

- LECTURE -

The History of Capitalism:
How to Be Dutch, The Modern Way
By Professor Maarten Prak
14 April 2015

* * *

Introduction

I'm going to talk about politics, the economy and just a little bit about culture, and I want to start with culture. Some of you may have seen the Rembrandt exhibition at the National Gallery this autumn. I think it's no coincidence that a museum like the National Gallery is willing to sponsor a major exhibition about a quite well known painter from the 17th century Netherlands. Rembrandt is a genius, there is no doubt about that, but he is also the representative of a huge number, hundreds, of sometimes well known, sometimes not so well known painters who were also active in his own day in the Netherlands. In England at the time there were perhaps only a few dozen artists working in the same field, so this already gives us a sense that the cultural sector in the 17th century Netherlands was big business. This cultural sector was the tip of the iceberg of a much larger economy that was also extremely dynamic and successful in that time: the Dutch Golden Age.

So, what did that golden age look like? I will give you a sense of the history behind it and its various aspects, and then I would like to look at why all of this quite remarkable series of events actually took place.

Themes and theories

Three different theories might or might not help us to explain these events. One of those theories was proposed in the 1980s by Jonathan Israel. He wrote a book about the Dutch economy, and his theory was that the Golden Age was the result of the migration of merchants from Antwerp who were cut off from the sea and who decided as a result of that to move Amsterdam where they could continue their trade.

A second theory has been proposed by the German sociologist, Max Weber in the beginning of the 20th century, and his argument was that capitalism, not just in the Netherlands but more generally in Europe, emerged as a result of the rise of Protestantism; that is was religion that encouraged people to invest, to work hard, and to make money.

A third theory has been proposed by two Nobel Prize laureates of recent years; Douglas North in the 1990s, who proposed that economic prosperity must be built on good institutions, and Elinor Ostrom, who won the same Nobel Prize a couple of years ago. She proposed that these institutions were not necessarily imposed from above but could also emerge from the bottom up—these were institutions that could have strong civic roots. As you will see, these themes will come up again.

The Dutch revolt

In 1585 the Dutch rebels, in the midst of the Dutch Revolt, closed off the river Scheldt and by doing this, the harbour in Antwerp, then the hub of North European capitalism. At this point the rebels already had a number of cards in their hands which might help explain the emergence of the Dutch Golden Age in the 17th century. I will discuss these elements and also highlight a number of elements that were added after 1585. This mix, to a great extent, is the Golden Age.

The first graph, national product per capita, gives us a sense of what was going on. The orange line is the reconstruction of English GDP, (later UK GDP) per capita, and the black line is the Netherlands. If we assume that the English line is representative of much of Europe, then you can see that already, long before 1585, the Dutch economy was doing remarkably well compared to its competitors. In this graph we can also see that, while the Golden Age stands out, at the same time it is part of a longer trend of economic growth. This is a trend from which the Golden Age originated, and on which the rebels, in charge in the Netherlands in the late 16th century, could build.

Urbanisation

One element that is significant is the relatively high level of urbanisation. We have some statistics that give a sense of what Europe looked like between the middle of the 16th century and the middle of the 17th century in terms of urbanisation, and how the Netherlands were placed in that spectrum.

In England during the middle of the 16th century, before the Dutch Golden Age, 3.5% of the population lived in a community larger than 10,000 inhabitants—the great majority in London. In Italy it was 13%—quite a bit higher. But in the Netherlands it was already 15%, and in what is now Belgium it was 22%. A century later the urban population in England had tripled almost to 9%, in Italy staying at the same level at 14%. Belgium too had stagnated at 21%, and the Netherlands had increased to 32%—so one in three Dutch people lived in a city—cities being where most of economic prosperity is made.

Another thing that distinguished Dutch urbanisation from English urbanisation is the fact that, whereas in England most urbanites lived in London, (in the middle of the 17th century the city had already 400,000 inhabitants, and there were only two other towns that had a major population in England: Norwich, with 20,000, and Edinburgh with 35,000), in the Netherlands, a much smaller country, there were twelve towns with 20,000 inhabitants or more. Amsterdam had about 175,000 inhabitants by the middle of the 17th century, so not quite so large as London but probably the third largest city in Europe at the time.

This urbanisation was supported by a very modern type of agriculture. In 16th century Europe most farmers were only marketing a very small part of their crops and consuming most of it at the farm. In the Netherlands however, farms had become completely commercialised and farmers were no longer consuming their own produce, they were bringing all of it to the market. This is not because they were clever, but because they had no alternative. The western part of the Netherlands had become so wet due to technological problems while draining the area, that they could only grow grass there, and as a result farmers were forced to convert their farms from arable to husbandry. This had a further effect: the Dutch could no longer feed themselves, so they had to go abroad to get their staple grains. In fact they imported grain all the way from north Poland to Amsterdam. They built a massive fleet to carry that grain from Poland to the Netherlands, and this in turn pushed the Dutch to become

the main navigators of Europe in the 16th century. Again, this was not because they wanted to, but because they were forced onto this course of action for ecological reasons. This too made the Dutch economy much more commercial than the average 16th century European economy.

This again had knock-on effects: the Dutch had an unusual number of ships—more ships in the 16th century than the fleets of France and England combined! The Netherlands had about one million inhabitants, France had ten million and England had about three million—but nonetheless it's the Dutch that have the most ships. They also have the shipyards so they can build these ships more efficiently than their competitors, they have the sailors to man those ships, and because in the 16th and 17th century merchant men also service naval ships, they can also fight naval battles quite effectively.

So all the aspects I have described thus far were already present before the Golden Age starts—none of this had anything to do, quite frankly, with migration, nor much with institutions, or with Protestantism (at this point the Netherlands are almost completely a Catholic country).

Drought

Then something happens: in the 1590s Dutch ships entered the Mediterranean for the very first time. This is an area where they had never been before. As it happens, in the 1590s the Mediterranean was experiencing major famines as a result of drought which ravaged crops in the area. Antwerp merchants who arrived in Amsterdam had great contacts in the Mediterranean and the Dutch, as I said, also had the ships. The combination of the two made it possible for them to send those ships to the Mediterranean. By the late 1590s hundreds of Dutch ships are already plying the waves of the Mediterranean despite the fact that they had to pass beneath the Spanish coast.

At the same time, Dutch merchants—and Dutch ships—were sailing to other, non-European, parts of the world. The ships reached the Indonesian archipelago, in South East Asia in the 1590s, and they also travelled to Venezuela in search of food. They did not quite reach North America, (but they do in the early days of the 17th century, actually with the help of an Englishman—a man called Henry Hudson who was trying to discover a sea route to Asia over the top of Canada in the service of the Dutch East India Company). Of course they couldn't do it,

but nobody knew that at the time. Later, in the 1630s, Dutch settlers grabbed colonies from the Portuguese in what is now Brazil.

An Emerging Global Trade Network

In the beginning of the 17th century already, you see a global trade network emerging which will lead to settlement in many parts of the world. This included South Africa, which started out as a Dutch colony in the mid-17th century. Cape Town was created as a refreshment station for ships sailing from the Netherlands to the Indonesian archipelago. The Dutch traded in Japan; they traded in China, and did business on the Indian coast (in what is now Sri Lanka and then Ceylon). These developments are all new and they all start around 1600.

The Dutch East India Company, or *Vereenigde Oostindische Compagnie* as it was known, was set up in 1602. By the middle of the 17th century the Dutch Guilder was its logo—the most common currency for international trade in East Asia. By this time, two thirds of European ships that passed the tip of Africa came from the Netherlands. This was still the case by the middle of the 18th century, so for a very long time Dutch ships dominated that trade route. At the same time, they set up trade colonies in the New World. These were not as successful as those in Asia, but nonetheless it is good to remember that Wall Street was originally built by the Dutch - along the wall the Dutch settlers built to defend themselves against the native Americans in Manhattan.

All of this had an impact on Dutch industry. A wonderful example is the Dutch East India Company, who brought back (from a very early stage), not only spices and silk, but also Chinese porcelain which became incredibly popular on European markets. Very quickly Chinese producers started to make special products for the Dutch East India Company - complete with the company logo emblazoned on it. But in the middle of the 17th century, China fell victim to civil wars which cut off the trade in porcelain. Dutch companies started to produce imitation china which they called 'Dutch porcelain', which we now know as 'Delft Blue' or 'Delftware', to fill the gap. It became an extremely popular product, so popular that when porcelain production was resumed in China in the later 17th century, they started to imitate the Dutch imitation of original chinaware!

Migration

I have covered the basic facts of Dutch economic prosperity in the 17th century, but now on to the explanations. As I explained, one of the theories put forward concentrates on the impact of immigration from the southern Netherlands, and from the southern 'Low Countries'.

There can be no doubt that the growth of Amsterdam must be explained through migration, because at this time, no city could survive only with its own native population. The death rate in 17th century towns would result in a population decrease, not increase, without immigration. Amsterdam was definitely increasing in size. By the early 17th century the population of the city had grown to such an extent, that it was decided to add housing to accommodate all the newcomers, and in the 1660s they built even more. One of the areas that was created as a result was the famous canal area now on the UNESCO World Heritage list. This canal zone was deliberately created to attract people who had money to spend to build houses that matched their wealth and lifestyle. At the same time working class districts were created on the outskirts of town.

Migrants were absolutely essential not just in Amsterdam but likewise in London. In the first half of the 17th century the number of inhabitants in Amsterdam who came from other countries hovered around 50%. By comparison, in 2013 (the most recent figure I could find), the number of foreigners living in London was 36% quite substantially below the percentage in Amsterdam at the time.

One quarter of these immigrants in the 17th century came from what you might call 'various places'. Some substantial number, (though perhaps not as much as you might have expected), came from the southern Netherlands—in fact, the majority of migrants from the southern Netherlands had arrived before 1600. By far the largest group were Germans, who constituted about half of all immigrants. There were also a sizeable group of Scandinavians. The 23% of assorted foreigners came from a whole range of other European countries, including from central Europe: Poland, the Czech Republic, (and very few came from the British Isles). At this time, domestic personnel came overwhelmingly from Germany, but there are other professions: tailors, bakers that were overwhelmingly staffed by Germans.

To what extent was this also true in the wealthy merchant class? We have some data on immigrant merchants from the early 17th century which show a very interesting picture. We see that among the richest of Amsterdam, (people owning more than 100,000 guilders in 1631), about half were immigrants and one third of the wealthy merchants in the city were foreigners. Is this a high proportion or is this disappointing? I would say that you could argue that 'the glass was half full or half empty'. But the story that emerges both from the activities that these people were undertaking, and from this wealth distribution, is that, both the immigrants and the natives were also important—it was the synergy that emerged out of immigration, together with what was already available in terms of wealth and initiatives, that created the Golden Age.

The protestant work ethic?

Was it Protestantism that explains the success of Dutch Republic at this time? Well perhaps. One interesting element in the religious history in 17th century Netherlands is this Union of Utrecht, a document drawn up in 1579 when the Dutch rebels were in dire straits and they decided to formalise the collaboration to fight off the Spanish Habsburgs. Amongst other things, they wanted to organise the religious situation in the Netherlands. They decided that a religious order would be created, everybody knew that it would be Protestant, yet at the same time they stated that no one could be investigated or persecuted because of his, (or 'her') religion. So, out of the Dutch revolt came a form of Protestantism that was very different, at least in its organisational aspect, from say, the Church of England. The Netherlands never had a state church, and even though their head of state, the King, is Protestant, this is not formally set in law. Protestants were privileged: they got all the church buildings, and politicians had to be Protestant, but the Protestants also had problems. In the early 17th century the Dutch reformed the church—the Calvinist church—fought over doctrine. The result was that in 1619 at the Synod of Dordt the Dutch church split into two parts, which didn't do much to help the standing of the church in the country. Haarlem, a middle-sized town in the Netherlands in the early 17th century had a substantial reformed community, but also Anabaptists and quite a number of Catholics. By the 18th century the number of adherents to the reformed church had increased quite substantially. But, there was still a very substantial Catholic community in Haarlem—people who continued to profess their religion under that Article 13 of the Union of Utrecht.

Because of the size of the Catholic community, the authorities had to come to terms with Catholicism. Catholics were still forbidden from practising their rights in the open, but the authorities did not want to completely outlaw them—that was also bad for business, as people told each other all the time. What they did was something that you still see a lot in the Netherlands, but now it's related to the drugs policy of the country. Officially, drugs are forbidden but you have no problems finding them in the streets of Amsterdam, and this was true of Catholicism in the 17th century. You do not see a church from outside, but when you go inside that is what you will see. Every Sunday hundreds of people would convene at these churches to celebrate Mass. There were almost 30 so-called 'hidden churches' in Amsterdam in the 17th century. They were very neatly listed in official register in the Amsterdam town hall.

Jews also could not officially profess their religion. However, when the Portuguese Jewish synagogue was opened in the second half of the 17th century, William of Orange, England's future king came to pay his respects—and rightly so—as the invasion of England in 1688 was financed by Jewish bankers.

There are different interpretations of the impact of religion on the rise of Dutch capitalism. One is that the Netherlands was a tolerant country, however the reformed church was a privileged church and the Catholics were discriminated against, so nobody in 17th century Netherlands seriously believed in the principle of toleration. If toleration was practised, then it was because people felt there was no alternative. Still, one could argue that from a religious point of view the Dutch Republic was more tolerant than most other countries.

Another interpretation is that Protestantism didn't work its wondrous ways through the work ethic, but through what might be called 'human capital'. Protestant countries were countries where the people could read and write. The number of books that were produced annually in Protestant countries was much higher than in Catholic countries—and nowhere more obviously than in the Netherlands of that time. So maybe religion had an impact, not through the work ethic, but through the capacity to read and write.

The influence of state institutions and community groupings

Some might think about institutions in a very instrumental way. There was a type of 'Bank of England' of institution set up in the early 17th century, and, also an exchange. But I am thinking about a different type of institution—institutions of governance that ruled the country. One important clue can be found, again, in the Union of Utrecht of 1579. In its first Article the Union sends out a double message. On the one hand the rebel provinces say that they will collaborate as if they constitute only a single province, with a common army and a common tax system. But they go on to say that, nonetheless, each province and individual cities' members and inhabitants shall retain *undiminished* their special and particular privileges. This includes franchises, exemptions, rights, statutes... it goes on and on and on. The first Article is very clear, "We collaborate because we have to, but oh boy do we love our autonomy!" In the state structure of the Dutch Republic, the central institutions were only responsible for its foreign policy. Domestic politics were dominated by the provinces, and within the provinces, particularly in the province of Holland, it was the cities that were most important. In Holland, 18 towns could cast their vote and Holland delivered 60% of all the tax collected in the Dutch Republic.

The Dutch Republic did not have a head of state. Orange Stadtholders may have acted as though they were heads of state, but they knew very well that they were not. Their main role was to command the army and the navy. In fact, they had a subservient role in the political system. It was Holland that called the shots and that was because most of the important economic activities were concentrated in Holland. Holland produced by far the most important tax revenues. All the debts that the Dutch Republic was running up in the course of the 17th century were shouldered by the province of Holland. Within Holland it was the towns, particularly Amsterdam, that were important. Within those towns existed all kinds of social groups, not just the elite, who were involved in running the community. Amsterdam had several dozen guilds and the number was increasing. These were really important to the economic life of the city. There were even females involved in running some of the charities. The citizens met regularly as members of civic militias, (as in Rembrandt's *Night Watch*).

The involvement of ordinary people in the governance of the Dutch Republic translated into very high per capita taxation. Nowhere in Europe, and probably the world, were people paying more taxes than they were in the Netherlands. Those taxes paid for all kinds of public

services. Government was not capable of taxing like it does today; in many ways those taxes were voluntary contributions to the public cause.

In its institutional make-up, the Netherlands were not at all unique. If you've visited earlier lectures in the series you will have heard about Renaissance Italy—its institutional make-up was very similar to that of the Dutch Republic— and so was southern Germany, a place where pre-modern capitalism was also very successful. This points to a pattern. In pre-modern Europe you can see two types of societies. On the one hand we can identify merchant dominated societies through the middle of Europe where markets were well integrated but states were not. Here you see bottom up federal types of state or very small states, 'city states'. On the other hand, on the east and the west urban spine of Europe, we find much larger states usually dominated by agrarian economies—where the level of economic integration is relatively low but where the level of political integration is relatively high.

Conclusion

This brings us to the question I posed in the beginning: "why did the Dutch Golden Age occur"? One could well ask, "Why here?" I think that's a question worth asking, it is not self-evident. Around 1600 it could have occurred in Antwerp, (which was dominant for much of the 16th century), or Hamburg, or London where of course ultimately 'the capital of capitalism' would end up in the 18th century. A number of factors were important. The early medieval commercialisation of the western part of the Netherlands was a very important element, but it was not enough to create a Golden Age—they also needed the immigration from the southern Netherlands. I'm not so sure they needed Protestantism, the role of Protestantism, I would argue, is rather ambiguous in this whole story. That the Netherlands were religiously tolerant was just as important. In my opinion, the most important aspect of all was the trust in government, particularly local government. We see this in the tax revenues that start to flow in at a very early point in the Dutch Revolt. The Dutch Revolt was a truly popular revolt that helped sustain this economic success story.