-55, 97. Smits, Horlings, and Van Zanden, *Dutch GNP*, 228-230. Van Zanden, ‘The Dutch economy in the long run’, 18 and 20. Van Zanden, ‘Economic growth in the Golden Age’, 270. Van Zanden, ‘The prices’.

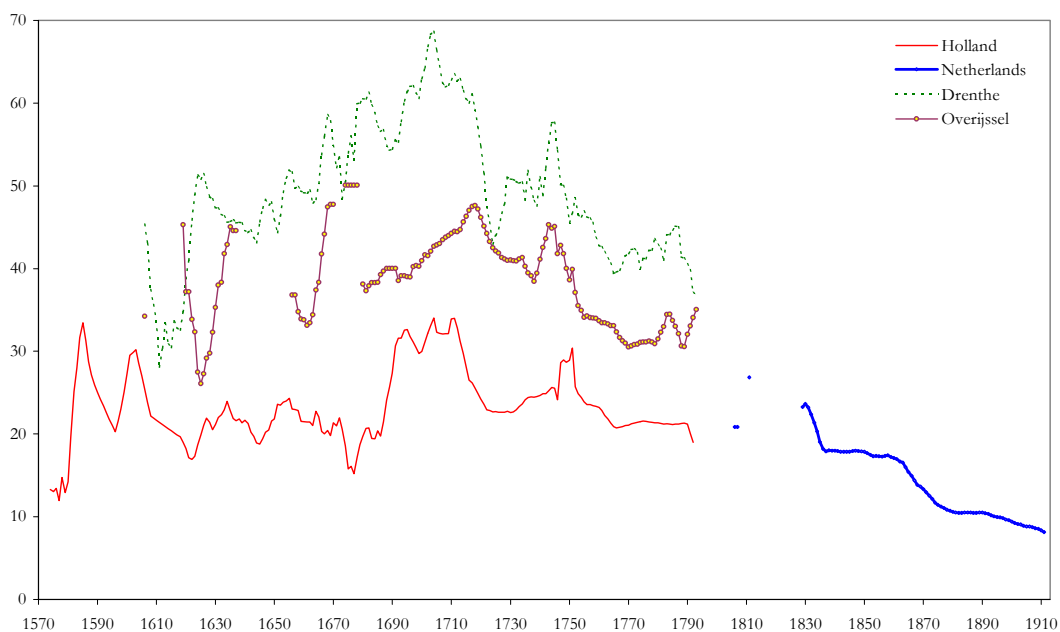
Table 3
Aggregate burden of state taxation in Holland and the Netherlands, 1575-1913
(total tax revenues as a percentage of regional and national GDP at current prices; average of five years around each benchmark year)

	1575	1600	1650	1700	1750	1790	1820	1850	1870	1913
Holland	1.9	5.2	5.4	9.7	13.5	12.3	9.5 ^{a)}	11.5 ^{b)}		
Overijssel					(9.3) ^{c)}		6.4 ^{a)}	9.4 ^{b)}		
Drenthe					(9.6) ^{c)}		5.1 ^{a)}	9.1 ^{b)}		
Netherlands							8.2	9.8	8.0	8.5

^{a)} 1827. ^{b)} 1849. ^{c)} Calculated by combining data on total tax revenues in 1742, the population size in 1742 (Drenthe) and 1748 (Overijssel), average per capita income in the inland provinces in 1742, and the level of per capita income relative to the other inland provinces in 1820. Since the income estimates of 1742 were based on tax data, they were probably underestimated, which means that the tax burden is overstated.

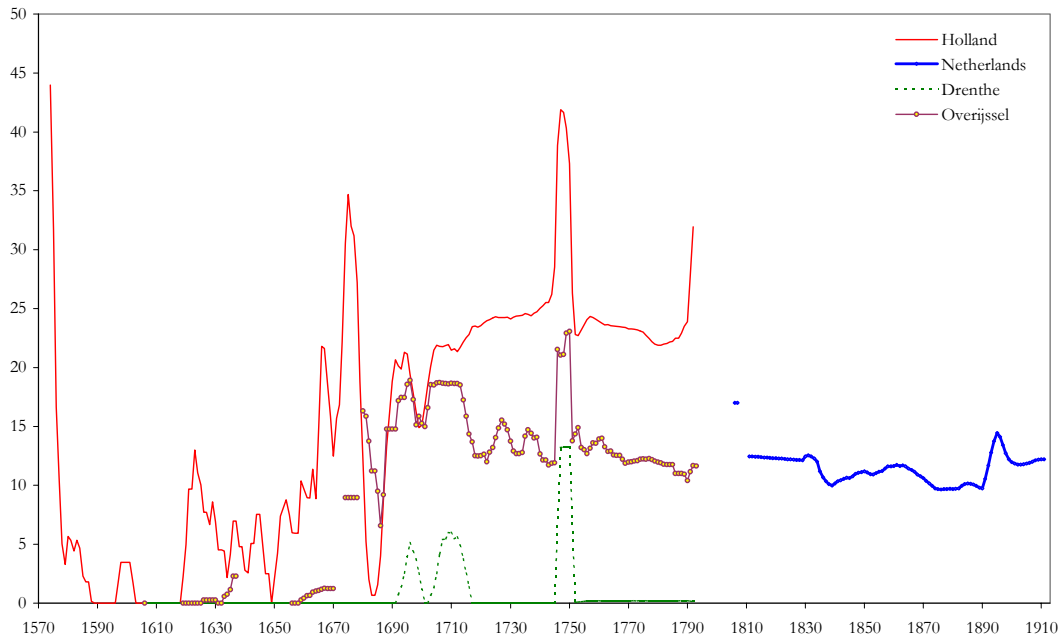
Sources: See table 2. De Vries and Van der Woude, *The first modern economy*, 702.

However, the impact of taxation on economic development depends more on the nature than on the level of the taxes that were levied. We have classified the taxes of the three provinces of the Republic and of the nineteenth-century Netherlands into four categories: (i) real estate, (ii) other direct taxes on property, income, and wealth, (iii) transaction duties (including the excises on domestic trade [*waag, rondemaat, and grove waren*]), and (iv) excises.³⁵ The following four graphs make it possible to compare the importance of each type of taxation in Holland, Overijssel, Drenthe, and the entire Netherlands as well as to examine continuities and discontinuities in the long-term development of the fiscal structure.

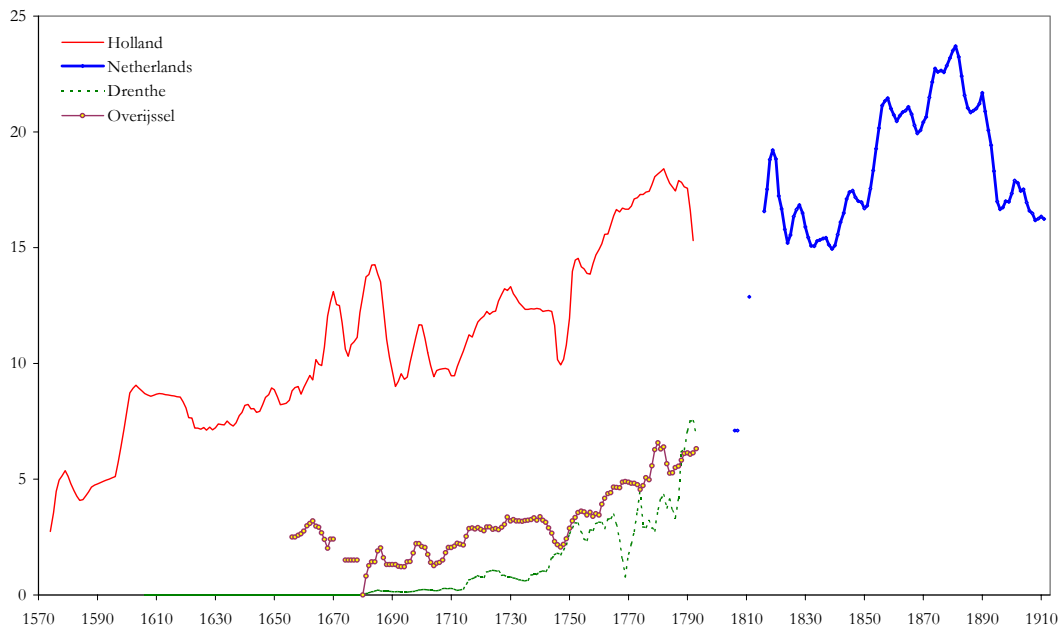


Graph 3.a
The share of taxes on real estate in total tax revenues in three provinces of the Republic and in the nineteenth-century Netherlands, 1570-1913 (%)

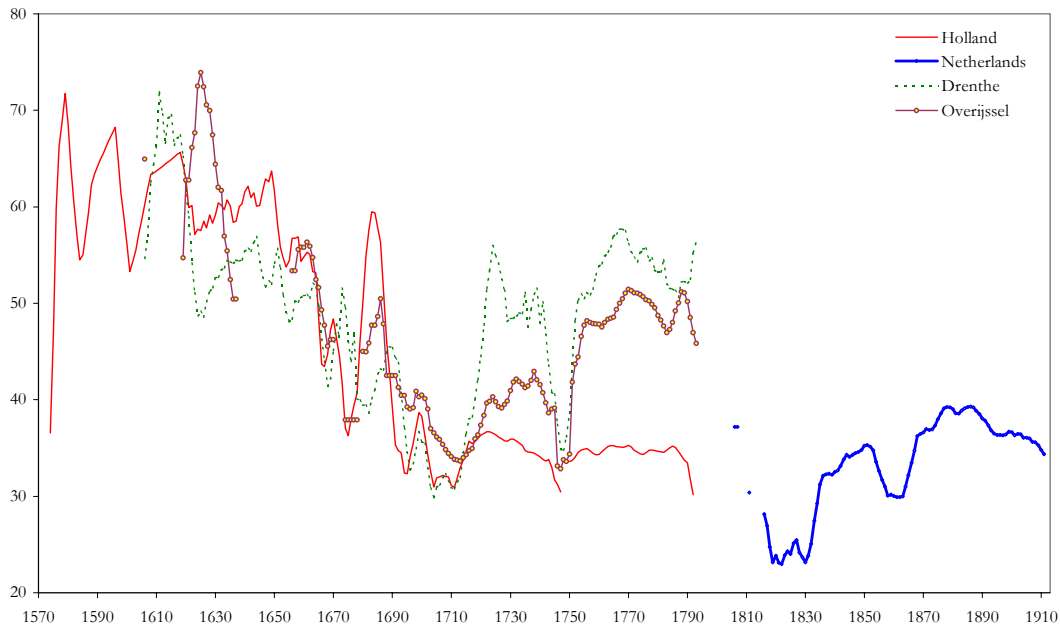
³⁵ The main obstacle to an accurate comparison is that the common means [*gemene middelen*] contain different types of tax: excises, transaction duties, direct taxes on land and property, et cetera. For Holland we could distinguish the different types from 1650 onwards. For the preceding period (1572-1649) we have applied the average share of each category in 1650-1655.



Graph 3.b
The share of taxes on property, income and wealth in total tax revenues in three provinces of the Republic and in the nineteenth-century Netherlands, 1570-1913 (%)



Graph 3.c
The share of transactions duties in total tax revenues in three provinces of the Republic and in the nineteenth-century Netherlands, 1570-1913 (%)
 Note: Inheritance tax, mortgage rights, stamps, et cetera.



Graph 3.d
The share of excises in total tax revenues in three provinces of the Republic and in the nineteenth-century Netherlands, 1570-1913 (%)

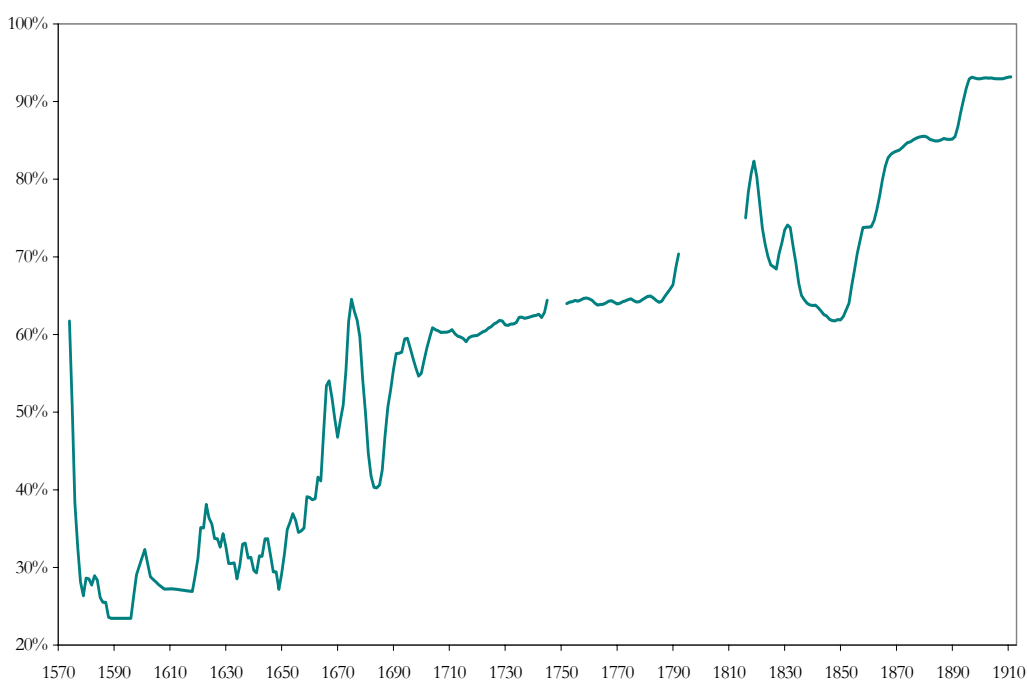
The first observation that can be made with regard to the four graphs is that there was a high degree of similarity in the annual fluctuations and the general direction of change in the structure of provincial taxes between 1570 and 1800. Rural Drenthe and Overijssel relied more on real estate taxes, whereas Holland –the rich and highly urbanized centre of world trade– had a larger proportion of transaction duties. After 1700 the relative importance of real estate taxes declined, particularly in the inland provinces, which was compensated for by an increase in the share of excises. In Holland the lessening role of direct taxes was taken over by transaction duties and taxes on property, income and wealth.

The long-term development of the composition of tax revenues shows a remarkable degree of continuity. There was an almost seamless connection between the tax structures of Holland (until 1795) and the Netherlands (starting in 1806). This seems obvious given that the national tax system of 1806 was based on the fiscal system of Holland, which guaranteed the highest possible yield in a period of dire financial need. However, the continuity goes deeper than that: the eighteenth-century trends in the development of the percentage shares of the four types of tax continued at least until 1850.

The effect of taxation on the distribution of income and wealth is deduced from the composition of revenues. Following De Vries and Van der Woude the taxes of Holland and the Netherlands were classified as (i) progressive taxes that lowered income inequality, (ii) regressive

taxes that raised inequality, and (iii) indeterminate taxes.³⁶ Most direct taxes and transaction duties were progressive, because they mainly weighed on households with an income above average (e.g. duties on mortgages, the inheritance tax, levies on the number of servants, et cetera). Excises on luxury commodities (e.g. wine or sugar) were progressive, but most other excises were regressive. For the nineteenth century the licence tax [*patentbelasting*] was classified as a regressive tax because it disproportionately taxed smaller entrepreneurs. The only indeterminate taxes were the real estate tax [*verponding*], since it also burdened poor property-owners, customs duties and shipping rights, and unspecified other taxes.

Graph 4 shows the relative importance of progressive taxes relative to regressive taxes. The indeterminate taxes, of which the distributional effect cannot be specified, were left out of consideration.³⁷ The data clearly display a long-term trend towards more progressive taxation from ca. 1590 to 1913. Two discontinuities can be discerned: (i) the second half of the seventeenth century and (ii) the 1850s and 1860s. In these periods shifts in taxation accelerated the move towards a more progressive fiscal system.



Graph 4

The share of progressive taxes in the combined revenue of progressive and regressive taxes in Holland and the Netherlands, 1572-1913 (%)

Sources: The definition of progressive and regressive taxes was taken from De Vries and Van der Woude, *The first modern economy*, 112. Indeterminate taxes were excluded from the calculations.

³⁶ De Vries and Van der Woude, *The first modern economy*, 112.

³⁷ The indeterminate taxes had a stable share in Holland's revenues of c. 23 percent. The level was higher in the Netherlands immediately after the Napoleonic Wars when they had a share of about 40 percent (1814-

The progressive shift of the seventeenth century was the result of a levelling off of regressive excise revenues after the 1640s and the introduction of new forms of taxation on property, income and wealth. In the period 1600-1650 these taxes contributed an average of 7 percent to total tax income, but between 1650 and 1700 their share increased to 20 percent.

The second half of the nineteenth century was altogether a special period in Dutch fiscal history. The year 1850 was truly a break in the development of taxation. The enormous amounts of money made available by colonial exploitation and the reorganization of the public debt were used to reform the fiscal system. Between 1850 and 1865 the national excises on mutton and pork (1852), grain milling (1855), and fuel (1863) were abolished.³⁸ The loss of revenue was offset by higher excise rates for luxury articles like sugar, brandy and wine. Municipal finances were restructured as well: after 1865 all local excises were eliminated. The state levied additional percentages on a number of direct taxes (e.g. the personal wealth tax) and transferred their yield in subsidies to the local governments.

The tax reforms of the 1850s and 1860s had a tremendous impact on consumer demand. The share of taxes in consumer expenditure on excised goods fell from c. 9 percent in 1850 to c. 4½ percent in 1860 and less than 2 percent in 1870. Lower taxes implied lower consumer prices and consequently greater opportunities in the household budget. The development of household expenditure after 1850 reflects the effects of tax reform: (i) the consumption volume of excised goods actually increased by more than the price effect of the excise abolitions, (ii) food consumption shifted from low-grade to high-grade goods (from potatoes and rye bread to wheat bread, from mutton and pork to beef and veal), (iii) and in the long run –after 1865 when the increase in real wages reinforced the demand effects of tax reform– expenditure shifted towards industrial products and services.³⁹

Lastly, the low rates of the customs deserve attention. Apart from the early decades of the Revolt, duties on imports were always extremely low, much lower than in neighbouring countries. Whereas Dutch rates were generally around 3%, occasionally raised to 5%, Britain and France levied 20 per cent or more on the value of their imports.⁴⁰ The nineteenth century showed a continuation of this trend. Customs revenues in the Netherlands varied between 3.2 and 3.9 per cent during 1816/1830, between 2.2 and 2.9 in 1831/1855, and fell below the 1.7 percent during 1856-1913. By comparison, Belgium's rates were at least twice as high up to 1870 (and were still substantially higher than the Dutch rates thereafter). During 1821-1850, the French imposed duties that were 5 to 7 times higher than the Dutch, whereas the British rates were a staggering 10 to 14

1830). After 1830 this share declined rapidly to less than a quarter in 1880 and it stabilized at about 30 percent in the early twentieth century.

³⁸ Van der Voort, *Overheidsbeleid*, 110-120 and 185; 'De hervorming onzer plaatselijke belastingen', *Economist* (1864) 131-160.

³⁹ Horlings and Smits, 'Private consumer expenditure'.

⁴⁰ 't Hart, *The making of a bourgeois state*, 102-103.

times as high as the Dutch.⁴¹ Only later in the nineteenth century did these rates converge to some degree. Still, the Dutch rates were always the lowest: British duties were still 3 to 5 times higher, while the French continued to levy duties that were on average 5 to 7 times higher.

The result of this policy may have been conducive to the development of Amsterdam's staple and financial markets. For Dutch international merchants, the low degree of taxation on this most remunerative sector of the economy actually implied a significant subsidy for their commercial enterprises, the more so as merchants from neighbouring countries had to deal with much higher domestic tax rates. Yet whether or not this tax policy of the Dutch was conducive to economic growth remains to be seen. The British policy to place a significant burden of taxation on the international sector of the economy probably alleviated the tax burden on home consumption and may have increased the tax base in the long run.

6. Other effects of fiscal policy

Graph 2 above already showed some of the major items in expenditure. The development of the later nineteenth century, with increasing amounts spent on other items, was comparable –also in time- to that of most other European states.⁴² Proportionally, the amounts spent on war (and on service of war-related debts) decreased, whereas 'societal' functions expanded.

Yet a significant and typical element of Dutch expenditure was found in the origin of the debt. In contrast to a lot of the other European countries at that time, the public debt of the Dutch Republic was mainly contracted from domestic investors. In fact, large capital-owners in the Dutch Republic received significant portions of the government expenses, whereas in many other countries such revenues were transferred to foreign creditors. During the eighteenth century, approximately 8 per cent of GDP was paid out in interest on public bonds. The returns on state bonds were so remunerative (despite low interest rates) that many creditors experienced difficulties when trying to re-invest their profits. In the early nineteenth century debt servicing even accounted for 14% of GDP.⁴³ Thus in the allocation of funds, the Dutch budgets tended to increase income inequalities.

During the Union with Belgium (1815-1830) the allocation of funds seemed to have been quite 'inefficient' to say the least. The Union in itself was not a strange thought in geo-political respect. The size of the new Kingdom was obviously more efficient in an international perspective than that of the old Dutch Republic. Also economically, the combination of the wealthy agro-commercial economy of the north with the newly industrializing south and the restituted East

⁴¹ Horlings, *Economic development*, 136

⁴² Peter Flora et al., *State, economy, and society in Western Europe 1815-1975* Vol. I (Frankfurt 1983)

⁴³ Jan Luiten van Zanden and Arthur van Riel, *Nederland 1780-1914. Staat, instituties en economische ontwikkeling* (Amsterdam 2000) 36; De Vries and Van der Woude, *The first modern economy*, 149.

Indian colonies seemed ideal. Yet the integration of both public finances resulted in serious discontent in the south.

Belgium contributed almost half of the Kingdom's tax revenues. However, the finances of the Kingdom were heavily biased in favour of the northern provinces. The greater part of the public debt was of Dutch origin (c. 98 percent, of which Holland creditors profited enormously), investments in infrastructure were placed mainly in the north, and about three-quarters of the subsidies for trade and transport went to northern entrepreneurs. As a result in 1816-1830 the Belgian provinces contributed an average of 46 percent to total state income and received only 19 percent of total expenditure. The Union was undermined by sizeable, albeit invisible, transfers of public funds to the north, which amounted to an average of 5.3 percent of Dutch GDP or 3.8 percent of Belgian GDP.⁴⁴ Inequalities in the fiscal system of the United Netherlands may well have been among the main reasons for Belgium to secede from the union. The extension of Dutch taxes to the south confronted Belgians with a 26-percent rise in per capita taxes between 1817 and 1828; excises were raised by as much as 257 percent. In the northern provinces total per capita tax payments remained more or less the same, while excises increased by only about a third.

The loss of Belgian tax revenues (after 1831) had a devastating effect on Dutch state finances. Tax revenues were almost halved, whereas expenditure fell by only 20 percent. The state urgently had to find an alternative and preferably large source of income. The reintroduction of excises on food grains, coal, peat and soap added 5 to 6 million guilders to total revenue but was insufficient to alleviate the financial distress. The definitive solution was found in the introduction of a system of intensive colonial exploitation in the Dutch East Indies (the *Cultuurstelsel* [Cultivation System] of 1832). Soon after it had been launched, the *Cultuurstelsel* began to produce enormous profits and it provided the government with the income it needed to compensate for the loss of Belgian revenues (table 4).

Table 4
The share of regular taxes, net transfers of tax revenues from the Southern Netherlands (1816-1830) and colonial remittances (1832-1877) in total state revenues, 1816-1877 (%)

	1816/ 1822	1823/ 1830	1832/ 1839	1840/ 1849	1850/ 1859	1860/ 1869	1870/ 1877
Regular taxes	61	52	63	60	59	60	76
Belgian transfers	29	39					
Colonial remittances			33	36	37	34	13
<i>Total</i>	<i>90</i>	<i>91</i>	<i>96</i>	<i>96</i>	<i>96</i>	<i>94</i>	<i>89</i>

Source: Horlings, 'Miracle cure'.

⁴⁴ Edwin Horlings, 'A mircale cure', *Britain and the Netherlands 2001* (forthcoming)

The enormous yields of the *Cultuurstelsel* (c. 1,250 million guilders between 1832 and 1869) were used to repay the debt, to reform the tax system, and to invest heavily in the creation of a national system of railroads and waterways.

In the second half of the nineteenth century a shift was noticed towards local budgets. Local public expenditure as a percentage of total public expenditure increased from about 25-30% in 1870 to about 45-50% in 1913. Similar shifts from ‘central’ to ‘local’ were noticed in Britain and Germany.⁴⁵ Much of the additional expenditure on infrastructure, education, poor relief, hygiene, health care, and others, was financed by way of local loans. Whereas on the central level the Netherlands had become quite hesitant to contract debts, due to the fiscal crisis of the 1830s-1840s, the debt of the local authorities doubled from 256 million guilders to 521 million during 1900-1914.⁴⁶

7. Conclusion

How efficient were the Dutch fiscal institutions in the long run? The efficiency of government can only be examined properly on the basis of a definition. On a single level an efficient government is able (i) to raise sufficient funds, (ii) with which to safeguard its territory from foreign incursions and (iii) to perform the functions that secure sustained economic growth, promote social stability, protect property rights, enhance the quality of life, et cetera, (iv) while placing a minimal burden on economy and society. Is government able to balance its budget, does it tax specific groups or activities more severely than others, and are its policies and expenditures helpful or harmful to economic development?

For most of the last half millennium the Netherlands has had stable and rational governments. The administrations were generally efficient and displayed a high degree of ingenuity in finding alternative ways to match revenues and expenditure. The defence was generally adequate, new forms of taxation were developed, new financial instruments for public borrowing, and after 1830 the Dutch state even managed to integrate the East Indies into its finances.

Still, until 1800 the Netherlands did not experience sustained economic growth. However, the absence of sustained growth was natural to most pre-industrial economies as is witnessed by the experience of other European countries.⁴⁷ Even though excises placed a considerable burden on consumer demand, Holland’s tax policies were gradually becoming more progressive.

General efficiency notwithstanding, there were periods when the Dutch government performed below par. Despite improvements in ‘rational-bureaucratic’ terms, the problems in financing Dutch ambitions in geo-political respect were painfully revealed during the Fourth English Naval War (1780-1784). Yet much of this apparent inefficiency was actually caused by a set

⁴⁵ Van der Voort, *Overheidsbeleid*, 184 (graph 6.2).

⁴⁶ Van der Voort 1994.

of ‘external factors’, such as the contracting tax base and the increasing powers of competing nation-states such as Britain and France. By comparison, in the seventeenth century the Republic was blessed with population growth and expanding economic opportunities. Actual warfare had almost disappeared from the Dutch territory, whereas many of the competing nations were plunged into (civil) wars.

Of the five periods of Dutch fiscal history (cf. section 1) one period stands out for its huge inefficiencies, namely the first decades of the Kingdom of the Netherlands (1813-1850). In these years, budgets were not balanced, the Belgian population was confronted with unfair financial burdens, tax policies aimed at the restriction of regressive excises failed, and the overall effects of the King’s absolutist policies on economic growth were doubtful. Thus, despite an obvious spurt in ‘rational-bureaucratic’ measures as a result of the centralisation since 1795, the state functioned in a highly inefficient manner.

We have charted changes in the level and structure of public finance between the sixteenth and the nineteenth centuries and found a surprising degree of continuity. There are clearly breaks in the development of revenues and expenditure, but the similarities seem to prevail. The main source of long-term continuity was the debt. Public credit was a prominent feature throughout Dutch history, supported both by the wealth of the tax base and by careful debt management. On the whole, the relationship between the state and the capital market was excellent. Only in first half of the nineteenth century did financial disasters and structural inefficiencies seem to overwhelm the state.

The Dutch also had a history of efficient tax structures. Despite patrimonial elements in tax farming and customs collection, the ingenuity to find new taxes was remarkable during the time of the Republic, in the number of excises as well as in direct taxation. The exploitation of the colonies after 1830 should also be mentioned. Moreover, the Dutch managed to render their taxes gradually less regressive.

All in all, since the establishment of an independent republic (c. 1572) Dutch state formation was characterised by increasing efficiency for about 120 years. Its main competitor, Great Britain, only achieved a similar level of efficiency a century later (see table 5). In that perspective, the Dutch achievements of the seventeenth century remain remarkable. Even in the 1780s the per capita tax burden in Britain could be estimated at about 9 percent of national income, when it was somewhere in the region of 10 to 14 percent in Holland.

⁴⁷ Van Zanden, ‘Early modern economic growth’, 76.

Table 5
The growth of state finance in seventeenth-century Holland
Compared to eighteenth-century Britain

	Holland 1572-1713	Britain 1688-1815
increase in real tax revenues	c. 18 times ^{a)}	c. 15 times
increase in the share of taxes in national income	c. 11 times ^{b)}	c. 5 times
average amount of war expenditure per year in 1694-97 (£)	4.2 million	4.5 million
population c. 1700	1.9 million	5.0 million

^{a)} Based on average tax revenues in 1572-81 and 1704-13.

^{b)} Average tax revenues for 1572-81 and 1704-13 adjusted for population growth and the increase in real wages.

Yet the extension of Holland's fiscal system to the entire Netherlands, after centralisation in the early nineteenth century, encountered enormous difficulties. In combination with the growing influence of liberal ideology in national parliament, the Dutch returned more and more to urban public finance after 1860. A socialist-inspired welfare state ideology (gaining ground since the 1890s) enhanced the local expenses. Not only at the beginning, but also at the end of our period, therefore, towns seem to have been a dominant force in the formation and the efficiency of the Dutch fiscal state from 1515 to 1913.