

ONE RECIPE, SEVENTEEN OUTCOMES?

Exploring public finance policies and outcomes
in the Low Countries, 1568-1795

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Abstract

We explore the history of public debt management in the Low Countries from the 16th to the end of the 18th century to answer why the Habsburg public debt system produce spectacular results in the northern provinces, but not in the southern ones. The answer lies partly in economic, partly in political circumstances. The revolt against Spain pushed the northern provinces into wresting fiscal autonomy from the cities. This institutional change enabled them to use economic growth and wealth accumulation to assume heavy tax and debt burdens in service of defending the Dutch Republic's independence and prosperity. By contrast, the revolt reinforced local and provincial particularism in the Habsburg dominated south, resulting in low tax yields and low debts.

INTRODUCTION

Early modern rulers disliked debt and preferred to meet current expenditure from current income. They were fully aware that growing debts created a political risk in the form of a dependency on creditors constraining policy options. Yet a number of countries in pre-industrial Europe did leap the barrier set by current income to create a funded debt (Neal 2000). The usual explanation for this phenomenon is the rise of representative government, through which economic elites could control public

finance and secure prompt debt servicing (North and Weingast 1989; Dincecco 2009). This would appear to beg the question. First, because there are many instances of representative governments curbing deficit spending: in German states, in Habsburg Spain, and in the Habsburg Low Countries. Second, because the states leaping the barrier, i.e. the Italian city states, the Dutch Republic, and Britain, appear to have been different notably for doing so at a time of economic expansion. Policy preferences in the latter states did not differ materially from those elsewhere, but economic growth helped them to avoid the dangers of rising debts by increasing tax revenue. Even when economic growth leveled off, as happened in the Italian city states and the Dutch Republic, punctual debt service continued because accumulated wealth allowed governments to lower interest rates and/or raise wealth taxes. Bleak economic prospects, however, prevented new debt issues and forced these states to retreat from international political competition.

To explore the conditions under which early modern governments were willing to depart from their balanced budget policies, we analyze public debt management in the Low Countries from the 16th to the 18th century. Here, the province of Holland is a well-known example of the successful reorganization of public finance leading to a free primary debt market, a gradual decline of interest rates, and a large funded debt serviced by an efficient fiscal system (Tracy 1985, 't Hart 1993, Fritschy 2003, Gelderblom and Jonker 2010). But its outstanding success has overshadowed the fact that Holland was only one of seventeen provinces that together made up the Habsburg Netherlands. By the mid-sixteenth century these provinces had had a considerable degree of joint exposure to the centralizing policies of their Burgundian and then Habsburg sovereigns. Some provinces had been exposed longer than others, but in the process of bargaining with the central government, each

of the provinces had developed a form of representative government that gave provincial authorities considerable control over taxation and spending. Therefore in theory all could have used this political and fiscal springboard in the way Holland did. The northern provinces eventually did, but the southern ones did not, keeping debts quite small until the late eighteenth century.

This paper explores how and why this difference came about. Initially all provincial Estates were very reluctant to raise debt. Some of the provinces were simply too small and poor to do so, but even the bigger and richer provinces of Flanders, Brabant, and Holland avoided it if they could. The Dutch Revolt then hit the Flanders and Brabant economies in the south so hard that, after a brief phase of deficit spending, the provincial Estates again resorted to debt redemption and balancing current expenses with current revenues. The northern provinces shunned deficit spending, too, with the exception of Holland, which after 1620 used its precocious economic development to create a funded debt of unprecedented size. Balanced budgets remained the norm in the North until the Nine Years War (1689-1698) and the War of the Spanish Succession (1702-1713) forced most provinces to abandon it. The inability to redeem the very large loans issued during these wars steered the United Provinces into political neutrality. By contrast the southern provinces, first under Spanish, and from 1713 under Austrian rule, maintained a lighter tax burden, and small public debts.

Our paper aims to extend earlier research into Holland's debt issuing policy to the other sixteen provinces of the 16th century Habsburg Low Countries. The wealth of data collected by the research team directed by Wantje Fritschy (Fritschy 1996; Van der Ent and Fritschy 1998; Van der Ent en Enthoven 2001; Liesker and Fritschy 2004; Verstegen 2007; Trompetter 2007; Veenstra 2009) enables us to reconstruct

provincial finance in the Republic in some detail, but unfortunately the data situation for the southern provinces is rather problematic. Despite repeated efforts by leading Belgian scholars we possess little more than scattered figures of varying quality, nothing like the serial data available for the north. Still, combined with what we know about the better documented developments in the north, the data about public debt policy in key southern provinces do enable us to plot the impact of political and fiscal regime change and economic development on public debt management in the formerly Habsburg Netherlands.

COMMON ORIGINS

Governing the seventeen provinces brought together under Charles V's rule in the first half of the sixteenth century was more a matter of persuasion than of power. The central government in Brussels depended heavily on its provinces for money, because the sovereign's other income source, his domains, did not suffice (Tracy 1985, 30-31). Getting revenue from the provinces required negotiating with each of their Estates separately over the amount which they were prepared to grant and the duration of that grant. Once agreement had been reached with the provincial assemblies of noblemen, clergy and urban delegates, tax receivers appointed by Brussels collected the revenue locally (Tracy 1985, 32-33). At the heart of this continuous bargaining process were the cities of the three richest provinces, Flanders, Brabant and Holland, because they had a large share in fiscal revenues and they were the only public bodies that could raise loans, which the provinces themselves lacked the credit to do. (De Schepper 1980, 326)

Fundamental fiscal reforms introduced during the 1530s and 1540s reinforced the power of the provincial Estates vis-à-vis Brussels. Until then most taxation took the form of local charges on the possession of real estate and, in urban areas, of excises on the consumption of grain, meat, beer, and wine. Pressed hard by Charles V to raise revenue for his war against France, the provinces consented to widen the fiscal base by letting the central government levy a tax on trade with the enemy, and by adopting *nieuwe middelen* or novel expedients, uniform taxes throughout their territories in the form of consumption excises (De Schepper 1980, 323, 325). Designed to boost the central government's income, the novel expedients in fact strengthened the position of the provinces because they obtained the right to let their officials administer the novel expedients. This concession suited Charles V well, because he did not run a balanced budget and therefore had to pledge provincial subsidies to secure short-term loans on the Antwerp money market (Braudel 1959; Maddens 1979; Brokken 1989). For their part, the provinces had to anticipate on tax revenues by borrowing, but their control over the excises bolstered their credit and enabled them to issue loans in their own name (Tracy 1985, 73-107; Korvezee 1975, 102-107). Moreover, rising fiscal revenues outstripped the provincial contributions promised to Charles, enabling Holland and Flanders to redeem part of their debt during the 1550s (Maddens 1978, 356-361).¹

Charles V's fiscal reforms put Flanders, Brabant, and Holland on the threshold of modernizing their public finance by adopting a long-term debt funded by regular excises. However, he failed to use the stretch thus obtained for reorganizing his own finances. Despite considerably increased revenues the central government's finances worsened further during the 1550s, drained by continuing conflict with France.

¹ Vlaanderen: Van annuities worth 650,000 guilders sold between 1516 and 1558 stond aan het eind van de periode nog 400,000 guilders uit; onduidelijk is of nieuwe leningen aangegaan door Staten van Brabant vanaf 1554 gebruikt werden om oudere leningen af te lossen: Kappelhof 1986, 85.

Brussels increasingly kept going with transfers from Madrid, which amounted to two-thirds of its income by 1567 (De Schepper 1980, 323). Given Spain's own precarious position after the 1557 debt moratorium (Drelichman and Voth 2008, 2010), this haemorrhaging had to stop. In 1558 Philip II succeeded in obtaining substantially higher contributions from the Low Countries for a duration of nine years. Though insufficient to solve the central government's budget deficit, this still forced the provinces to suspend debt redemptions, and Brabant even had to raise new debt during the 1560s (Kappelhof 1986, 85).²

Radically cutting the Low Countries' deficit was therefore a key priority for the Duke of Alba, sent by Philip II in 1566 to bring his northern provinces, heaving with religious turmoil and social unrest from an economic recession, to heel. Together with the Duke's ruthless suppression of religious dissent, his proposals for drastic fiscal reform proved instrumental in pushing turmoil and unrest into open revolt. Alba succeeded in getting a 1 per cent levy on wealth accepted, but his proposal for levying a 'tenth penny', i.e. a 10 per cent sales tax, lives on in popular memory as the spark in the tinderbox. Even so his clear intention to wrest control over taxation and spending away from the provincial estates was what really stirred political opposition into armed conflict (Craeybeckx ***; De Schepper 1980, 326; Grapperhaus 1982; *check* Korvezee 1975).

THE DUTCH REVOLT

² Add reference to efforts 1558-1567 to reorganize central government finance.

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

From 1577, however, the Spanish offensive was concentrated on Brabant and Flanders. Open warfare drastically reduced fiscal revenues, despite new taxes on trade, consumption, and wealth, undermining the provinces' capacity to defend themselves (Swart 2008, 8, 13-14, 17). The three main cities Bruges, Ghent and Antwerp raised loans to keep their war efforts going and sought help from the breakaway northern provinces by formally joining the Union of Utrecht concluded between them in 1579. However, the financial and military assistance provided by the north proved woefully inadequate. The Spanish army rolled up one city after another, and the 1585 fall of Antwerp drove a wedge between north and south that turned out to be permanent.

While the Duke of Parma redirected his attention to the north, the southern provinces started reorganizing their finances. This had the curious result of undermining the central government's position. Brabant, Flanders, and Hainaut, the three provinces raising most taxes, managed to retain their control over taxation and spending. The estates simply deducted their debt service payments from their transfers to Brussels, reducing these to almost nothing (Coppens 1992, 186; Bigwood 1900,

Préaux-Stoquart 1953, 56-63).³ Brabant also earmarked specific taxes for servicing particular debts, going against a trend of pledging provincial revenues generally for debts contracted. We do not know the precise volume of Brabant's debt, but at the end of the 16th century payments on life annuities and term annuities amounted to between 260,000 and 350,000 guilders. This would put the debt at 4 to 6 million guilders in 1600, assuming the then common interest rate on redeemable annuities and a gradual extinction of life annuities (Korvezee 1975, 103; Kappelhof 1986, 84-86). In their turn, the provincial estates remained dependent on the cities for collecting taxes and for passing on a sufficiently large share of them, and for raising loans. As often as not such loans were issued in the name of the province, but managed by urban officials, who deducted interest payments from the transfers to the province. This fiscal devolution prevented the evolution of provincial public finance. Antwerp, for instance, and cities like Bruges and Ghent, too, took on heavy debts for their respective provinces. As a rule interest payments absorbed nearly 60 per cent of Antwerp's expenses, constraining both the city and Brabant in their financial policy (Limberger 2009).

Thus in the south the revolt effectively helped to stifle Alba's fiscal reform efforts and to reinforce provincial and local control over public finance. The 1579 Union of Arras binding the provinces loyal to Philip II together did not even mention public finance. Provincial fiscal autonomy kept the Brussels government dependent on income from its domains, the 1543 tax on trade with the enemy (which gradually developed into a customs duty), subsidies granted by the provinces, and transfers from Spain. For their part, the provinces themselves remained dependent on urban fiscal

³ According to Swart (2008, 20) the Duke of Parma pressured Brabant into levying of common means to fund his war effort but this does not seem to have lead to transfers of tax money to the central government..

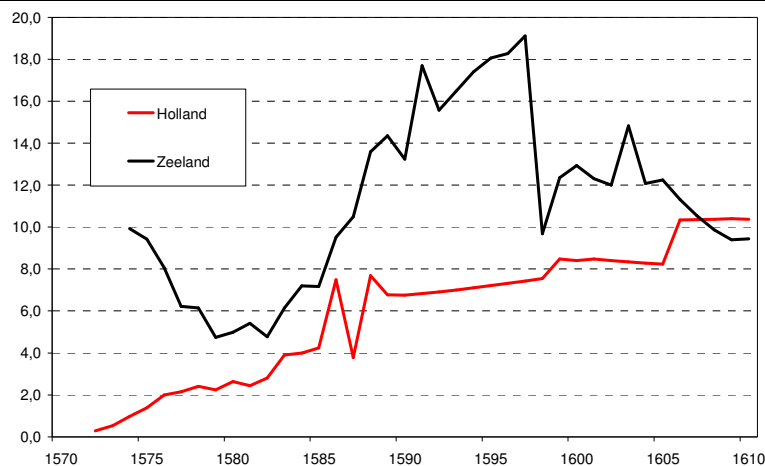
infrastructures and the willingness of the cities to contribute to the provincial budget ('t Hart and Limberger 2006).

By contrast, with the 1579 Union of Utrecht the Northern provinces obtained the common fiscal and political framework which the southern ones lacked, at least up to a degree. Serving as an unofficial constitution, this treaty laid down the Republic's political structure as a federation of autonomous provinces. The Union's foreign policy and warfare were entrusted to the Estates General, the member provinces binding themselves to fund the joint efforts by turning over a fixed percentage of their revenues from the so-called *gemeene middelen* or common means, uniformly defined excises. Holland, Zeeland, and Utrecht adopted the common means first, the other provinces followed once the military situation had stabilized sufficiently for them to adhere to the Union in full (Fritschy 2003, 2009). Thus, while retaining their fiscal autonomy, the northern provinces did in fact adopt a flexible and uniform tax system over the Republic's entire territory capable of raising revenues beyond Alba's wildest dreams. Moreover, lodging fiscal autonomy in the provincial estates limited the power of the cities to voting in the Estates; Holland retained the temporarily obtained control over local excise collection. The Union Treaty's unifying intentions were not fully realized, however, and even partly undone. A compromise reached in 1583 left the provinces free to raise their contribution in whatever way they liked. Four years later the Estates General decided, at the instigation of Holland, to delegate army payments to the provinces and allowing them to deduct those payments from their contributions.

From the late 1580s the tide of war turned in favor of the Republic when Spain lost its Armada and Philip II decided to redirect his forces to other theaters. Hostilities declined to the level of small-scale operations until the two countries finally concluded a truce in 1609. By that time deep fiscal differences between the northern

and southern provinces reflected the geographical split between them. In the north, Holland showed the shape of things to come. Its Estates had used the breathing space created by the turning war tide to restore its finances and resume its debt service. At the same economic growth boosted tax revenues, enabling the province to borrow more, raising the debt total to 14.4 million guilders by 1609, i.e. some 2.5 to three times Brabant's debt around that time. Other provinces remained wary about shouldering debt and continued to pay current spending from current income. Zeeland provides a good example of this policy. Once the fighting had died down there in 1576, the province managed to redeem its debt and raise its revenues, which far outstripped those of Holland (Figure 1). As a result Zeeland did not have to borrow much in order to fulfil its obligations to the Union, its debt total standing at 0.8 million guilders in 1609, against Holland's 14.4 million. Other provinces also managed to balance their budget. Utrecht's 1609 debt was probably similar to Zeeland's; Groningen and Overijssel borrowed no more than about 50,000 guilders (Figure 3).

Figure 1, Estimated fiscal revenue per capita in Holland and Zeeland, 1570-1610



Sources: Veenstra 2009; Liesker and Fritschy 2004; Population Zeeland: Priester 1998; Population Holland, courtesy Jan Luiten van Zanden.

The substantial differences in fiscal pressure and provincial indebtedness between the northern provinces at the turn of the seventeenth century demonstrate that the Union of Utrecht's aim to create greater fiscal harmonization succeeded only up to a point. The various provincial Estates remained free to set tax rates and definitions, as long as they paid their agreed contribution, usually arrived at after arduous negotiations. The Union treaty was also flawed in not providing sanctions for not paying up, leading to rising arrears as time went by. The Estates General had a hard time in covering those, having a small borrowing capacity based on the trickle of levies on overseas imports earmarked for naval expenses. During 1600-1609 the Union borrowed a total of 3.8 million, of which Holland took over three million upon the signing of the Truce.

HOLLAND'S EXCEPTIONALISM

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

Despite the pressure of rising expenditure in north and south the bargaining framework between the provinces and the central government over tax transfers hardly changed. The provinces in the Spanish Netherlands remained in control of the raising and spending of taxes levied by them in the name of the Brussels government. Both Flanders and Brabant stopped deficit spending and prioritized debt redemption over transfers to the central government, which therefore had to fund its war effort mainly with transfers from Spain.

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

These bills enabled Holland to embark on a deliberate policy of deficit spending. From a temporary bridge of gaps between revenues and spending, its borrowing was transformed into a structural public finance feature. This policy stood out amongst the other northern provinces. Zeeland, for instance, experienced such economic difficulties following the closure of the Scheldt river and the loss of satellite trade from Antwerp that the Estates repeatedly had to renegotiate their contribution to the central war effort, which dropped from 22.5 per cent in 1575 via 14.7 per cent in 1595 to only 9.2 per cent in 1616, the last reduction achieved only after particularly arduous negotiations (Veenstra 2009, 3-9). As a result Zeeland could shoulder the burdens of renewed warfare from 1621 with modest borrowing. Its debt rose to 4.3

million guilders in 1648, a fraction of Holland's amount and only 50 guilders per capita, against 164 guilders for its northern neighbour (Figure 3).

Other provinces also strove to pay their contributions from current income as much as possible and to restrict borrowing to bridging temporary gaps between income and spending. Debts remained small overall during this period (Figure 3), partly because outside Holland demand for public securities was slow to develop. None of the provinces could adopt bills in the way Holland did, while local markets for life annuities and redeemable annuities had a finite capacity. Capital from Holland does not appear to have crossed borders of its own volition during these years, though it did in the form of loans issued on the credit of the Estates General to cover the rising provincial contribution arrears. By 1648 the Union's receiver-general in The Hague had raised a total of 12.8 million guilders in bonds towards this end, the interest of 6.25 per cent being charged to the provinces. For some of them, though not all, this indirect borrowing in Holland was easier and cheaper than raising money on local markets.

However, the provinces thoroughly disliked being made to accept debt in this way and resented carrying the can for what they regarded as Holland's self-interested policies. For its part, Holland wanted to reduce the political risks that a large army under the Orange stadholders might pose, so in 1651 the Estates General decided to further undo the 1579 Union of Utrecht and delegate control over military spending and appointments almost entirely to the provinces. This put the northern provinces in a position quite similar to the southern ones, and the Estates General in a position akin to Brussels, i.e. financially powerless. This provincial particularism has often been criticized as the most telling example of the Republic's institutional impotence, but

events would soon force the northern provinces to accept yet heavier burdens and start deficit spending on a big scale.

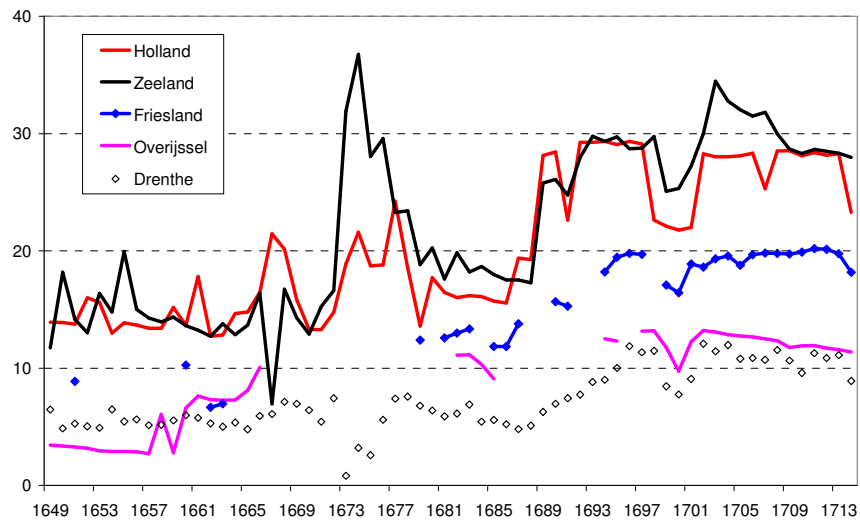
ENTERING THE VICIOUS DEBT CIRCLE

As one of Europe's leading powers during the second half of the 17th century, the Republic was engaged in almost continuous war with the other majors, Britain and France alternating and occasionally, as in 1672, combining as main opponents in efforts to cut the Dutch down to size. This prolonged power struggle culminated in the War of the Spanish Succession (1701-1713), which raised military expenditure to unprecedented heights and taxed the belligerents to their financial limits. Whereas France and Britain ultimately succeeded in stretching resources sufficiently for them to continue the international political competition, the Republic did not and retreated in a watchful but really impotent neutrality (Aalbers 1980).

The retreat masks the success with which the Republic had stretched its public finance resources during the war. The data reconstructed by Fritschy and her team enables us to calculate fiscal revenue per capita for five provinces: Holland, Zeeland, Friesland, Overijssel, and Drenthe (Figure 2). The graph shows first of all an overall doubling of fiscal pressure between 1648 and 1713, rising during wartime and dropping after it. Taxation was highest in Holland and Zeeland, rising to around 30 guilders per capita during the War of the Spanish Succession. These two provinces possessed a stretch which the other ones lacked. Friesland, for instance, taxed its subject at more or less similar levels until about 1690, but could not raise tax per capita to more than 20 guilders. Even that was not enough to meet the province's

obligations, causing the Estates to partially default on its debt by suspending interest payments on annuities sold outside the province. Overijssel and Drenthe raised even less revenue per capita, but the real tax pressure in those provinces probably neared that of Friesland, because wages here were on average 25 to 35 per cent lower than in the sea-oriented Provinces (De Vries and Van der Woude 1997, 609-620). Finally, Figure 2 highlights interesting minor differences in fiscal policy. During the 1670s emergency, for instance, when the Republic had to fight off a three-pronged attack by France, Britain, and two German princes, Holland kept its wealthy elite happy by raising most of the money required by issuing forced loans, whereas Zeeland stuck to taxation pure and simple, causing a spike in tax per capita.

Figure 2, Fiscal revenue per capita in the Republic, 1600-1795

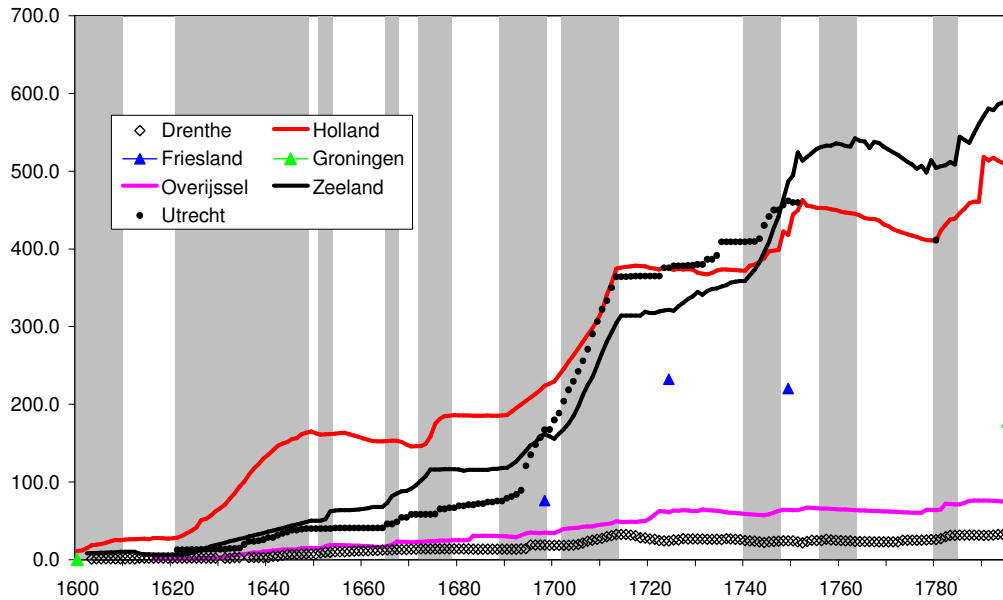


Sources: Fritschy 1996; Van der Ent and Fritschy 1998; Liesker and Fritschy 2004; Trompetter 2007; Veenstra 2009.

Tax increases alone did not suffice, all provinces had to raise additional large loans. Figure 3 plots the debt per capita for seven provinces, only Gelderland missing for a lack of data, the grey bars indicating war years. The graph highlights Holland's

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

Figure 3, debt per capita of the northern provinces, 1600-1795

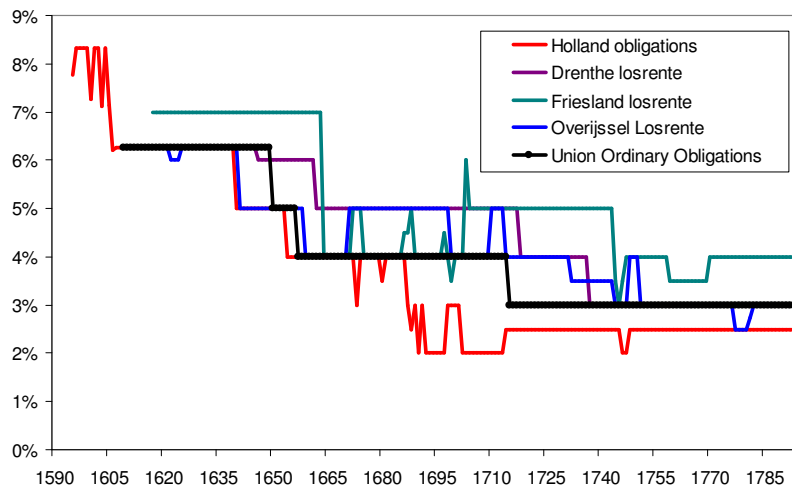


Sources: Debts outstanding: Dormans 1991; Fritschy 1996; Van der Ent and Fritschy 1998; Van der Ent en Enthoven 2001; Liesker and Fritschy 2004; Versteegen 2007; Trompetter 2007; Veenstra 2009; Gelderblom and Jonker 2010; Population figures: Zeeland: Priester 1998; Population Holland, courtesy Jan Luiten van Zanden; to be completed***

The most striking aspect of these provincial debts is that the Republic's fragmented political and fiscal structure did not lead to provinces refusing to contribute to the war effort, or to a more pronounced free-riding on Holland's credit than the structural late payments. The Estates General in The Hague may have been weaker than the Brussels central government, but the northern provinces displayed a greater degree of political and fiscal cohesion, assuming joint burdens as far as their financial capacity would allow. This endorses Fritschy's rejection of the institutional impotence thesis (Fritschy 1988, 57-73): the Republic's central political structures may have been weak and impervious to change, and the blatant starvation of central funds exercised by all provinces may have enfeebled policymaking more than necessary, but at the provincial level authorities did what they could to make ends meet. Once joint decisions had been taken, the provinces loyally raised their contribution. The north's greater cohesion contrasts strongly with the south, where the fiscal devolution

reaching down to the cities complicated policy at provincial level and frustrated it at central level. The north's cohesion and its results are a delicious historical irony in the sense that the provinces which successfully revolted against their Habsburg overlord over the threat of fiscal centralization and the level of taxation ended up with a greater fiscal uniformity and higher taxes than the provinces which remained under Habsburg control. The different political trajectory of the two countries of course explains a large part of this irony; whereas the Revolt forged a centripetal momentum in the north, the alienation from foreign regimes reinforced centrifugal tendencies in the south.

Figure 4, Issuing rates in the Republic, 1600-1790.



Sources: Dormans 1991, 137, 138, 148; Van der Ent and Fritschy 1998, 210; Trompeter 2007, 185-191; Fritschy 1996, 213-224; Gelderblom and Jonker 2010

But the North could also afford greater sacrifices. Provinces moved to deficit spending because the available wealth created both a source of tax revenues and a demand for long-term investment in public securities. Most provinces started to tax wealth around 1700, such taxes rising to the third main revenue source after land taxes and excises. As for investors' demand, during the War of the Spanish Succession,

Friesland, Overijssel and Drenthe had no difficulties in selling redeemable annuities at issuing rates similar to those of Holland, that is to say 4-5 per cent, and even the poorest province, Drenthe, built up a debt of 1 million guilders of which only 100,000 was sold elsewhere.⁴ The discrepancy between accumulating wealth and a stagnating tax base is demonstrated to telling effect by the strong increase of Union debt between 1672 and 1715. During this period the receiver-general in The Hague not only issued bonds anticipating on his own revenues from customs duties and domains, but he also sold bonds to the tune of 37 million for various provinces, which used his credit to obtain slightly lower interest rates and thus reduce debt service costs (De Muinck 1965; Dormans 1991, 147-148; Figure 4). Such loans usually had a coupon of 8 per cent, half-and-half interest and amortization, resulting in the loans being paid off in 18 years. The life annuities which they replaced paid 9-10 per cent and were estimated to run for 50 years (Dormans 1991, 145). Unfortunately the provinces responded with ingratitude, building up interest arrears which forced the receiver-general's office into suspending payments for more than nine months during 1715. It was reopened only after a unilateral reduction of interest rates.

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

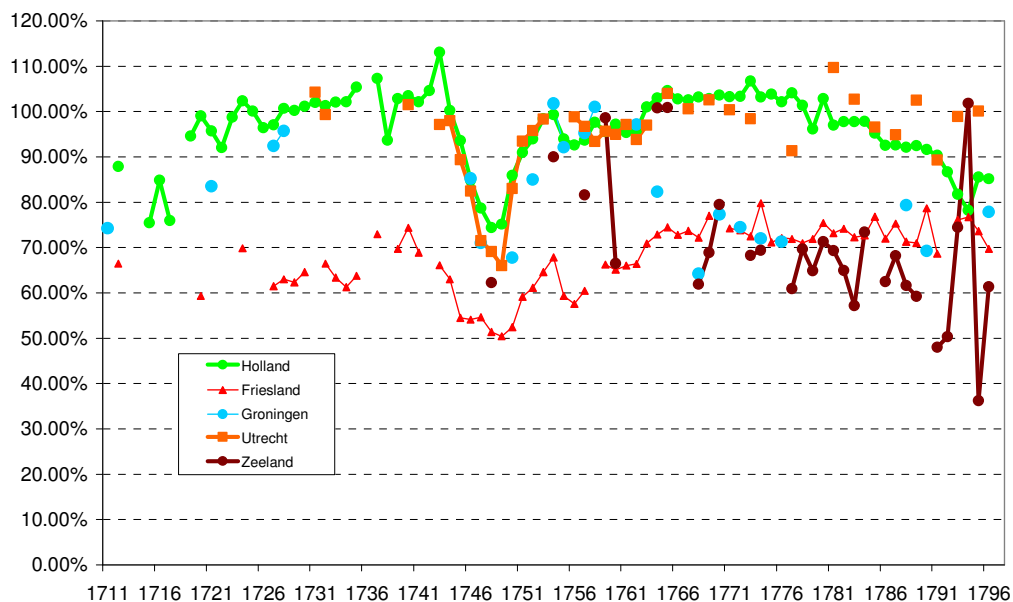
PERILS OF PARTICULARISM

⁴ The volume of Drenthe's debt sold elsewhere may be deducted from the 1 per cent tax on it from 1695. Between 1705 and 1713 this yielded 1,015 gulden annually (Van der Ent and Fritschy, *Drenthe* 149-150, 207-208), giving an estimated debt held outside the province of about 100,000 guilders, or 10 per cent of its estimated total debt.

During the 18th century, however, the structure gradually unravelled. Provincial Estates encountered such difficulties in making ends meet that they slowed down transfers to the Union further and further, causing arrears to almost double between 1714 and 1748 from 3.6 million guilders to 6.6 million. This prevented the receiver-general from raising debt for the Estates-General and forced him to suspend payments again in 1754, though this time for only eight days. Even so the Union managed to gradually reduce the arrears and cut its debt by two-thirds between 1715 and 1786, notably after 1760 (Dormans 1991, 156-157).

Friesland continued in partial default, keeping the price of its paper on Amsterdam securities auctions at junk level (Figure 5). The other provinces quickly recovered from the war turmoils, passing par around 1720 and staying at that level until the 1740s. The financial strains of the War of the Austrian Succession then

Figure 5, The average annual prices of public securities auctioned in Amsterdam, 1711-1796



caused both Groningen and Zeeland to drop from the pack as well. We do not know the nature of their financial difficulties, but they were sufficiently serious to alarm investors and push down securities prices to the Friesland level. Only Utrecht kept level with Holland until the general collapse of public credit during the Fourth Anglo-Dutch War (1780-1784). Thus the risks of deficit spending caught up with the northern provinces in three distinct phases: the 1710s, the 1740s, and the 1780s. Though still able to draw on the available wealth to raise more debt (Figure 3), the provinces no longer could increase revenues to sustain interest payments. Moreover, the defeat in the Fourth Anglo-Dutch War triggered profound social and political unrest bordering on civil war. The propping up of the incumbent regime by Prussian intervention did little to restore confidence in public finance.

For the 18th century we finally possess more information and data about the southern provinces. They also came under serious financial strains during the late 17th century, causing the Brussels government to borrow heavily from the Republic. These sums were transferred to the Austrian government which took over from Spain in 1714. Moreover, in accordance with the Treaty of Utrecht the Brussels government had to pay 1.4 million guilders annually to the Republic for the maintenance of the so-called Barrier, a string of garrison towns along the Franco-Belgian border designed to deter a new French attack.⁵ The clauses of the 1715 Barrier Treaty between Brussels and the Republic shows the Austrian régime still unaware of its relative public finance weakness. The annual payments were collateralized on the transfers from Flanders and Brabant, the Republic receiving a right to seize money at the provincial receivers in case of non-payment. The two provinces protested with such vigour about this

⁵ Hasquin, “Difficultés” ; Coppens***; Frans de Liagre Bohl, MA Thesis.

infringement of their rights that Brussels had to renegotiate the treaty and mortgage its own customs duties instead (Hasquin 1973 ***).

Brussels initially acquiesced in the fiscal autonomy of its provinces, and had to, because it possessed few funds and little credit. In 173* the government struck a deal with Brabant to redeem the remaining Dutch debt of 6 million *guilders, the province raising the sum needed of its own and deducting the interest payments from its transfers, thus cutting these further.⁶ The fragility of the public debt system is highlighted by the strains caused by fairly small debts. There are no exact data about public debt in the southern Netherlands. A 1733 memo arguing for an interest rate cut from 5 to 4 per cent put the expected annual savings at 300,000 *guilders, which gives a total debt of 30 million *guilders for the entire country, comparable to Zeeland's or Utrecht's debt in the north, but on a population similar in size to that of the entire Republic. The Brussels government's debt rarely exceeded 2.5 million Brabant guilders on an income rising gradually to 10 million Brabant guilders by 1760. This was very low; with roughly eight times the Dutch Estates General's own income, Brussels sustained only a quarter of its northern counterpart's debt. And yet the government had difficulty in obtaining credit. Until the mid-18th century Brussels could not approach investors directly, partly because of uncertainty over whether the funds raised would be used for the country itself or for Austrian imperial purposes. When pressed for money, as was usually the case, the government borrowed far and wide: from local, regional, and provincial bodies, from local or foreign bankers, from corporations such as the Brussels brewers' guild and ecclesiastical bodies, even from its own officials by way of levies on salaries. These latter loans were sold on from one incumbent to the next as life annuities, causing the government to lose track of its

⁶ Coppens, 267-292; Cuvelier, "Redressement", 172.

original collateral. Regular interest and redemption payments subsequently restored the Brussel government's credit, so it could start issuing loans of its own, mostly through the private bankers Nettine's. Issuing rates hovered around 4 per cent throughout the 18th century, on a few occasions rising to 5 per cent, more often dropping to 3-3.4 per cent (Bigwood 1906; Lenders 1980a, Coppens 1992, 287, 295, 297; cf. Harsin 1950, 12).

Thus the Brussels government did not fully exploit its fiscal potential, borrowing rather less than its income would appear to have warranted. The available data suggest that the same was true for the provinces. Around 1780 total tax revenues in the south were estimated at nearly 12 million Brabant guilders, less than a third of total revenues in the north. We have as yet found no reliable figures for total debt. One contemporary estimate puts this at around 100 million Brabant guilders, a sixth of the north's total, but since the debt is unlikely to have more than tripled since the 1730s it was probably substantially lower than that. Flanders had a debt of 18 million Brabant guilders in 1780 on revenues of just over 5 million, that is to say, twice the revenue of Zeeland, but only two-thirds of its debt. The southern provinces as a whole could not fully exploit their fiscal potential because of the devolution of public finance to the cities. Antwerp's debt, for instance, rose to no less than 8 million Brabant guilders during the 18th century, its service consuming 65 per cent of revenues. Just over 40 per cent of that debt had been raised for the province's account. Though tax revenues of no more 480,000 guilders for a big city like this does not suggest a heavy tax burden, Antwerp magistrates could legitimately claim, in negotiations with provincial officials over finance, that their budget offered no room for more debt (Limberger 2009).

Moreover, there was sufficient capacity to absorb loans. Research by Degryse and others into Antwerp investors' portfolios has uncovered large holdings of securities, including foreign government bonds, and continuous complaints from investors about the impossibility of finding remunerative employment at modest returns.⁷ Moreover, the interest rate reductions which both Flanders and Brabant pushed through during the 18th century suggest savings surpluses unable to find profitable employment, causing investors to hold on to whatever securities they had. The 1733 conversion proposal argued for a reduction to 4 per cent because, with private rates were as low as 2-3.5 per cent, only a fraction of bondholders would ask redemption.⁸ A further reduction to 3.4 per cent during the 1770s raised howls of protest before being widely accepted.⁹

From the 1740s Brussels gradually increased its grip on provincial and local finance. In 1751 the Austrian government managed to gain formal control over Hainaut's tax revenues;¹⁰ during the 1770s, it also coaxed the Flanders Estates into the interest rate reduction. Instructions for uniform budgets and accounts were issued, and a government council started to survey revenues, expenses, and debts in an effort to clear up the existing confusion (Harsin 1950, 13; Moureaux 1975, 46-47; Baelde 1975, 72-75; Lenders 1977).

Public finance in the south could not evolve because political structures were ossified. The Flanders Estates, for instance, continued to be dominated by Ghent and Bruges. Having long lost their economic power and financial muscle, these two cities were, like Antwerp, mired in debt, partly raised for provincial account, and they managed to shift the main tax burdens to the countryside. This resulted in an uneven

⁷ Lenders, *Politieke crisis*, 264.

⁸ Cuvelier, "Redressement", 178.

⁹ Lenders, 'Controverse'.

¹⁰ Préaux-Stoquart, 71-72

and relatively low tax yield, insufficient to cover expenses. The shortfall was made up by borrowing, causing debts to rise inexorably. After some seventy years of struggle the imbalance between political and economic power was finally redressed during the 1750s by admitting representatives from the countryside to the Estates. They immediately set to work reorganizing public finance through balancing budgets and cutting debt, but these efforts were frustrated by the Seven Years' War (1756-1763). With debt at nearly 22 million Brabant guilders in 1764, the Estates resumed redemption, only to run into strong protests from bond holders, who complained about being unable to find remunerative alternatives for their money.¹¹ This resulted in a trade-off, Flanders obtaining an interest rate reduction in return for suspending redemptions.

CONCLUSION

Under Charles V, the Habsburg Low Countries gradually evolved from a public finance system dominated by the cities towards a more centralized policy in which the interplay between Brussels and the provincial estates called the tune. The financial emergency posed by the Revolt then pushed the northern provinces into driving this development to the half-way mark of vesting fiscal autonomy in the provinces, reducing urban power but at the same time keeping the Union at a distance. By contrast, in the south fiscal power reverted to the cities. This constrained not only the Brussels government, kept at arm's length as the Union was in the north, but also

¹¹ Lenders, *Politieke crisis*, 264.

provincial finance, which struggled with low tax yields, a small borrowing capacity, and vested urban interests.

If the southern fiscal system may therefore be described as failing in efficiency and flexibility, the northern system suffered from a serious defect of its own, that is the lack of a brake on mounting debts. The northern system remained pre-modern in lacking the disciplining mechanism which transparent markets can apply. Holland's active debt market served as a constant sparring partner for the Estates in determining the price of new issues, but even there investors, kept ignorant about the volume of taxes and debt, could not apply corrective pricing to force fiscal policy changes. Outside Holland no active markets existed and the Amsterdam price signals did not have consequences. Moreover, for a long time officials there could ignore local investors through leaning on the Estates-General's credit. As a result all provinces overextended themselves. Some defaulted earlier than others, but the system's fatal flaw was only addressed once the French-induced Batavian Revolution in 1795 had adopted the principle of publicity for public affairs.

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