

Wantje Fritschy, *Public Finance of the Dutch Republic in Comparative Perspective: The Viability of an Early Modern Federal State (1570s-1795)* (Leiden: Brill, 2017, XVIII + 430 pp., ISBN 978 90 04 34127 2).

P.G.M. Dickson popularized the phrase ‘financial revolution’ in his study of the financial innovations in England after the ‘Glorious Revolution’ of 1688-1689.¹ Indeed, some authors have extolled England’s financial revolution as the defining event that enabled modern economic growth to arise.² Dickson, followed by some authors³, attributed the success of England’s financial innovations to its adoption of techniques developed and perfected earlier in the Dutch Republic and then brought to England by William III’s financiers in 1688. Dutch scholars, however, have mixed reactions about the Dutch role in the invention of modern finance, perhaps preferring to leave the blame on the shoulders of the English. They also diverge over what were the key factors in Dutch financial success before the British triumphed over the Dutch during the course of the Napoleonic Wars.

In her introduction, Wantje Fritschy considers in turn three alternative explanations that have been favoured by previous Dutch scholars: ‘representative institutions’, ‘citizenship-mentality’ and ‘wealth’. While all these favourable elements were present to an impressive extent within the Low Countries as the western provinces began their revolt against Spain in 1568, Fritschy argues that something else was needed to coalesce these possibilities into a permanent fiscal structure. Based on examining detailed public finance data that she and others have acquired in decades of archival research, she is struck by the way individual cities within each province, but especially within the most densely urbanized province of Holland starting with Amsterdam, gave up their authority over assessment and collection of city taxes in favour of allowing more general taxes to be levied across the entire province. To collect the proceeds of these ‘general means’, tax receivers spread across the province, numbering sixteen to eighteen in the case of Holland, and they operated independently of city authorities. The tax receivers were also responsible to pay regular interest on the provincial sovereign debts that had been issued, province-by-province, backed by province-wide taxes. Fritschy argues that this was the unique feature of Dutch experience that proved to be so successful. Over the following centuries, the Dutch system of public finance evolved by encouraging the political and economic integration of the southern, most heavily urbanized, provinces. Each province, led by Holland, also abandoned key elements of urban autonomy (i.e. tax preferences), while accepting fixed quotas for support of general war expenditures.

Fritschy spells out her argument in Part 1, 'The Development of the Fiscal System of the Dutch Republic', which starts with the first phase of the revolt against Spain in the years 1566–1572. In her view of the early fiscal experiments, the Dutch Republic only begins in 1572 when revenues first became collected systematically, rather than 1568 when William of Orange initiated the revolt and started the Eighty Years' War. Her exhaustive collection of revenue and expenditure data is organized by province. The revenue data are divided into direct taxes, indirect taxes, and customs (which are collected by the five admiralties individually rather than by provinces as such). Expenditures, essentially the costs of war, are divided into land and sea, as the cost of war on land was by far the most expensive and persistent. She adds interest payments on the accumulated public debt to provincial expenditures. All the data are presented graphically in the text for the convenience of the reader, but they are also available on-line for the interested researcher at: <http://resources.huygens.knaw.nl/gewestelijkefinancien/en>. This is a very user-friendly web-site, specifically designed to accompany the book. All the data are clearly identified and downloadable into Excel spreadsheets. The web-site will be an enduring scholarly resource, if daunting in its detail and extent.

Fritschy focuses primarily on the initial period of the revolt against Spain, from the 1550s to the beginning of the Twelve Year Truce in 1609. In her words, this was when the Dutch made the transition from 'an under-taxed part of an empire to a heavily taxed republic'. It was during this period that Dutch authorities, beginning in Holland, first discovered the public attractiveness of their nominally short-term debts, the *obligaties*, as compared to the life and term annuities that had been the initial debt instruments previously favoured by the individual cities throughout the Low Countries. The obligations were issued by each province and backed by the province's taxes, which were intended to pay off the obligations when sufficient tax revenues had accumulated after the end of the ongoing demands for war finance. The revolt efforts continued, however, until a truce was signed in 1609, so the obligations simply accumulated without being redeemed. They effectively became long-term debt, but as bearer bonds with interest, they continued to circulate among the Dutch public. Moreover, local tax receivers paid the promised interest on each note faithfully to whomever presented the note. Their ease of transferability, coupled with their ready negotiability

1 P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (London, Macmillan 1967).

2 Daron Acemoglu and James A. Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (New York, Crown Publishers 2012).

3 Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason* (New York, Cambridge University Press 1990).

at conveniently located offices of tax receivers, made obligations the most desirable form of public debt for Dutch citizens. The evidence of their acceptance by the Dutch public with ever lower rates of interest compared to the less easily transferred annuities is clear in Fritschy's data. Hence, she argues that the replacement of long-term annuities by short-term, but regularly rolled over, bonds with interest paid to bearer was the truly Dutch financial revolution, a century before the English financial revolution made famous by Dickson.

Dickson focused on the creation of long-term, funded sovereign national debt as the key feature of the English financial revolution, which culminated with the consolidation of outstanding perpetual annuities bearing three percent annual interest payments to the debt holder by 1756. If there was a Dutch influence at the outset of the English financial revolution, it certainly waned over the course of the eighteenth century because no such financial instrument was ever issued by the government of the Dutch Republic. It took the Batavian Revolution of 1795 to create a national debt for the first time in 1797, although even then a national tax base was not established until 1806. How, then, did the Dutch create such a successful and sustainable financial system without the benefit of a national sovereign debt instrument comparable to the British Three Percent Consol?

For Wantje Fritschy, the answer is clear. The faithful servicing of regular redemptions and interest payments on the short-term debts issued by the individual provinces, but especially the province of Holland, meant that the Dutch did not need nation-wide taxes, much less a national debt, or even a national bank. For the foreign scholars who admire the Dutch accomplishments, but who have spent decades as well trying to understand how the English financial revolution worked in practice, however, they would like to have a clearer exposition of how the Dutch financial revolution worked in practice. For example, the Twelve Years Truce (1609-1621) was by most accounts a period of great prosperity for the United Provinces of the Netherlands, much to the discomfort of the Spanish. Why then were the mass of short-term obligations not paid off and the wartime taxes reduced or eliminated? Instead, apparently, the new Dutch system continued unabated. Perhaps the liquidity provided by the mass of publically circulating bearer bonds allowed all sorts of trade opportunities to be financed and exploited. But then who took advantage of these trade opportunities? What role was played by German, Swedish, Danish, and English merchants, not to mention the ever-present Genoese and Florentines? Did they deal in the short-term sovereign bonds as well? Presumably they could accept and receive the interest due or redeem the bonds just like local Dutch residents.

Fritschy also pays little attention to the Thirty Years' War, which for the most part was fought elsewhere while Dutch merchants and financiers profited from financing the various armies arrayed against Spain. Even the successive wars with the English in the latter half of the seventeenth century

were relatively easy to finance, she argues, because they were mostly at sea and navies were always less expensive than armies on land. Involvement with the British wars against France thereafter, however, proved too expensive for the Dutch to continue after the conclusion of the War of the Spanish Succession (1702-1713). The continued buildup of French and British navies and militaries that culminated with the bombardment of Amsterdam at the conclusion of the Fourth Anglo-Dutch War (1780-1784) put further military successes out of reach of the Dutch Republic. Meanwhile, the manifest unfairness of heavy indirect taxes borne by the working urban classes compared to the fixed direct taxes on wealthy landowners and urban elite created the unrest and dissatisfaction that led to the Patriots' Revolt and the Batavian Republic in 1795.

Not content to rest her case for the cooperative urban system of finance as the key factor driving Dutch financial success, in Part 2, 'The Fiscal System of the Dutch Republic in International Comparative Perspective', Fritschy turns to comparative analyses of three contemporary governments. The Venetian Republic, Great Britain, and the Ottoman Empire also made financial innovations to respond to the pressures of financing the increased demands of the military revolution that spread across all Europe from 1450 to 1800. Each failed to match the Dutch success, but in each case it was because none of them had an urban system that could be mobilized for collective public finance in the Dutch manner.

As an epilogue, she briefly considers the cases of the European Union and the early Confederation of the United States as examples of confederations that failed to develop a Dutch system of public finance. The answer to the question why they failed and the Dutch succeeded she finds in the relative weights of the major states within those alternative confederations. In neither the case of the European Union or of the early United States was there a dominant state with the weight in the confederation that could compare to Holland's quota of 58 percent of the Dutch Republic's war expenditure. Holland's hegemony within the Dutch Republic was certainly even greater in terms of income and wealth, so getting some burden sharing from the other six provinces consistently was sustainable. Even so, Holland's ability to maintain solidarity with the other six provinces of the northern Low Countries kept the Dutch Republic confined to minor power status compared to Britain or France during the Napoleonic period.

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