Why Rich Nations Fail: Explaining Dutch Economic Decline in the 18th Century

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Abstract: Why do rich nations fail? At a time in which wealthy nations such as the United States, Japan, and much of Western Europe are experiencing unprecedented economic difficulties, this article argues that the 18th century experience of the Dutch Republic can provide important insights. The Dutch economy was by far the world's wealthiest and most technologically advanced as late as 1700, but subsequently experienced more than a century of economic decline as manifest in mass unemployment, rising inequality, an absolute decline in the median standard of living and a loss of technological leadership. The proximate cause of this decline was the evisceration of Dutch manufacturing, largely as a result of the systematic mercantilism that swept through much of Western Europe beginning in the 1690's. In spite of the positive results of protectionism in Dutch neighbors such as England, France and Prussia, Dutch elites failed to learn from these experiences and maintained largely unilateral free trade policies down to the Republic's final days. This essay argues that political factors, namely the cultural and political distance between Dutch elites and mainstream society were a critical factor in accounting for the Republic's passive response to foreign mercantilism and explain this important episode of economic decline.

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Introduction

Leading states rise and fall, and the new conventional wisdom proclaims that the United States is on an imperial downswing. Premature predictions of the United States’ decline have appeared regularly since at least the 1930’s. If one accepts the statistical and economic evidence of decline, this of course raises new questions. What is the cause of US economic decline? Is current economic malaise simply the result of short-term policy errors, or is it symptomatic of deeper structural changes? Is American decline inevitable? What policies would be most likely to succeed in slowing or reversing decline?

In grappling with these questions, a historical perspective has a number of advantages. At any given moment, it is possible to point to a mix of strengths and weaknesses to make a relatively optimistic or pessimistic assessment. A fundamental analytic problem facing any scholar seeking to understand the economic decline of Great Powers is posed by the limited population of potentially comparable cases. Identifying comparable cases presents a unique challenge for this kind of research.

The United Kingdom is perhaps the most relevant comparable case to the United States, and scholars and commentators have been quick to draw parallels between Britain's 20th century decline with the challenges facing the United States (Zakaria 2011: 185-189; Thompson and Vescera 1992; Kurth 2011). The British suffered from a combination of geopolitical overextension and relative economic decline that may suggest parallels with the United States today. However, the British experience was powerfully influenced by the shock of two world wars, and the advent of nuclear weapons makes it unlikely the US will fight an extended great power war of attrition any time in the near future. The most recent Great Power to suffer significant decline, the Soviet Union, experienced a period of economic stagnation in the decades before its collapse and was badly damaged by its decade long war in Afghanistan. However, apart from these suggestive similarities, the differences in the economic system of the USSR and the United States are so vast that it seems unlikely that the Soviet experience can provide much insight into contemporary US challenges. The lack of a sufficiently large sample of cases is perhaps more acute in the study of the decline of world economic system leaders than in virtually any other subject of social science.
It is thus imperative to expand the number of cases (King et al 1994). One of the contributions of this article is to bring to the attention of contemporary scholars an important episode of economic decline that has largely faded from memory. The 18th century decline of the Dutch Republic is an episode that is relevant to understanding the difficulties facing the United States. An analysis of the Dutch Republic’s economic decline, by adding to the more familiar case of Great Britain, effectively doubles the number of cases of decline that bear at least some resemblance to the US experience. The Dutch Republic, dominated international trade in the 17th century, and was by far the world’s wealthiest country in 1700, but subsequently experienced more than a century of economic decline, under structural conditions remarkably similar to those facing the contemporary United States. The contribution of this piece is thus primarily in the realm of generating descriptive theory.

What caused the economic decline of the Dutch Republic? This represents an important historical puzzle given that in the early 1700’s the Dutch enjoyed extraordinary advantages, and the 18th century was a generally prosperous period for Western Europe as a whole (see Tables (1) and (2)). The economic historian Angus Maddison estimates that the northern Netherlands was the only society in Western Europe to experience absolute decline in per capita income from 1700 to the early 1800’s (Maddison 2003: 58, 59, 66). Even more curious is that by the 1800’s the formerly advanced Dutch were among the most backward societies in Northern Europe, mocked as the “Chinamen of Europe” (Griffiths 1979: 8).

While Belgium was the second society to adopt English technological innovations and experience coal-powered industrialization, the Dutch did not industrialize until the last quarter of the 1800’s, many decades after the industrial takeoff of neighboring Belgium and Germany (Schiff 1971: 25, 32). As late as 1851, the Dutch were ridiculed for their contribution to the World’s Fair in London even though they had been at the leading edge of technological change for more than a hundred years and among other innovations, had pioneered the use of pumps in fire fighting, and was the first European society to light its cities with regular street lighting (Davids 2008 490; Griffiths 1979: 36).

This puzzle has special resonance today in a period when the decline of the United States economy has become the new conventional wisdom. I will argue that the proximate cause of Dutch
economic decline was the collapse of Dutch manufacturing in the first half of the 1700s. This collapse had ripple effects on other Dutch sectors, including shipping, trade, higher education, and eventually even eroded Dutch dominance of international finance. The collapse of Dutch industry was in turn, caused by the Dutch state’s passive response to the rapid spread of economic mercantilism across Europe in the 1720’s and 1730’s. This passive response, represented a shift from earlier practice in the Golden Age, when the Dutch state responded vigorously to earlier mercantilist challenges, particularly those of England and France.

This paper is organized into five substantive sections. In the first section we will explore the timing of Dutch economic decline and argue that this decline was absolute and not merely relative. The second section will discuss the mercantilist challenges the Dutch economy faced and the shifting response of the Dutch state to these challenges. The failure of the Dutch state to turn to comprehensive mercantilism in the 1700’s was the principal reason for Dutch industrial decline, which in turn undermined other sectors of the Dutch economy, and contributed to Dutch technological decline. The fourth section will discuss changes in the Dutch oligarchy that made them less responsive to the concerns of Dutch manufacturers and accounts for the passive response to the mercantilist challenges of the 1700’s. The fifth section will examine five alternative explanations for Dutch economic decline, explanations that ultimately prove inadequate. The conclusion will consider the contemporary implications of the Dutch experience for other advanced wealthy states facing persistent economic problems.

**Dutch Economic Decline in the 18th Century: Absolute or merely relative?**

It would be an understatement to observe that Dutch economic decline in the 18th century is not a popular topic. As Jan de Vries has noted, even “in comparative economic histories the Dutch experience is rarely emphasized” and when it is mentioned “it is an exception to the general pattern” (de Vries 2000: 445). The United Provinces of the Netherlands (the Dutch Republic), has largely faded from memory. Its history was overshadowed by its more illustrious island neighbor. The rise and fall of the Dutch Republic is nevertheless worthy of renewed attention, not only because it was the “first modern economy” but
because it was also the first post-industrial economy, and its long century of economic decline offers insight into the causes of the economic challenges troubling the Dutch Republic’s namesake, the United States.

Beginning in the early 1600’s the Dutch Republic rose to economic dominance in Europe, the Indian Ocean world and in the Atlantic trade on the basis of not only its commercial strength, but also because of its industrial strength, its extraordinarily efficient and vast shipbuilding industries as well as manufactured exports that made the Netherlands the center of international trade (Wallerstein 1974: 78). By the year 1700, the Dutch Republic had the highest per capita income in the world, and it was at the world’s technological frontier. In spite of these initial advantages, the Dutch economy declined, with falling per capita incomes, structural unemployment, and mass pauperization throughout the 18th century.

The traditional view of the Dutch Republic in the 18th century was dominated by the perspective that the society went through a process of unmitigated decline. This was the opinion of many foreign observers as well as the Dutch themselves. In the 1980’s revisionist scholars, Jan Luiten van Zandem and James Riley, cast doubt on this gloomy picture, suggesting that as a consequence of the strength and growth of Dutch agriculture, commercial activities, and the growth of financial services, the Dutch economy held up reasonably well through the 18th century, and may even have flourished (van Zanden 1986; Riley 1980).

This paper argues that on balance the original interpretation of Dutch economic decline is more accurate. This claim is grounded in five types of evidence that all point in the same direction: (1) Recorded accounts from the day; (2) Changes in population, particularly urban decline; (3) Declining usage of transportation; (4) Changes in Dutch diet; and (5) Nominal wage data. Each of these five sets of evidence will be considered in turn to buttress the argument that the Dutch economy, advanced and wealthy as it was in the year 1700, nevertheless went through a process of severe, extended economic decline in the 18th century. It is important to belabor this point for theoretical purposes, given that the Dutch experience of economic decay profoundly challenges the widely accepted view that market economies do not experience absolute decline once they have attained a felicitous “developed” state.
Evidence of Decline: Recorded Accounts, Population, Transportation, Diet and Wages

Travelers’ accounts and the writings of prominent Dutchmen from the 1700’s show clearly that in the period between the 1720’s and the 1760’s the Golden Age Dutch economy unraveled. The French political economist Pierre-Daniel Huet in an account published in 1714 described the Dutch economy in glowing terms. The motivation of Huet’s eight volume treatise on Dutch commerce is to help inspire the French state to copy Dutch methods. Some indication of the state of Dutch industry at the time can be implied from Huet’s observation that: “I shall not undertake to make an exact accounting of all the Manufactures that are in the United Provinces….because it is certain that in no other Kingdom, State or Country in the world, are they as numerous or as flourishing as in Holland” (Huet 1714: 36). In Huet’s description of Amsterdam, the center of Dutch industry, Huet describes a city in which “…all of the Inhabitants had a profession or a métier, and even the cripples and those with gout had an occupation, and even those with gout on their hands were not idle” (Huet 1714: 38). In 1719, the visiting Languedoc priest Pierre Sartre, marveled at the 1,200 industrial windmills of Europe’s first true industrial zone, the Zaandam, and observed that “everything in this country is new” (quoted in Israel 1995: 999). As late as 1728, in Batavia Illustrata, the English writer Onslow Burrish also describes the Dutch economy as flourishing. Burrish’s description of the Zaandam is particularly telling: “the People of Sardam [Zaandam] are capable upon three Months notice, to launch a ship every Day, from four to five hundred Tuns as long a Time as you please” a shipbuilding prowess that may have contributed to the fact that “most of Them [the inhabitants of the Zaandam] may be reckoned amongst the greatest Bankers in Holland” (italics original) (Burrish 1728: 295-296).

1 Author’s translation. “Je n’entreprends pas de faire un denombrement exact de toutes les Manufactures qui sont dans l’étendue des Provinces-Unies, cela me meneroit trop loi; car il est certain qu’en aucun Royaume, Etat, & Pais du monde, ells ne sont ni si nombreuses, ni si florissantes qu’en Hollande.”
2 Author’s translation. “Enfin l’on peut dire d’Amsterdam ce que Vospiscus disoit d’Alexandries, lors qu’apres avoir fait un denombrement de ses Manufactures, il ajoute que tous les Habitans y faisoient profession de quelque métier, que les boiteux & gouteux y etoient occupez, que ceux-memes qui avoient la goutte aux mains n’y etoient pas oisifs.”
3 “dans ce pays tout est nouveau,” Israel 1995: 999.
By the 1760’s published accounts describe a radically altered economy. Jacques Accarias de Sérionne in *Le Commerce de la Hollande*, observed that in Holland the old textile industries had been “entirely destroyed” and that all “that remains is a few factories of silks, particularly in Harlem, supported by domestic consumption and persist weakly because they cannot withstand the competition from France” (de Serionne 1768: 296). James Boswell, a visiting English student living in the Netherlands in the 1760’s was disillusioned to find mass unemployment and poverty:

…this trading nation must be in a very bad way. Most of their principal towns are sadly decayed, and instead of finding every mortal employed you meet with multitudes of poor creatures who are starving in idleness. Utrecht is remarkably ruined…You see then that things are very different here from what most people in England imagine. Were Sir William Temple to revisit these provinces he would scarcely believe the amazing alteration under which they have gone. (quoted in Schama 1977: 25).

The sharp contrast between early 18th century prosperity and late 18th century ruin is highlighted most clearly in contrasting English general accounts of the states of Europe between the early and mid-18th century. Thomas Salmon’s 1731 *History of Modern Europe* describes a bustling, prosperous nation. In his discussion of Dutch industry, Salmon proclaims: “There is not a Nation under the Sun where the People apply themselves with more Diligence to all manner of Mechanick Arts than the Inhabitants of the United Provinces.” Scarcely two decades later in another overview of the states of Europe published in 1757, the anonymous British author provided a far gloomier picture:

In the Beginning of the last Century….there were more Ships in this little State than in all Europe together, but Things are now changed, and the Industry of the great Powers will at length become the Ruin of this Republic. Neither the East India nor the West India Companies are what they have been formerly; and Wealth, Fortune, and Spirit seem in some Measure to be sunk.” (J.S. 1757: 53-54)

It should be noted that not all 18th century travelers to the Dutch Republic highlighted its economic weakness. Many French enlightenment intellectuals who were critical of France’s absolutist monarchy, wrote glowing accounts of the United Provinces in subtle attempts to undermine the legitimacy of the French monarchy (Dierick 1995: 22). One critic of French absolutism, Denis Diderot in his *Voyage en*...
Holland is criticized by Augustinus Dierick for presenting a distorted picture of the Republic, for recycling clichés “often merely copied, sometimes wrongly, from other sources” and for being wholly silent on subjects that might have tarnished the image of Republican government in France. While other eighteenth century travellers to Holland “commented on its high indirect taxes, on the large national debt, and on the high rate of unemployment, especially in a number of manufacturing cities…Diderot is curiously silent” (Dierick 1995: 29).

Domestic Dutch accounts of poverty and economic decline paint an even more vivid portrait than those of foreign travelers. The newspaper De Borger, warned that if something was not done to revive the economy, “the Republic would before long be reduced to those classes least useful to it: rentiers and beggars” (Schama 1977: 43). The crisis of the Dutch economy led the newly appointed Stadtholder William IV in 1751 to order an investigation into the causes of Dutch economic decline, published in a report to the States-General (the Proposal of 1751) that opened up with a grim acknowledgement of Dutch economic weakness: “nothing had given his Highness more Anxiety on the one hand than to hear the daily Complaints of a Decay of Trade in these Countries” and noted that the decline of the Dutch economy was “visible in the chief Trading Cities of the Republick, from the considerable Number of Shops, that are empty and untenanted (the Proposal 1751: 3, 19).

Another indication of falling standard of living apart from a stagnating population was the rapid spread of potato cultivation. In the 18th century industrial crops oriented towards supplying Dutch processing industries, such as hops for beer, tobacco leaf, and hemp for the sail cloth industry, gave way to the potato (de Vries and Woude 1997: 225). The potato at first expanded only gradually, appearing in records first in Zealand around 1700, then spreading to Friesland and Gronigen provinces by around 1730. Jonathan Israel noted that the growing of potatoes was widespread in the Dutch Republic by 1740, and was an indicator of worsening living conditions, “a sign of society increasingly reliant on the cheapest of foodstuffs” (Israel 1995: 1005). The visiting British student, John Boswell observed in 1764 that the “wretches” of the university town of Utrecht “have no other subsistence than potatoes, gin and stuff which they call tea and coffee” (quoted in Israel 1985: 1015).
One indication that things were not progressing well in the Republic was the depopulation of cities. The Dutch Republic underwent a pattern of de-urbanization that would be familiar to most contemporary Americans. The largest Dutch city, Amsterdam, more or less held its own, with a population that fell modestly from 220,000 in 1720 to 200,000 in 1795. Amsterdam was still the fifth largest European city in 1800, though it would have seemed provincial to visiting Englishmen, being less than a fifth the size of London and barely larger than Dublin (de Long and Scheifer 1993: 8).

Developments in Leiden, the other Dutch city that was among the thirty largest urban centers in Europe in 1650, but didn’t make the list in 1800, were more indicative of general trends (de Long and Schiefer 1993: 8). It was the medium and small Dutch cities that were devastated by depopulation, losing half or more of their residents. Between 1720 and 1795, the population of Haarlem declined by more than half from 45,000 to 21,000, in the old textile center Leiden, population fell from 65,000 to 31,000, while in the ceramics center Delft, population fell from 20,000 to 14,500 (Israel 1995: 1007). Even the agricultural East experienced de-urbanization. In the province of Oveijssel, the share of the total population in the three largest cities fell from 28% in 1680 to 20.5% in 1748 (Israel 1995: 1010).

Dutch de-urbanization profoundly changed the character of Dutch cities. In some cities, such as Utrecht, urban landscapes gave way to farmland, and in the 18th century there were reports of pigs and cattle grazing on the central squares of the city (Schama 1977: 25). Many diarists and travelers to the Netherlands were shocked that the country’s reputation for cleanliness notwithstanding, they found urban areas had fallen into appalling conditions. As Schama puts it, “so far from being spick and span, the Dutch cities were visibly filthy. Dead cats and dogs were seen floating in the canals of Amsterdam” (Schama 1977: 25).

Population growth, which in turn is dependent on rates of emigration, the birth rate and the timing of marriage (and the temporal spacing of birth cohorts) is, with a lag, highly sensitive to economic conditions. Most contemporary Western readers are familiar with these dynamics through the sharp contrast between the Great Depression’s “birth dearth” and the “baby booms” of the high-growth 1950’s and 1960’s. In early modern Western Europe, population growth was also highly responsive to economic
growth (Schofield and Wrigley 1986). The key mechanism involved the real wage. Economic growth raised the real wage, encouraging migration from other lower wage regions. In better times, a higher proportion of the marriage-age population would get married. At the same time, in prosperous times, young people tended to get married earlier and have larger families. The decline in the marriage age increased the period of time during which the marriage could produce children, and the narrowing of the space between birth cohorts would also add to population growth (de Vries 1986: 118-119).

While the empirical data informing economic history, particularly of the 1600’s and 1700’s can sometimes be patchy, marriage-related data constitute some of the most reliable data that have been retained, and was recorded by city administrators and religious institutions alike. This data shows that in the Dutch Republic, the age of newly wed couples increases over time. In 1626-27 almost 61% of brides in Amsterdam were under 25 years old, while by 1776-77 this proportion had fallen to 35% (de Vries and van der Woude 1997: 76). The percentage of brides older than 29 rose from 10.9% in 1626-27 to almost 30% by 1776-77 (de Vries and van der Woude 1997: 76). De Vries and van der Woude suggest that during booming economic years the inflow of male migrants enabled women to marry earlier, while in the periods of economic decline, it was the “eligible bachelor” who became scarce and the proportion of women who married late or not at all grew considerably (de Vries and van der Woude 1997: 76).

There are two remarkable aspects of Dutch population stagnation in the 1700’s. For one, most other European societies during this period saw steadily growing populations. While population growth accelerated across most of Europe between 1730 and 1750 (coinciding with the hemorrhaging of the Dutch industrial economy) Dutch fertility continued a downward trend bottoming out between 1750 and 1800 and not rising again until after 1815 (de Vries 1986: 117). In sharp contrast with the Dutch, the most economically dynamic European society of the era, England, experienced a veritable population boom, growing from 5.1 million to 8.7 million by 1800 (Wrigley 1986: 140). By 1800, for the first time in European history, an English city was the largest in Europe, more than double the size of number two, Paris (de Long and Schieffer 1993: 8).
The other remarkable feature of Dutch population stagnation is that other factors in the 18th century were working to lower Dutch mortality. The 18th century saw fewer plagues and epidemics across Western Europe than the previous century, and improved administrative responses to the outbreak of plagues helped to contain their spread. De-urbanization in the 1700’s also helped reduce the virulence of epidemics in the Northern Netherlands. The Dutch Golden Age, in contrast was characterized by numerous, devastating plagues, whose death rates are unimaginable from a modern perspective. In the winter of 1635-36, the plague carried off 18,000 souls in the city of Leiden, a third of the city’s population (Israel 1995: 624-5). In the last great plague of the 1600’s, from 1663-69 in Amsterdam, almost a tenth of the city’s population, 24,148 people, died (Isreal 1995: 624-5).

In addition to a marked decline in the severity of plagues, the decline of Dutch shipping and trade in the 1700’s also helped reduce Dutch mortality rates. The seas were the final resting place for an extraordinarily high percentage of Dutch youth during the Golden Age. Van der Woude has estimated that as much as 20% of male Dutch 20 year olds were killed each year in the service of the Dutch East India Company (cited in de Vries 1986: 109). Between 1602 and 1795, roughly one million sailors left from Dutch ports in the vessels of the Dutch East India Company, and of these 660,000 did not come home. Some of these settled permanently overseas, but most died (de Vries and van der Woude 1997: 75). In addition to the overall decline in shipping, the shift away from employing Dutch sailors would have also reduced native Dutch mortality. Before 1720, Dutch males made up around 75% of VOC crews, but after 1750 the proportion of foreigners rose to roughly 50% (de Vries 1986: 108). Hence the adage: “Holland is the graveyard of Germany” (de Vries and van der Woude 1997: 75). In summary, it is clear that Dutch population stagnation in the 1700’s was driven by declines in fertility and delayed marriage, rather than increased mortality.

Changes in Dutch population roughly trace the rise and decline of the Dutch economy. Between 1600 and 1700, the population grew roughly 30% from around 1.4 million to 1.85-1.95 million. The subsequent century saw population rise about 13% from 1.85 million to 2.1 million (de Vries and van der Woude: 50). If one takes the high estimate for the Republic’s 1700 population, it is possible that the
Dutch population rose by as little as 150,000 from 1700 to 1800, or around 7.5% (de Vries 1986: 102). In the Republic’s largest province and industrial heartland, Holland, the population actually fell between 1680 and 1750, declining by about a tenth from 883,000 to 783,000 and then remained at that level down to 1795 (Schama 1977: 27). What population growth that there was in the 18th century was entirely concentrated in the rural areas and the agricultural Eastern provinces (de Vries 1986: 102-103).

Relative to England and the Austrian Netherlands, the Dutch Republic lost ground in the 1700’s. The Dutch population was roughly 40% the size of England in 1700, but fell to about a quarter of England’s size by 1800 (de Vries 1986: 117). The southern Netherlands had a slightly larger population than the Republic in 1700, but enjoyed steady population growth after 1748. The population of the Austrian Netherlands was 2,273,000 in 1784 compared to 2,080,000 for the Republic (Israel 1995: 1011). While the population of Belgian cities fell in the first half of the 17th century, afterward they recovered smartly. In the three decades from 1755 to 1784, the population of Brussels grew from 58,000 to 74,000; Antwerp grew from 43,000 to 50,000; Ghent grew from 39,000 to 50,000 (Israel 1995: 1012). Bruges and Leuven held their own; the former growing from 30,000 to 31,000 while the latter remained constant at 15,000 (Israel 1995: 1012).

In recent years, the study of Dutch economic history has been enriched by Jan de Vries’ investigation into the changes in nominal and real wages in the Republic in the 1600’s and 1700’s. This research is consistent with the general story of absolute and not simply relative economic decline. De Vries’ findings are startling given that they add to a picture of Dutch economic decline that along with extraordinarily low interest rates, makes the Dutch case strikingly similar to the experience of the Great Depression and the more recent problems in both Japan and the West, even though a span of several hundred years separates these episodes of decline. Nominal wages for most workers rose sharply during the Dutch Golden Age, across occupation classes and across different regions of the Republic (de Vries 1986: 112). Between the 1680’s and around 1730, nominal wages stagnated and after 1730, real wages fell steadily until 1800 (de Vries 1986: 113). This was a striking contrast with England, where real wages rose throughout the 18th century, surpassing Dutch levels by the 1790’s (de Vries 1986: 113).
Evidence from nominal wage data suggests that the 1720’s and 1730’s marked the beginning of a steep decline that continued to the Napoleonic period. Further evidence that this period was a critical turning point in the health of the Dutch economy comes from analysis of the Dutch transportation system. In the 1600’s, Dutch cities had invested in building the world’s most advanced inter-city transportation system, a network of canals devoted to spacious passenger boats that were pulled along by horses. The *trekvaart* system offered a relatively inexpensive way to travel from city to city at around 10 kilometers an hour that was more comfortable than riding along bumpy country roads (de Vries 1981: 23). The boats were sheltered from rain and snow, for a price offered meal service and wine, and provided free transport for the indigent, sailors and veterans. Beginning in the 1720’s and 1730’s the operators of this system begin to complain of a decline in passenger traffic and begin petitioning municipal governments for reforms, such as reducing passenger service, and limiting the number of boat operators to increase profitability (de Vries 1981: 167). Jan de Vries suggests the mid-1740’s were the nadir of the *trekvaart* system, and the declines in passenger service from the 1680’s to the late 1740’s are stark, and are deepest on canals connecting the older industrial cities.

**Mercantilism and the Collapse of Dutch Industry**

The previous section marshaled a variety of evidence to demonstrate that the experience of the Dutch Republic in the 18th century was characterized by absolute, rather than merely relative decline. If one accepts the conclusions of economic historians, as well as indirect evidence from changing diets, a decline in the usage of transportation, and falling nominal wages, the question arises: what caused the Dutch economy, Europe’s most advanced and sophisticated to subsequently experience a century of stagnation and decline?

This essay argues that the critical factor was the rise of foreign mercantilism, and the Dutch response to these changed external circumstances. The 1600’s and 1700’s are frequently thought of today as marking the high point of mercantilist thinking in Europe. In fact, there was considerable diversity among European states in terms of how actively they intervened in international trade to discourage
imports or encourage exports. Poland-Lithuania was one European state that through the entirety of its existence maintained laissez-faire trade policies, imposing only minor tariffs as purely revenue-raising measures and exempting even these modest tariffs for the Polish clergy, land-owners and their serfs. If one conceives of a continuum of policies from complete laissez-faire to intense mercantilism, England from the 1690’s to the early 1700’s stands at the opposite extreme of the continuum from Poland.

In a classic study, the Dutch economic historian J.G. van Dillen, argued that the most critical factor in explaining Dutch economic decline was the advent of foreign mercantilism (van Dillen 1974). More recently, David Ormrod and Jonathan Israel have provided detailed historical analysis to support van Dillen’s thesis. The Dutch Republic followed a mixture of mercantilist and laissez-faire policies that changed over time. In Asia and the Americas, the Dutch East and West India Companies enforced exclusionary trade policies, for example expelling English, French and Danish traders from the Sultanate of Bantam on the island of Java in the early 1680’s. The rise of the Dutch in East Asian and Indian Ocean trade came about largely because of their success in driving out the Portuguese in the first decades of the 1600’s. In addition, the Dutch deployed mercantilist policies to stymie economic development in the southern Netherlands. Beginning in 1589, the Dutch closed off the river Scheldt which was the city of Antwerp’s main outlet to the sea, and this policy remained a touchstone of Dutch foreign policy down to the 1780’s. In addition, in the Treaty of Utrecht, which ended the War of the Spanish Succession, the Dutch succeeded in acquiring the right to veto changes in the tariff rates of the southern Netherlands. The Dutch would retain this right until 1731, when they agreed to give up this right so that the Austrians would agree to eliminate the Ostend Company, a trading company established on the Belgian port of Ostend that was seen as a threat to the Dutch East India Company in the 1720’s and 1730’s.

W.D. Voorthuijsen, in his survey of Mercantilism and the Dutch Republic, concluded that at most the Dutch could be considered “Incidental Mercantilists” given that “measures prohibiting the export of raw materials have been very few” and “prohibitive measures with regard to importation have not been numerous either” (Voorthuijsen 1965: 136-137). In terms of its customs duties, the Dutch imposed a uniform 2% import tax and a uniform 1% export tax, and the level of customs duties remained roughly
constant throughout the 1600’s and 1700’s. The contrast with England is particularly sharp. As David Ormrod has shown, from 1670 to 1770, customs revenues in the United Provinces remained roughly between 0.1-0.3 million pounds a year, while in England they exhibit a sharp upward movement (Ormrod 2003: 26). In England, gross customs revenue rose from 2.2 million pounds in 1720 to 3.9 million pound in 1760 (Ormrod 2003: 26). The English provided drawbacks for re-exports as well as bounties for the export of certain goods, most importantly silks and grain, and so net customs revenue in the case of England was somewhat lower, but shows an even more marked upward trend. Net customs grew from 0.2 million pounds in 1670 to 1.2 million in 1700 and 2.6 million by 1770 (Ormrod 2003: 26).

During the Dutch Republic’s 17th century Golden Age, the Republic was relatively assertive in retaliating to protectionist moves on the part of its leading trading partners. This energetic response characterized virtually the entire period, although especially in the later period, these responses aroused significant internal debate. This presents a sharp contrast with the relatively passive policies of the 18th century. The following two sections will examine and contrast the vigorous Dutch response to foreign mercantilism in the Golden Age with the relative passivity of the century of decline.

**The Dutch Response to Mercantilist Challenges in the Golden Age**

Of all the mercantilist challenges the Dutch faced, the English challenge began earliest and would be sustained the longest. In the 1610’s, the English under James I, initiated a program to move the English textile industry into higher value-added dyeing and finishing. The Cockayne project, initiated in 1609, banned the export from England of unfinished textiles, with the goal of shifting the higher value added activities from the Netherlands to England (Israel 1989: 118). For a short period of time, the project appeared to work, boosting English textile exports to the Baltic and reducing Dutch exports. However, the project engendered intense opposition in the Netherlands, and the Dutch government in October 1614 passed a general ban on the importing of finished cloth (Israel 1989: 119). This retaliatory move was extraordinarily successful, depressing English exports to the Netherlands, and via Amsterdam, much of
Germany, leading to a deep recession in England. In 1617, the English relented, and permitted the export of unfinished cloth to the Republic (Israel 1989: 120).

The ability of the Dutch to respond to English mercantilism was also demonstrated in the course of the three Anglo-Dutch wars of the 17th century. In 1651, the English Parliament passed the first Navigation Act, aimed squarely at undermining Dutch shipping, by effectively requiring that imports and exports from England be carried in English ships (de Vries and van der Woude 1997: 409). The Dutch were able to hold their own against a larger English fleet in the first Anglo-Dutch war from 1652-1654, and in order to reach peace with the Dutch, the English parliament was compelled to give up all of its economic and colonial goals, reversing the effects of the first Navigation Act (Israel 1989: 210). Dutch trade in the Baltic and Mediterranean, which had suffered as a result of the war, quickly recovered and reached new heights (Israel 1989: 210).

From 1665-1667, again the Dutch and English fought a commercial war, largely initiated by the English, who sought to dislodge the Dutch from their dominant position in global trade. Again, the Dutch were able to fend off the English, damaging English commercial shipping through the use of Dutch privateers, and prolonging the war until support for it faded in England (Israel 1989: 278). The Treaty of Breda, signed in 1667, gave the English control of New Netherlands (the area around modern-day New York) in exchange for Suriname and a host of economic concessions (Israel 1989: 279). The Navigation Act was modified so that the Dutch were permitted to transport German goods to and from England, and the English acknowledged the right of the Dutch to carry the goods of English enemies during wars in which the Dutch remained neutral (Israel 1989: 279).

The Dutch also responded forcefully to the attempts of the Danish and Swedish crowns to liberate themselves from Dutch economic dominance. The strategy the Dutch deployed was to ally with the weaker of the two Northern crowns, as well as organize support from other states on the Baltic such as Prussia and the smaller German states. In this manner, throughout the 17th century, until the 1720’s, the Dutch sought to maintain a rough balance of power in the Baltic to maintain open markets for Dutch manufactured goods, herring and re-exports as well as access for the raw materials, especially timber and
pitch that were necessary for Dutch shipbuilding. The first example of this pattern began when the Danish King Christian IV after the Danes defeated the Swedes in the War of Kalmar (1611-1613), after which the Danes maintained new, prohibitively high tolls on Dutch shipping through the Danish controlled straits connecting the North Sea to the Baltic and the ports of Poland, Prussia and Russia (Israel 1989: 94). In 1613, the Dutch responded by organizing an alliance with the Hanseatic League and a recovering Sweden, and the threat of this powerful coalition forced Christian to back down (Israel 1989: 95). In the 1650’s and 1660’s with the rise of Swedish power, the Dutch fought to defend Denmark and maintain a balance of power in the Baltic. In the summer of 1659, with Swedish forces led by King Christian X laying siege to Copenhagen, a Dutch war fleet of seventy eight ships and 17,000 men sailed into Danish waters, eventually forcing the Swedish forces to withdraw from Danish territory in 1660 (Israel 1989: 221).

Neither the Danes nor the Swedes were sentimentally attached to the Dutch, but behaved opportunistically to advance their economic interests when they perceived Dutch weakness. Sweden aligned with France in 1667, working with France to bypass the Dutch, buying French salt and wine transported in French ships in exchange for Swedish naval supplies and timber (Israel 1989: 224). In 1675, the Danes, with Dutch support, invaded Sweden, defeating the Swedes with the aid of Brandenburg and with the help of Dutch subsidies. The Swedes were compelled to sign a new maritime treaty in 1679 that cancelled the older restrictions on Dutch shipping (Israel 1989: 302). Shortly after defeating the Swedes, the Danes, allied themselves with France and imposed a prohibitively high tariff list on Dutch imports (Israel 1989: 303). The Dutch responded by banning imports of timber, pitch and fish from Danish controlled Norway (Israel 1989: 303). This led to recessionary conditions in Denmark-Norway, and in 1688 the Danes ended their prohibitively high import taxes and agreed to a new, more liberal commercial treaty with the Republic (Israel 1989: 303).

In the seventeenth century, the greatest threat to Dutch commercial and industrial strength originated with the rise of mercantilism in France, mercantilism that was specifically directed against the Dutch. The pattern of French mercantilism in the last decades of the 17th century exhibits a “ratchet” effect. The imposition of highly prohibitive trade policies targeting the Dutch would be followed by a
Dutch response (and frequently warfare), which would after a few years lead to a relaxation of French policy. The French would agree to the reducing of some of their new protectionist measures (while retaining others) and in this way the French gradually and steadily took over more of Dutch commerce, pushing the Dutch out of the Mediterranean trade, and establishing new textile industries. Of this period, both Jonathan Israel and Immanuel Wallerstein judge Colbert’s mercantilist policies as successfully helping establish a French industrial base that would prove critical in France’s long term development (Israel 1989: 309; Wallerstein 1974: 268). At the same time, the Dutch were nevertheless reasonably successful at keeping the French markets at least partially open. The main result of the Franco-Dutch commercial war was the cross fertilization and diversification of both Dutch and French manufacturing sectors.

As early as 1659, the French imposed a high tariff on all Dutch shipping entering into and out of French ports. In 1664, at the direction of the new French Controleur-General des Finances, Jean Baptiste Colbert, the French raised new tariffs on (mainly Dutch) imports, which were subsequently raised to prohibitively high levels in 1667 (de Vries and van der Woude 1997: 410). At the same time, France established government subsidized long-distance trading companies to compete with the Dutch East and West India companies (de Vries and van der Woude 1997: 410). These measures did not immediately destroy Dutch commerce, and the Dutch for their part responded with retaliatory measures against leading French exports. In January 1671, after much internal debate, the Dutch States-General imposed retaliatory tariffs on silks and sail canvas, and banned imports of French brandy completely (Israel 1989: 290). Later that same year, over the objections of the provinces of Zealand and Friesland and the city of Rotterdam, as well as a number of skittish Regents, the States-General banned the importation of all French wine, vinegar, paper and sail-canvas (Israel 1989: 290).

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5 Wallerstein writes: “the Colbertian policy…did rescue France from Portugal’s fate by picking up in other regions the industry the Ponant was dropping…The French emphasis on industry responded to an urgent need and in the long run it was successful. When Colbert’s policies were finally fully implemented in the Napoleonic era, the industrial base needed to make such policies feasible had been preserved.” (Wallerstein 1974: 268).
In face of this opposition, and because of unhappiness with the lack of immediate success for Colbert’s mercantilist policies, Louis XIV decided in 1672 to declare war on the Dutch, anticipating that having conquered the Dutch provinces, France would be in a position to seize most of the Republic’s trade. Colbert estimated that Dutch trade in the Levant, East Indies and Caribbean was worth 30 million guilders a year, and that with Dutch defeat this trade would pass “presque entier” into the hand of France (Israel 1989: 296). French subsidies, and promised support for a Catholic succession, had convinced the England of Charles II to join with France in its war on the Dutch, and so in 1672 the Republic found itself virtually alone against the combined naval and land forces of two of Europe’s most powerful states. The armies of Louis XIV quickly overran most of the Republic, and it was only saved by the decision to flood the low lying areas around Holland, thus turning the Republic’s most important province into a temporary island. Dutch privateers were able to inflict heavy damages on English shipping overseas, and with the intervention of Austria and Spain, and England’s decision to abandon the war in 1674, the Dutch were able to foil the ambitions of the French Sun King (Israel 1989: 299). In 1678, the French withdrew from Dutch territory, and agreed to rescind Colbert’s mercantilist tariff list of 1667 (Israel 1985: 825).

The invasion of the Dutch provinces had convinced the Dutch regents to appoint a new Prince of Orange, William III, as Stadtholder and commander of Dutch military and naval forces in 1672. The rise to political influence of the ambitious William III would lead to a daring feat of Machiavellian diplomacy that would be all but impossible in the contemporary world, but played an important role in preserving the balance of power in Europe. After the lowering of French tariffs in 1667, the French economy had slid into a deep recession, and in 1687, Louis XIV decided to remedy the situation by returning to the previously abandoned mercantilist policies (Israel 1985: 844). In August 1667, the French banned the importation of Dutch Herring, unless it was salted with French salt, and in the following month the French re-instated the high mercantilist tariffs of 1667, doubling the taxes levied on Dutch textile imports and raising prohibitive taxes on a wide number of other Dutch manufactured goods (Israel 1985: 844). Amsterdam’s powerful regents initially resisted attempts to retaliate against the French, even as the ambitious William III maneuvered behind the scenes, building up a Dutch army and reaching alliance
agreements with other European powers, chief among them Austria (Israel 1989: 848). After having
delayed action for almost a year, the Dutch States-General considered a ban on French imports in late
September 1688, and although the States-General were deadlocked, Louis XIV in an impetuous rage at
Dutch “insolence” decided to seize all Dutch ships in French waterways. This move had the result of
enraging the Dutch public and powerful Dutch merchants, and the States-General immediately imposed a

In September 1688, facing a potential reprise of the French invasion of 1672, the States-General
passed a secret resolution, a daring plan to make the English “useful to their friends and allies, and
especially to this state” (Israel 1989: 849). The Dutch Prince William III, who had a claim on the English
throne through his wife, Mary, would lead an invasion force of 21,000 soldiers to invade England and
overthrow the Catholic King, James II, establishing a Parliamentary regime that would ally itself with the
Republic in a war on France (Israel 1989: 849). The Dutch fleet of 500 ships, four times larger than the
Spanish armada that threatened Elizabethan England in 1588, carried the best Dutch regiments to England,
and brought the Republic immediately into war with both James II and Louis XIV. Ultimately, it was a
gamble that paid off. Three months after having landed in England, William III ascended the English
throne and brought England into the war against France on the side of the Republic. The English
Parliament even complied with the Dutch bill of 600,000 guilders to cover the expenses of William’s
invasion.

The result of the Nine Years war between the Republic and its new English allies against France
were ambiguous for the Republic. At the conclusion of the war, the French had initially consented to
rescind Colbert’s mercantilist tariffs, but in practice these remained in force through two years of
additional negotiations. In 1699, the French and the Dutch agreed to settle the tariff rates at roughly half
way between the liberal French tariff list of 1664 and the highly protectionist list of 1667 (Israel 1985:
861). Within three years, and shortly after William III’s death, a new war broke out between France and
Spain on the one side and the Anglo-Dutch alliance, joined by Austria on the other.
After the death of the Spanish Habsburg King Charles II, Louis XIV had sought to put a French Bourbon claimant on the Spanish throne, arousing fears in England and the Republic that the French would exclude Dutch and English merchants from not only Spain but most of the New World. The War of the Spanish Succession that ensued heavily taxed Dutch resources, as the Republic strained to field an enormous army of almost 120,000 (the population of the Republic was less than 2 million, the percentage equivalent for the contemporary United States would require a standing army of roughly 15 million). In 1712, the English agreed to a separate peace with France, winning among other benefits, the Asiento, a monopoly over the slave trade in the Spanish Empire that had been the prerogative of the Dutch in much of the 17th century Dutch Golden Age (Israel 1989: 376). With few other options, the Dutch agreed to the Treaty of Utrecht, signed in 1713. Although the Dutch were unhappy with what they perceived to be English betrayal, the Treaty of Utrecht nevertheless gave the Republic a number of commercial advantages. These included veto rights over the trade policies of the Southern Netherlands, which were transferred from Spanish to Austrian rule. In addition, the treaty permitted the Dutch to maintain border fortresses in the Southern Netherlands (paid for by taxes levied within the Southern Netherlands), and recognized the closure of the Scheldt river, which helped stifle the trade of Antwerp and prevented it from becoming a rival to Amsterdam (Israel 1989: 376). In addition, the French agreed to maintain the modestly high mercantilist tariffs agreed to in 1699, although the Dutch had sought their complete elimination (Israel 1989: 375).

The End of the Golden Age and the Turn to Passivity and Neutrality

From the 1610’s through 1713, the Dutch Republic was caught in an almost continual struggle against the protectionist and mercantilist policies of its European neighbors. It intervened almost continuously in the military struggles of the Baltic in order to maintain access to the markets and resources of Scandinavia. The Republic fought largely defensive wars against England and France to preserve both its independence and its commercial prerogatives. With the exception of England, the Republic was generally successful in maintaining at least partial access to these important European
markets. The inability to maintain access to English markets after England’s turn to systematic mercantilism in the 1690’s, was conditioned on the need to maintain an English alliance to keep open the much larger and more significant markets of France, Spain and the New World.

After 1713, the Dutch state responded far more passively to the rise of a new wave of mercantilism that spread across Europe and began within five years of the Republic’s fleeting triumph over Louis XIV. Prussia in 1718 banned the export of raw wool, which had previously largely gone to the Republic, and two years later imposed a ban on the imports of all kinds of cloth into Prussian territory, including that immediately neighboring the Republic in Western Germany (Israel 1989: 384). Denmark-Norway beginning in 1732, imposed bands on all Dutch woolens, silks, refined sugar, and eventually also Gouda pipes and processed tobacco (Israel 1989: 385). The Russian mercantilist program initiated under Peter the Great in the first decade of the 1700’s, intensified in the 1720’s and 1730’s leading to a sustained decline in Dutch manufacturing exports to Russia (Israel 1989: 385).

In the case of Sweden-Finland, the evidence is overwhelming that the turn to mercantilist policies in the 1730’s led to a steep decline in Dutch exports to Swedish and Finnish territories, contributing to the overall economic malaise that descended on the Republic. The 18th century was characterized by strong, steady growth in the Swedish economy, growth which did not translate into increased Dutch exports, because it was fostered by a program of import-substitution industrialization (Lindblad 1982: 5). The political group that came to power in Sweden in 1738, the Hats, initiated an extremely aggressive set of mercantilist policies, banning most kinds of textile imports, raising high tariffs against imported wines, cotton, oils and olives, and enforcing these mercantilist restrictions with harsh penalties for smuggling and cash rewards for any smuggling informants (Lindblad 1982: 18). These policies were intensified with restrictions on processed tobacco in 1747 and new mercantilist import bans in 1752 against spectacles, mirror glass, and a variety of yarns (Lindblad 1982: 19). The famous Swedish economist, Eli Hecksher, who in the 1930’s wrote a classic critique of Mercantilism, nevertheless acknowledged that Sweden’s
mercantilist policies were largely responsible for the sustained growth in rural industries, especially the domestic production of linen and wool which replaced imported textiles (Hecksher 1954: 189-190).

The composition of Dutch exports to Sweden changed dramatically, and as theory would expect, the direction of change was toward more “primitive” lower value-added products. On the eve of Sweden’s turn to mercantilism in 1738, raw materials and foodstuffs accounted for less than a third of Dutch exports to Sweden but by 1792 they accounted for almost three quarters of total exports (Lindblad 1982: 66). The nature of the Dutch trading relationship with other mercantilist states also shifted in a similar direction, from the export of high value-added manufactured goods to that dominated by unprocessed raw materials. In the years from 1718 to 1720 the composition of Dutch exports to Prussia shifted “almost overnight” from a diverse mixture of manufactured goods, to being composed almost entirely of raw materials and re-exported spices from Asia (Israel 1989: 386). The export of processed tobacco and snuff around 1750 was a little less than a quarter of the level of 1720, replaced by the export of raw tobacco leaf, a third of which was directed to new Danish and Swedish tobacco processors (Israel 1989: 388).

These new mercantilist policies also spread to Spain, which had been an important export market for a wide variety of Dutch manufactured goods. By the early 18th century, Spanish industry was badly decayed, and Spanish economic troubles had led to intense internal debate over how to reform and preserve the empire (Walker 1979: 101). One group of Spanish economic advisors argued that Spain needed to raise import taxes to protect domestic Spanish industry, while lowering export taxes to make Spanish exports more competitive. Another groups of advisors argued that Spain should maintain low import taxes, in order to limit inflation, while maintaining taxes on Spanish manufactured exports, because in that way the burden of taxation would fall on foreigners and not Spanish subjects (Walker 1979: 101). In March 1717, Spanish mercantilists won this internal debate and export taxes were lowered. A year later, the Spanish crown subsidized the establishment of a new textile factory at Guadalajara

6 Reflecting the general attitude of the economics profession at the time, and today, Hecksher remarked of 18th century Swedish industrial policy: “it is hard to explain in rational terms why this branch of the economy [manufacturing] enjoyed such special attention from the authorities and such undisputed priority in economic thought” (Hecksher 1954: 184).
(Walker 1979: 101). The Spanish textile industry had been largely decimated by Northern competition in the course of the 17th century, but in the 1720’s Spanish revival efforts were, somewhat ironically, boosted by the hemorrhaging of the Dutch textile center of Leiden. Between 1720 and 1750, no fewer than 9,000 skilled weavers in the city of Leiden lost their jobs. Most of these emigrated to other industrializing regions of Europe, carrying with them much sought-after technical skills. As early as 1719, roughly 300 Dutch laken workers had already settled in the textile zone established in Gudalajara (Israel 1989: 385).

Over the course of the 18th century, English mercantilism also intensified. In 1697, the general import duty of roughly 5% was doubled to 10%, and in 1704-1705, the duty was again increased to 15% (Davis 1966: 307). The initial 5% tax on all English exports was left unchanged, so that for the first time in English history, English trade policy began systemically favoring exports while providing protection for domestic industry (Davis 1966: 307). In 1749, the general 15% import duty was again raised to 20% and ten years later it was increased again to 25% (Davis 1966: 309). By the 1760’s the English imposed a baseline duty of 25% on all manufactured imports (with drawbacks for raw materials) and additional duties of between 5-25% that varied by manufactured import (Davis 1966: 309). In 1763 and 1776 the English Parliament imposed new import prohibitions on foreign silks, leather gloves, stockings, velvets and additional types of paper (Davis 1966: 308). The efficacy of English protectionism are apparent in English trade statistics. Imports of manufactured products from Europe declined by more than two thirds from 1699-1701 to 1772-1774, falling from 339,000 pounds to 101,000 pounds (Mathias 1969: 104). These two years were both (brief) periods of peace for England, and it is important to emphasize that England’s population and economy had grown substantially from 1700 to 1770, so that one might normally expect English demand for foreign manufactured goods to rise rather than fall.
**The Consequences of Foreign Protectionism for the Dutch Economy**

What was the Dutch response to the loss of export markets across so much of Western and Northern Europe? Existing approaches to the political economy of trade policy suggest the Dutch should in the very least have adopted retaliatory measures, if not followed general European practice in implementing extensive and highly protectionist tariff barriers. William Thompson and Rafael Reuveney have argued, based on an analysis of the British and American experience, that a leading state in the process of economic decline is likely to initiate systematic protectionism to help preserve its advantages in the face of rising challengers (Reuveney and Thompson 1997). In a period of extended stability, Mancur Olson would have predicted that a distributional coalition of declining industrial interests to successfully lobby the Dutch government for protection from foreign products (Olson 1982). Hegemonic Stability Theory, suggests that in the 18th century, in the absence of an economic hegemon, the Dutch should have played the role of free rider, following the general practice by raising tariffs to benefit its own interests at the expense of others (McKeown 1984).

The actual Dutch reaction runs contrary to all of these expectations. As it turned out, the response of Dutch political leaders was muted. At no point in the 18th century did the Republic even attempt to initiate a systematic mercantilist policy comparable to the Republic’s neighbors. In 1725, Dutch import and export duties were modified slightly, but the overall level of the duties was lowered (de Vries and van der Woude 1997: 500). The effective rate of tariff protection around 1751 was still only 1%, at a time when English baseline duties on imports were 20%, and were as high as 45% in many cases (de Vries and van der Woude 1997: 502; Davis 1966: 307). Over the course of the entire 18th century, the Dutch admiralties never raised much more than 0.2 million pounds in annual customs revenue (Ormrod 2003: 26). Over the same period English tariff revenues rose sharply, growing from 2.8 million pounds (twenty-eight times as large as Dutch tariff revenue in 1700) to 3.9 million pounds in 1760 (Ormrod 2003: 26). Moreover the share of customs duties in total tax revenue in the Republic fell from 12.2% in 1641 to 5.4% by 1790 (t’Hart 1999: 317).
The decline of Dutch industry did elicit consistent and sustained calls for adopting the mercantilist policies of the Republic’s neighbors, but the Dutch government generally refused these appeals. By the 1720's the Republic was flooded with English cloth, and the Leiden textile industry in 1728 petitioned the provincial government of Holland to explicitly ban the import of multicolored *lakens*, but the government refused (van Dillen 1970: 390). Other protectionist measures sought by the Dutch textile industry were also refused, with the only exception being a 1728 ban on the imports of blankets, “the favorable result of which was speedily observable” (van Dillen 1970: 390).^7^

**The decline of industry and its effect on the general economy**

The Golden Age Dutch economy was based on a broad and diversified industrial sector that was built up in the period from 1580 to 1620 (de Vries 2000: 455). The collapse of Dutch manufacturing in the first half of the 18th century led to a cascade of economic decline that ultimately brought down Dutch commercial strength, shipping and eventually even Amsterdam’s role in international finance. The effects of the crumbling away of Dutch industry could not be contained to the manufacturing sector.

The collapse of Dutch industry in the 18th century was breathtaking: virtually every sector of the industrial economy melted away. The decline is measured in both falling employment in industry, a shift of workers into agriculture (combined with emigration and increased usage of poor houses) as well as a decline in the number of industrial establishments, their scale, and a sharp decline in Dutch manufactured exports. In the year 1800, it has been estimated that the ratio of Dutch manufactured imports to exports was in excess of 20 to 1 (de Vries 1984: 198).

The output of industrial production in the Republic declined in absolute terms across a wide number of sectors. The production of Leiden *lakens*, a kind of wool textile, declined from 20,000 pieces a year around 1720 to 7,300 pieces in 1740 (Israel 1989: 387). The textile industry had been a major employer; between 1676 and 1700, fully 14% of Amsterdam’s newly married grooms reported an

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^7^ Van Dillen noted of the protectionist lobbying effort of Dutch textile producers: “Success hadden in dit opzicht alleen de dekenfabrieken: in 1728 werd de invoer van dekens verbooden en het gunstige resultaat hiervan was spoedig merkbaar” (Van Dillen 1970: 390).
occupation in the textile industry (de Vries and van der Woude 1997: 270). The industry had been sustained in the period from 1690 to 1715 largely on the basis of Dutch military orders and orders made on behalf of the Republic’s junior German allies (de Vries and van der Woude 1997: 290). Over the course of the 18th century the Dutch textile industry was decimated. By 1800, of the 2 million els of woolen cloth purchased each year in the Republic fully 80% was imported (de Vries and van der Woude 1997: 421).

Dutch production of finished tobacco products fell by roughly three-quarters from 1720 to 1751 (Israel 1989: 388). The output of sail canvas fell from 60,000 rolls a year in 1730 to 40,000 rolls a year in 1742, to 28,000 rolls a year in 1769 (Israel 1989: 389). The decline also affected the Dutch shipbuilding industry. In the first decade of the 1700s, the shipbuilding center of Zaandam was producing around 300 ships a year; by 1770, they were producing only 25-30 ships a year and between 1790 and 1795 this declined further to 5 ships per year (Boxer 1965: 323). The paper industry, which produced 150,000 reams of paper a year around 1730 declined to 80,000 reams by 1750 (Israel 1989: 388). What makes the decline of the Dutch paper industry more remarkable is that the 18th century was a period characterized by rising literacy, and increased use of paper in government administration (de Vries and van der Woude 1997: 313-314). The percentage of Amsterdam grooms unable to sign their names fell from 43% in 1630 to 15% in 1780 (de Vries and van der Woude 1997: 314).

The decline of Dutch industry can also be measured in terms of declining number of industrial establishments, and a decline in their scale. The number of salt-boiling kettles in Zierikzee decline from around 40 kettles in 1644, to 9 in 1750 (Israel 1989: 389). The number of Amsterdam tobacco shops in operation declined from around 30 in 1720 to 8 by 1751 (Israel 1989: 388). The number of pipe makers fell from around 500 in 1750, to 349 in 1759 and 130 in 1806 (de Vries and van der Woude 1997: 310-311). This decline in the Gouda pipe making industry can be clearly associated with the introduction of a Prussian tariff targeting Dutch pipe exports in 1754 and the subsequent subsidization of a German pipe industry in Cologne (de Vries and van der Woude 1997: 310-311). In the face of English competition, the number of porcelain makers in the city of Delft fell from 20 firms in 1750 to 16 in 1780. In addition, these
porcelain makers were firing one kiln instead of two by the 1780’s (de Vries and van der Woude 1997: 307-308). By 1780, there were no longer any cotton printers left in Amsterdam, whereas as late as 1750, there had been at least eighty individual establishments, some employing as many as one hundred workers (de Vries and van der Woude 1997: 295). Reflecting the decline in Dutch shipbuilding, in the former ship building regions around the Zaan, the number of saw mills fell from 256 in 1731 to 144 by the end of the 18th century (de Vries and van der Woude 1997: 302).

The decline in the Dutch industrial economy weakened the position of the Republic in shipping and international trade. With the crumbling of Dutch industries, it was no longer necessary for Dutch owned ships to stop in Amsterdam to pick up produce, and increasingly Dutch shippers simply transported goods from one European port to another. In addition, the decline of Dutch shipbuilding made it more difficult for the Republic to maintain a sufficiently large fleet to protect Dutch trade during times of war. This weakness proved especially disastrous during the Fourth Anglo-Dutch war from 1780 to 1783. Within the first month of fighting, the English captured more than two hundred Dutch commercial vessels, and it was estimated for the entirety of the war the losses for the Dutch East India Company totaled at least 10 million guilders (Israel 1985: 1097). Even before the disaster of the Fourth Anglo-Dutch war, Dutch trade and commercial interests were facing challenging times. This reality was reflected in a declining Dutch presence in international trade that was both relative and absolute. The Dutch share of the Baltic freightage fell from 50% of the total to merely 20% by the 1770’s and dropped off further after that (Israel 1989: 380).

The decline of the Dutch economy also hurt Dutch institutions of higher education, whose decline swiftly followed the collapse of the Dutch economy and pushed the Dutch to the technological periphery. Foreign students represented an enormously high proportion of total Dutch university students, as much as half of the student body of Leiden, and according to research by Karel Davids, were well represented in the sciences, especially chemistry (Israel 1995: 1049; Davids 2008: 511). English students in particular
had a keen interest in chemistry classes, and the English translations of Dutch professors’ works frequently appeared shortly after their Latin versions (Davids 2008: 511).8

In the 1740’s foreign students melted away from Dutch universities. In the first quarter of the 18th century, 3,164 foreign students were enrolled at Leiden, these numbers declined to 2,715 in the second quarter of the century, and then just 1,132 in the third quarter (Israel 1995: 1050). By the final quarter of the 18th century, the numbers of foreign students were less than ten percent their level of a century before (Israel 1995: 1050). James Boswell wrote home in the 1760’s that “the universities here are much fallen” (Israel 1995: 1050). The decaying of Dutch universities was brought about largely by economic decline and the financial pressures it generated, making it difficult for Dutch universities to invest in new buildings, laboratories or hire professors (Israel 1995: 1050). Dutch universities could not keep up with the universities of Germany or England and as the 1700’s progressed, the university towns of Franeker, Utrecht and Leiden had an “increasingly redundant, antiquated and ruined feel” (Israel 1995: 1050).

The collapse of the Dutch industrial economy ultimately even undermined the Dutch financial sector although finance remained relatively resilient down to the Republic’s final days. The lack of good investment opportunities within a stagnant and declining domestic economy prompted Dutch financiers to turn overseas for profitable investments (Wilson 1939: 123). In the 18th century, high, reliable returns were available in nearby London, and Dutch holdings of English bonds grew steadily from the 1730’s through the 1780’s. This sometimes led to speculation, particularly in English securities, and financial panics that began in London quickly spread to Amsterdam, leading to major crises in 1763 and 1773 (Wilson 1939: 120-121). The 1763 crisis came on the heels of four years of heavy Dutch investment in London, and caused the failure of the Dutch bank, Gebroeders de Neufville with 9.5 million guilders in assets (Wilson 1939: 123). The crisis of 1772 was caused when a group of four Dutch banks attempted to corner the market for English East India Company stocks and failed (Wilson 1939: 124).

8 The classes of the theoretical chemist Herman Boerhaave were apparently particularly popular with English students and his lectures were published in English in 1727, just three years after they were published in Latin (Davids 2008: 511).
Over time, Dutch investment worked to build up London as an alternative center for international finance. At first Dutch banks sought to establish English branches simply as a means of reducing risk in the wake of financial panics in the 1760’s and 1770’s. Abraham Ricardo, father of the famous economist David Ricardo, established himself in London around 1760, and in the 1760’s other famous Dutch financial houses also established operations in England. These included large firms such as Hoguer, Horneca & Co., Goll & Co., the Barings, and Gerard van Neck, with last major financiers, including Henry Hope and Alexander Baring abandoning the Republic for good within a year of the French invasion (Spufford 2006: 167).

The Dutch economy had experienced and survived financial crises during the Golden Age. In the 1630’s Dutch society was gripped by a speculative frenzy in tulips that caused the price of bulbs to rise to extraordinary heights before finally collapsing. The difference between financial crises in the late 1700’s with the Golden Age lies in consequences for the Dutch economy. Dutch capital invested within the Republic, even in speculative endeavors represented simply a transfer of capital within the domestic economy. When the Dutch financiers invested overseas, they opened themselves up to the risk of losing capital when foreign governments defaulted on their Dutch loans. While the English did not default on their Dutch loans, the French monarchy in its last months in 1789 did default on its loans, and Dutch capitalists lost tens of millions of guilders (de Vries and van der Woude 1997: 337).

Why did Dutch trade policies change?

The Rise of the Rentiers and the Rent-Seeking Coalition for Free Trade

The 18th century for the Dutch Republic was the gilded age of the rentier. Over time, the ruling class of regenten, became dominated by investors whose major source of income and wealth was the interest and rents earned on Dutch government bonds, foreign investments, and investments in the Amsterdam stock market and the Dutch East and West India companies. These individuals also derived income from their control of various government sinecures, and over time absorbed families who had become wealthy in industry and commerce (de Vries and van der Woude 1997: 593). In general, once a
family became enmeshed with the ruling class, its “active participation in economic life would inevitably diminish” (de Vries and van der Woude 1997: 593). Involvement in the political life of the Dutch Republic required intensive networking with other wealthy families in the ruling oligarchy in order to maintain one’s own status and advance the fortunes of other family members within the government. The 18th century is often referred to pejoratively as the Periwig period (Pruikentijd) after the fashionable white wigs worn by the Dutch upper classes (Lambert 1985 223).

The regenten became increasingly disconnected from the decaying economy around them. Israel describes them as “men who had no active economic role” (Israel 1995: 1016). Audrey Lambert describes a Dutch upper class “lacking in their earlier drive” that “preferred ease to exertion, tranquility to bustle and the enjoyment of wealth to its pursuit” (Lambert 1985: 223). In the 1700’s the Republic experienced a boom in the construction of fine country villas, and the facades of the rentiers’ elegant Amsterdam townhouses were typically redone with imported marble in the style of the Italian palazzio. The percentage of Dutch regents without any identifiable occupation rose from roughly a third in the period from 1618-1650 to 73% in the period from 1702-1748, while the percentage possessing a country home rose from 10% to 81% (Kindleberger 1992: 101).

The Dutch oligarchy became a progressively more self-contained elite with fewer connections to the productive Dutch economy and with manufacturing in particular. Across the Republic, powerful families agreed to “Contracten van Correspondentie” agreements whereby important government sinecures and posts were rotated through families, planned out generations in advance (Carter 1975: 68). The holders of the highest positions could typically choose the person who took the post upon their death, frequently choosing their sons or sons-in-law (Carter 1975: 68). This closed off opportunities for upward social mobility. As Dijk and Roorda noted that by “the eighteenth century the aristocracy had degenerated into an oligarchy into which a homo novus only sporadically penetrated” (Dijk and Roorda 1976: 77). The number of patrician families in Friesland producing town and country officials fell by half between 1650 and 1705 (Dijk and Roorda 1976: 91). Carter is even more emphatic about the increasingly narrow
base of the Dutch oligarchy, describing it as “virtually impossible, except by marriage, to penetrate from the outside into the privileged ranks of the various urban oligarchical families” (Carter 1971: 7).

The Stadtholders, with their powers of appointment, were always a potential threat to these cozy arrangements, and the regents of Holland took the opportunity of the childless William III’s death in 1702 to refuse to recognize his designated heir, John Willem Friso as Stadtholder of Holland. Three other provinces followed suit, and this inaugurated the second of two long “Stadtholderless” periods that would last to 1747 (Israel 1995: 960-961). William III had excluded some regents from offices after becoming Stadtholder in 1672, and on his death these families were reinstated (Israel 1995: 960). It took the crisis of French invasion in 1747 combined with internal political disturbances that would lead to the appointment of William IV as Stadtholder in all seven provinces (Carter 1971: 11). The rise to power of William IV appears to have unsettled the Dutch upper class, as some regents who were pushed out of official positions by William’s new appointees were forced to turn to trade (although generally not industry, given its sad decay at this point) (Dijk and Roorda 1976: 100-101).

On a cultural level, the Dutch elite became disconnected with the broader Dutch masses. In the 18th century, the Dutch elite were almost completely Gallicized, preferring to converse, read and write in French among each other and looking to France for cultural trends, high fashion, furniture and art (Lambert 1985: 223). As van Loon noted, the “leading families went so far in this imitation of foreign manners and customs that they considered their own language as a sort of rustic patois, and preferred to speak and write in French” (van Loon 1913: 104). In the 18th century, “most members of the patriciate and aristocracy had their portraits done by foreign, mostly French-speaking painters visiting the republic” (Grijzenhout 1992: 329). Dutch art in the 18th century, in contrast with the work of Golden Age painters such as Rembrandt and Vermeer, was regarded with disdain by the Dutch upper classes (Grijzenhout 1992: 327-9).

This cultural context is nicely reflected in the musings of one of the most prominent Dutch thinkers of the late 1700’s, the financier Isaac de Pinto. The multilingual Isaac de Pinto fancied himself “a citizen of the world” several centuries before it became fashionable. De Pinto shared with his readers in
the 1770’s the following, admirable sentiment: “I am a citizen of the world, not cold and indifferent, but zealous and humane. I love all nations, because in all nations there are men who deserve to be loved, and they belong to human kind” (De Pinto 1774: 229). De Pinto was optimistic that reason and rationality could prevent the states of Europe from going to war with one another. From his perspective, nationality was an old fashioned, obsolete concept. De Pinto doubted that conquest was useful, given the tremendous costs associated with war as well as the ability of states to gain both necessities and luxuries through trade, and recommended that both France and England abandon their geopolitical rivalry to devote more resources to the domestic economy (De Pinto 1774: 234, 236). De Pinto demonstrated a remarkable naivete regarding England, writing of England shortly before it launched a predatory war against the Dutch: “The class which through a sordid and ill-understood interest, was jealous of the trade of Holland, may exist still in England, but has not got the least influence” (De Pinto 1783: 48).

Isaac de Pinto was one of the lead advisors of Stadtholder William IV and a close associate of his advisor Willem Bentinick van Rhoon, and he helped provide input into the largely free trade oriented Proposal of 1751 (Stapelbroek 2011: 189). The affinity for free trade in de Pinto’s thinking was wider of his broader social class. As Julia Adams has observed, the “Amsterdam regents were also instrumental in blocking protective tariffs for domestic manufacture in the 1720’s and again in the 1750s; the regents supported low duties and "freer" transit trade” (Adams 1994: 521). Elie Luzac, another wealthy francophone trade lawyer and publisher in the Republic shared de Pinto’s views and the views of the regent class more generally, supporting the proposal of 1751 and opposing any shift to mercantilism. Luzac warned that the Dutch “would never…regain their preeminence by artificially closing themselves off from the international market…..and the only possible route to the restoration of their former glory was through the removal, not the imposition of limitations on free trade” (Velega 1993: 142). In Hollands Rijkdom published in 1780, Luzac wrote that if you “keep too tight a rein on liberty in a commercial country and you will destroy the source of the wealth and power of the people” (Velega 1993: 142).
Why were the Dutch regent classes so supportive of free trade policies? From one perspective this support appears puzzling. The Dutch Republic is a relatively concentrated space, and given its flourishing print culture, the regents would have been aware of the decay of Dutch industries in the 1720’s and 1730’s. Given the dependence of the regents’ wealth on the continued viability of the Dutch state, it is curious that they were not more sympathetic to the concerns of Dutch manufacturers. One possible explanation is that the regent class misperceived the source of Dutch wealth, believing commerce and trade to be the true strength of the Dutch economy, rather than industry. Elie Luzac for one believed that the source of Dutch economic might was in commerce, describing the Republic as a “commercial country” and writing of the Golden Age that “it was in international commerce that they had always excelled” (Velema 1993: 142).

Another possible reason for the Dutch elite’s support for free trade may have been ideological. Early Dutch statesmen, such as Hugo Grotius, were prominent supporters of free trade. In addition, the 18th century saw the flourishing of French Physiocracy. The French Physiocrats, who were for the most part land-owning nobles, reacted violently against the industrializing efforts of the Mercantilist French Minister Jean Baptiste-Colbert and his followers, and articulated a set of economic principles that privileged free trade and agriculture over manufacturing. In particular, the Physiocrats believed that international trade was naturally self-regulating and any form of government interference would tend to damage the economy. The ideas of the French Physiocrats spread widely throughout Europe, and were in fact adopted as the official state doctrine of Poland Lithuania in 1777, and the teaching of Physiocracy was made mandatory in all Polish secondary schools and universities beginning in 1780. Gerald Newton ascribes the decline in Dutch urban centers to “physiocrat moves away from mercantilism to agrarianism” (Newton 1978: 50). Relatively little has been written about the impact of Physiocratic ideas in the Dutch Republic, but given that the Dutch elite were overwhelmingly francophone and the Republic itself was a major center of French publication, it is inconceivable that Physiocratic ideas did not diffuse widely through the Dutch upper classes. It should be noted that the other 18th century champion of free trade, Adam Smith, was virtually unknown outside of England in the 1780’s and 1790’s, so although many
wealthy Dutch could read and speak English, Smith was not the source of their thinking on economic issues (Davids 2001: 285). The anti-industrial bias of the Physiocrats is apparent in the writings of Adam Smith, and are the foundation of modern neo-classical economics as taught in the Anglo-American world.

An ideological explanation for the regents’ support for free trade must be considered at most a partial explanation. Clearly, economic alternatives to French Physiocracy were percolating through Dutch society in the late 1700’s, as evidenced by the recommendations of the Economic Section of the Scientific Society of Holland, founded in 1777. The society endorsed “resolute mercantilism as the way to restore the Dutch economy” and the society also championed sweeping political changes, changes that would have made many regents uneasy (Van Houte 1977: 288). Moreover, while Grotius’ support for *Mare Librum* entailed pragmatic support for free trade, other giants of the Dutch Golden Age such as the Leiden textile manufacturer Pieter de la Court, were decidedly more mercantilist. De la Court in *Het Interest van Holland* published in 1662, outlined a plan for reforming Dutch customs duties that would eliminate taxes on manufactured exports and raw imports, while raising duties against imported manufactures for domestic consumption. De la Court offered his Dutch readers a prescient warning:

“As for charging foreign goods, and manufactured wares, ships, and masters of ship, tho’it be a matter of great weight, yet I know not of any thing that hath been done in it. But the English, anno 1660, settled their rates of customs and convoy-money so well, according to these maxims, to favour their inhabitants as much as they could, and to burden all foreign masters of ships and merchants; that if we continue charged in this country so unreasonably as at present, and there too, and the English on the other hand continue to be so favourably used, both here and at home, *they will bereave us of much of our trade.*” [italics added] (de la Court. 1662. *The True Interests and Political Maxims of the Republic of Holland*, Chapter XXII)

Decades later, having already witnessed England’s dramatic economic rise, the regents of the Netherlands were nevertheless convinced that English mercantilism was not right for the Republic. The Proposal of 1751, a plan submitted by the Stadtholder to the States-General, acknowledged that the English were “drawing off the Trade of the Republick to themselves” and that the English had “in Opposition to a contrary Policy, practiced not half a Century before, in suffering the Wool to be exported raw into this Country, but since prohibited under the severest Penalties” (Proposal 1751: 17). The authors of the Proposal noted that “almost all other Countries, whose general Views, with regard to Trade and
Commerce, and all the Dependences thereof, have tended to the very same practice” (Proposal 1751: 17). The Dutch were also fully aware of the incentives in English trade policy for exporting over importing, noting that “for above a hundred Years past, they have considered the Exportation and Sale of Goods and Merchandizes Abroad, as the only profitable and advantageous Trade of that Kingdom; and, on the contrary, left it very doubtful, whether the Importation of Goods be prejudicial or beneficial” (Proposal 1751: 23).

Given that the Dutch elite were fully aware that other leading states in Western Europe were pursuing mercantilist policies, why did they retain a preference for free trade? One important factor in the support of the regent class for free trade was their relationship with the Dutch East and West India Companies. These companies, founded in 1602 and 1621 respectively were important importers of raw materials, textiles and other luxuries from South and East Asia and the Americas. The Dutch East India Company (Vooroost India Compagnie, VOC) was a particularly powerful interest in Dutch politics, and a major source of profits and revenue for the regents. During the Golden Age from 1630-70 annual profits were 2.1 million guilders, which fell only modestly to 2.0 million guilders a year from 1680-1730. Of these profits roughly three quarters were returned to regent shareholders as dividends and a quarter was reinvested (de Vries and van der Woude 1997: 447). In addition to ownership of VOC and WIC stock, the two companies presented a large number of important salaried posts that were vied over by ambitious regents.

While the VOC became less profitable during the 18th century, dividends were reduced only slightly so that the company was running down its capital base, and by the time it finally collapsed in 1795, it passed on enormous debts to the new Batavian Republic (de Vries and van der Woude 1997: 454). Even in its decrepitude, it was an important trading interest in the Republic and its influence and that of its shareholders was an important reason the Republic maintained free trade policies down to its last days; as late as 1780, the VOC was importing roughly 20 million guilders worth of goods into the Republic (de Vries and van der Woude 1997: 454). It should be noted that while VOC dividends were a considerable source for income for the regents, shares of VOC stock formed only a modest portion of the regents’
estates, and were less significant than Dutch government bonds. For the period from 1700-1780, for the town councilors of the cities of Leiden, Gouda and Hoorn, VOC shares made up from 3.4 to 14.8% of the total estate (de Vries and van der Woude 1997: 591).

To some extent, the Dutch elite may have been hampered by their misperception regarding the origins of Dutch wealth. The Proposal of 1751 did not identify the Dutch industrial base as the source of Dutch economic might. The authors instead were impressed by the beneficial effects of serving as a European entrepot, particularly when the other major states were at war with each other and could not trade directly with one another as was the case from 1739 through 1743 (Proposal 1751: 24). This trade “not only occasioned an Increase in the Export Duties, but also such a diffusive Spread of Commerce as had a happy Influence on every Branch of Trade, and produced a general Welfare and Advantage to the Provinces” (Proposal 1751: 24). The Proposal ascribed Dutch wealth to the religious tolerance of the Dutch state, the Republic’s comparative liberty, and its geographic location at the mouth of several great European rivers, and along trade routes connecting Scandinavia and Russia to the Atlantic and Mediterranean, and conceived of the Republic as a trading state rather than an industrial power (Proposal 1751: 7-12).

Rather than look to the mercantilist policies of England, France or Scandinavia, the authors of the Proposal were more concerned by the challenge posed by the free trade city of Hamburg, which was muscling out Amsterdam as the entrepot of Northern Europe. The Proposal noted with alarm that in 1750 and 1751, for shipments of sugar, coffee and indigo from Bordeaux and Nantes to Northern Europe, “no more than one Fourth Part thereof was shipt for this Country, and three Fourths for Hamburgh; a Disproportion which but a little while before was exactly the Reverse” (Proposal 1751: 20). The writers of the Proposal concluded on the basis of Hamburg’s growing trade and the growth of another German city, Bremen, that declining Dutch trade was caused by the Republic’s high customs duties, at a time when Dutch import taxes were among the lowest in Western Europe. The Proposal asked its readers rhetorically: “And to what can this Decline be attributed, but to the exorbitant and heavy Duties” (Proposal 1751: 21). The authors of the Proposal were emphatic about the negative impacts of import and
export taxes, declaring that they “placed at the Head of all the Causes that have co-operated to the Prejudice and Discouragement of Trade, the oppressive Taxes which have…been imposed on Trade….and it may justly be said that it can be only attributed to these Taxes that the Trade of this Country has been diverted out of its Channel” (Proposal 1751: 27).

The Dutch ultimately did not transform the Republic into a “Free Port” as the authors of the Proposal envisioned. As Charles Wilson observed, the framework of the Proposal was indicative of the balance of political power in the Republic: “the powerful merchant ‘free trade’ element got its way in stating that if sacrifices were to be made, industry must be sacrificed to commerce” (Wilson 1939: 117). The major challenge to eliminating the customs duties was that this revenue was earmarked for the five Dutch admiralties and was necessary to pay for the maintenance of the Republic’s navy (Davids 2001: 270; Bruijn 1970: 182). Even if the Republic had succeeded in maintaining a policy of strict neutrality throughout the 18th century, they nevertheless needed the ships of the Admiralty to protect Dutch shipping from pirates. The Dutch fought against Algerian pirates from 1715 to 1726 and against Moroccan pirates from 1716 through 1751 (Bruijn 1970: 180). An additional factor in the failure to adopt the Proposal of 1751, was the death of its “moving spirit”, William IV and the modest revival of trade that accompanied the Seven Years War (Wilson 1939: 118). The only concrete result of the Proposal was the elimination of a small number of import and export taxes in 1755 and an ordinance from the States of Holland requiring all government officials only wear clothing made in Holland (Davids 2001: 270). It is not clear how effectively this last measure was enforced given the continual decline of the Dutch textiles industry.

There were strong mercantilist currents in Dutch society throughout the 18th century, yet these proposals were not adopted and the Republic retained a policy of low import taxes. In the late 1740’s the pattern-maker Hendrik van Gimnig presented to the Stadtholder a plan for achieving a high degree of self-sufficiency by combining protective industrial tariffs with subsidies and scientific support for producing industrial crops and also raising sheep in the Republic (Davids 2001: 266). However, the mercantilist interest had limited access to the Dutch state, as evidenced by their general inability to change the orientation of Dutch state policy or even to advise Dutch Stadtholders or the States-General on economic
policy. The drafting of the Proposal of 1751 is indicative of the nature of Dutch politics immediately after the most intense period of de-industrialization. The proposal was most probably drafted by the merchant banker Thomas Hope, while the Stadholder’s advisors for the most part appear to have only gathered opinions and evidence from a small group of powerful Amsterdam and Rotterdam merchants (Stapelbroek 2007: 232). This aroused the opposition of the province of Zealand, which was heavily involved in smuggling and would have been damaged by any reductions in import and export taxes (Stapelbroek 2007: 246).

Soon after the publication of the Proposal, the textile and woolen manufacturers of Leiden produced their own pamphlet, “Consideratien over het stuk van de manufacturen en fabrycquen” denouncing the Proposal for ignoring the interests of Dutch manufacturing (Stapelbroek 2007: 248). The textile manufacturers decried the fact that the authors of the Proposal had not bothered to consult even “one or more experienced Fabriquers and Manufacturers” and for misunderstanding the origins of Dutch wealth, which reversed the causal relationship between trade and industry. The Leiden pamphlet asserted: “the establishment and nourishment of the production of various Manufactures and especially of Wool Clothes, here has caused extensive promotion of Shipping and Trade” (Stapelbroek 2007: 248). The textile manufacturers encouraged the Dutch state to revive manufacturing as a means of reducing unemployment in the Republic, and was skeptical of the ability of trade and commerce in and of themselves to sustain the Dutch economy. The “Consideratien” asked rhetorically: “Since what is the effect of Trading foreign Wools, and other Manufactured goods, that one…sows Dutch labels on German goods to make it seem in Spain as if they were Dutch produced?” (Stapelbroek 2007: 249).

For all their efforts, the Leiden textile manufacturers would remain on the losing side of the political argument until after the passing of the Republic. As Karel Davids has noted, only after the collapse of the Dutch financial and commercial sectors in the turmoil of 1795, was there an opening for a turn to mercantilism. In the 1780’s the one of the leading champions of Dutch mercantilism was Peter Vreede, a cloth manufacturer, and a leader of the revolutionary Patriot movement from Leiden, who was however forced to relocate to the Austrian Netherlands after the failed Patriot revolution in 1787 (Davids
2001: 280). In 1795, in the wake of the French invasion, Vreede joined the new National Assembly and became a member of the Directorate that ruled the Batavian Republic after a coup d’etat in January 1798 (Davids 2001: 281). Unfortunately, there was not much scope for putting Vreede’s mercantilist ideas into practice within the Napoleonic empire. The British blockade choked off important raw materials, and the Dutch (unlike the annexed Belgians) were excluded from France’s large market and so the Dutch textile industry was not stimulated by orders for the French military (Kossman 1978: 99).

To understand why the commercial interests supporting free trade were so powerful in the decades before and after the Proposal of 1751, it is helpful to examine the tax rolls of the Republic’s wealthiest province, Holland. Jan de Vries and Ad van der Woude have analyzed the distribution of reported annual income for the sixty occupational categories that were the most important contributors of tax revenue to 16 cities in Holland in 1742 (de Vries and van der Woude 1997: 572). This group of roughly 16,500 tax payers provided roughly two thirds of the tax revenue to the States of Holland in that year, and de Vries and van der Woude’s analysis reveals in an admittedly rough way the general distribution of economic power in the Republic’s most important province (de Vries and van der Woude 1997: 572). Of the 16,500 tax payers, only 854, a little more than 5% could be classified broadly as manufacturers. In contrast, 6,800 of these tax payers were involved in either wholesale or retail trade, accounting for roughly 40% of the total. On this basis alone it is not surprising that in mid-18th century on issues of trade the States of Holland were far more responsive to commercial interests rather than those of manufacturers (de Vries and van der Woude 1997: 572).

One should not forget that the Regent class, which was also an important component in the free trade coalition within the Republic, and was heavily represented among the state’s most important taxpayers. Rentiers, government officials and administrators made up roughly 35% of the leading taxpayers of Holland (de Vries and van der Woude 1997: 572). The average incomes of the groups in the free trade coalition were also higher than the manufacturers. The average taxpayer involved in wholesale trade earned on average 3,080 guilders a year, while the rentiers earned on average 4,746 guilders a year, compared with 1,981 for Dutch manufacturers (de Vries and van der Woude 1997: 572). The imbalance
in economic power between groups who would have been most directly affected by foreign mercantilism (the manufacturers) and those who benefited from the light taxation of foreign trade (the commercial and financial sectors) was overwhelming. In 1742, almost 80% of the leading taxpayers in Holland belonged to corporate groups that economic historians have identified as supporting free trade, while just 5% belonged to the manufacturing sector that was most directly at risk from foreign mercantilism.

**Five alternative explanations for Dutch economic decline**

This paper has deployed a variety of evidence to make a series of interrelated claims regarding the decline of the Dutch economy in the 18th century. It has argued that the critical factor was the failure of the Dutch to vigorously respond to the mercantilist challenges of the 18th century, as it had done in the Golden Age. The consequence of this passivity was the decimation of Dutch manufacturing, which led to high levels of structural unemployment, increased inequality, and ultimately undermined other Dutch strengths in commerce and finance. There are nevertheless, five other popular explanations that have been advanced over the years to account for Dutch economic decline. This section will consider each of these alternatives in turn, and argue that at best they are subordinate explanations for Dutch economic decline.

One explanation for decline focuses on the lack of Dutch coal resources. Robert Allen has recently argued that an important factor in promoting English economic development in the 1700’s was England’s access to rich coal deposits (Allen 2010: 38). The steam engine was first used in mining coal, and the abundance of cheap coal also facilitated English development of coke, a new form of smelting iron that with additional innovations eventually produced a superior form of iron than traditional charcoal burning methods. The Netherlands, in contrast with England has relatively few coal deposits, and the presence of rich coal reserves in Belgium and Western Germany may suggest to some a more parsimonious explanation for why the Dutch economy fell behind and was so late to experience coal-powered industrialization (Griffiths 1979: 39). This argument is strengthened by the fact that by the early 1700’s, the Dutch were exhausting their domestic reserves of peat (Zeuw 1978).
This approach to explaining Dutch economic decline is problematic for a number of reasons. For one, the Dutch lost most of their industrial base in the first half of the eighteenth century, and English society was already industrializing well before coal became an important factor in promoting English economic growth (Allen 2010: 190). The early industrialization of England was driven primarily by wind and water power sources, with coal only surpassing these two sources of power in the 1830’s. In addition, most of the technological innovations involved in the English industrial revolution were unrelated to coal. The British industrial revolution was driven by the mechanization and mass production of cotton textiles, with as much as 60% of technological innovations relating to the textiles sector. Moreover, the Dutch were ideally situated to import coal from England, the Austrian Netherlands and Germany, and in fact did import considerable quantities of coal from England. As Karel Davids has pointed out, an energy driven explanation for Dutch economic decline is not convincing (Davids 2008: 513-514). Over the course of the 18th century, the Dutch gradually shifted from using peat to alternative mineral sources of energy, including coal, and the price difference between peat and coal narrowed steadily (Davids 2008: 513-514). If the Dutch had retained a broader industrial base, Belgium, England and Germany could have emerged as major coal exporters to the Netherlands in a core-periphery trading relationship that has characterized the Middle East’s relationship with Europe and East Asia or the relationship between Australia and Northeast Asia.

Another explanation for Dutch economic decline that has been advanced has been to argue that in the 18th century Dutch trade guilds became more powerful, and the restrictions these guilds imposed on trade, innovation, along with their ability to sustain high, uncompetitive wages were the origins of Dutch economic problems (Barkhausen 1974: 246-247). This explanation resonates with Mancur Olson’s (perhaps premature) explanation of American and British economic decline, as Olson argued that the proliferation of associations and rent-seeking groups in stable societies over time undermined economic growth (Olson 1982).

There is considerable debate over the economic effects of guilds. Epstein has argued cogently that guilds were not detrimental to economic growth, but in fact important sources of training for apprentices.
Importantly, with a few exceptions (such as butchers) most professional guilds had no control over product markets. Traveling journeymen would carry various goods from town to town in pre-modern Europe, and there was little the guilds could do to prevent consumers from purchasing the products from other cities and towns (Epstein 2004). As an empirical matter it is difficult to associate changes in the strength or prevalence of guilds with subsequent economic changes in pre-modern Europe. Guilds were abolished in 1795 in both the northern Netherlands, and Belgium as they had been in France. Nevertheless, even after the disappearance of guilds, the Dutch economy remained technologically backward and over time fell further and further behind their Belgian neighbors. In addition, it would be incorrect to view the 18th century as the heyday of Dutch guilds. Dutch trade guilds proliferated most rapidly in the first half of the 17th century as the Dutch economy was experiencing rapid growth. In the 1700’s the founding of new guilds drops off considerably (Bos et al 2002: 157). Moreover, if one accepts the view that English guilds declined during the 18th century, they did not decline in Belgium. In fact, it was the attempt of Austrian Emperor Joseph II to abolish guilds in the 1780’s, which along with his reforms of the Catholic organizations in the Southern Netherlands precipitated to a rebellion that overthrew Austrian rule in 1787.

Authors as diverse as Jonathan Israel, Immanuel Wallerstein, and David Ormrod have argued that Dutch economic decline in the 18th century was made inevitable by the Republic’s small size and its lack of an extensive colonial empire. These authors suggest that in contrast to the French or English with their comparatively larger internal markets, there was little that the Dutch could do to effectively counter foreign mercantilism. On the face of it this argument appears persuasive. During the 18th century, the Republic’s population barely surpassed 2 million, and its small geographical extent meant Dutch industries had more restricted access to important natural resources and agricultural inputs.

This argument is misleading however in taking the size of the Republic as an unchangeable feature of the structural landscape. In fact, as has already been discussed, in the 18th century much as today, population size is powerfully influenced by economic conditions. A healthier Dutch economy would have attracted larger numbers of economic migrants much as the Republic had done in the early periods of the Golden Age. Better economic conditions would have translated into earlier marriages,
lower rates of celibacy, and a narrowing of birth cohorts that would have increased the size of the population. When economic growth returned in the 19th century, the Dutch population more than doubled, and in the 20th century Dutch population tripled. In addition, the geographic extent of the Republic was also conditioned on economic circumstances. In the Golden Age, Dutch investors financed the reclaiming of lakes and the polderization of marshy bogs, increasing the land available for agriculture by hundreds of thousands of hectares. In the late 1600’s and, especially the 1700’s, the pace of polderization falls by three-fourths. In a period of economic depression, there was little incentive to expand the size of the Republic by pushing back against the sea.

More importantly, the experience of the Austrian Netherlands, shows that even within the confines of the Republic’s small population there was wide scope for protectionist trade policies to stimulate economic growth. The population of the Austrian Netherlands was only slightly larger than that of the Republic. Beginning in the 1740’s the long moribund economy of the southern Netherlands was revived as Austrian Empress Maria Theresa, and her son, Joseph II, carried out a decades-long policy of industrial protection (Davis 1974: 5-8; 149-150). In addition to the example of the Austrian Netherlands, it is also worth remembering that Britain’s Australian colonies and New Zealand had populations substantially smaller than that of the Republic, and nevertheless succeeded in industrializing behind the world’s steepest tariff walls. The Australian colonies, with the partial exception of New South Wales, and New Zealand combined high industrial tariffs with geographic remoteness, and in this context industry flourished, producing stable, high income economies.

A fourth alternative explanation for economic decline focuses on the Republic’s relatively high taxes and its high wages. Jan de Vries and Ad van der Woude in their 1997 tome on the Dutch economy (that has been widely used in this piece) conclude their analysis by focusing on the Republic’s high tax burden. If the Republic had enjoyed a lower debt and tax burden in the 18th century, “it is certainly likely the eighteenth-century economy would have enjoyed much greater flexibility, while the state would have enjoyed greater latitude in responding to its post-1780 crisis” (de Vries and van der Woude 1997: 682). It is undeniable that the Republic’s domestic taxes were among the highest in Europe, in part as a result of
its decision to maintain low import taxes. It is sometimes argued that this regime of high taxes made the Dutch economy less competitive internationally, and that it in part contributed to the Republic’s high wages. The implicit assumption is that the incidence of taxes was borne by employers in the Republic, who were forced to pay their workers relatively high wages so they could afford to pay the various excise, property and consumption taxes.

On close inspection, the approach to understanding Dutch economic decline is not very satisfactory. For one, it is highly unlikely that high taxes by themselves cause economic decline. The most dynamic economy of 18th century Europe, England, also had relatively high taxes (though not quite as high as the Republic) and moreover, the rate of taxation in England grew steadily over the course of the 18th century, even as economic growth picked up (Brewer 1989: 211). In theory, the English state in the 18th century may have benefited from even higher rates of taxation. For one, the building of roads was almost entirely the responsibility of town governments in England, and to pay for road construction these towns imposed tolls (Szostak 1991: 89). If instead the English government had taken over responsibility for road construction, they might have encouraged internal trade by allowing for the elimination of tolls between English villages and towns. It should also be stressed that the English state had perhaps the most complex system of taxation of any in Europe. While the Polish and Russian states relied largely on easy to assess and collect liquor and land taxes, the English state relied on an extraordinarily complex system of excise duties that varied by product and a sometimes opaque system of customs revenue, with individual excises on thousands of products combined with a drawback for imported raw materials that were used in manufactured exports as well as drawbacks on the export of colonial products and Asian textiles, spices and luxuries (Brewer 1989: 214-216).

It is also highly doubtful that in the case of the 18th century Dutch Republic, high domestic taxes hurt the competitiveness of Dutch manufactures. For one, it is probably incorrect that employers bore the burden of taxes. The Dutch labor market, as we have seen, was extremely slack throughout the 18th century leaving workers with relatively little bargaining power. Nominal wages fell modestly throughout the 18th century, suggesting that many if not most Dutch workers were forced to accept the real loss in
income associated with increased taxation. If Dutch taxes largely fell on workers rather than the consumers of manufactures or the owners of larger industrial concerns, they would have had no impact on the ability of Dutch manufactures to compete in international markets.

A fifth explanation for Dutch economic decline in the 1700’s, interprets this decline as the consequence of Dutch overextension in the long wars against the French Sun King, fought almost continuously for forty years from 1672 to 1713. Over this period, the Dutch Republic paid for its participation in the wars against France by borrowing enormous sums of money on the Dutch internal capital market. Unlike the English who paid for their wars by raising tariffs and increasing other kinds of taxes, the Dutch state for the most part accumulated debts. In the context of early modern Europe, the sums were considerable. It is estimated that the Dutch state had accumulated close to 200 million guilders of debt by 1713 (de Vries and van der Woude 1997: 682).

This line of argument suggests that the large overhang of debt had a number of consequences for the Republic. For one, scholars argue that the high levels of debt necessitated a policy of military retrenchment and austerity (Israel 1985: 1099). In addition, some argue that the high levels of debt necessitated higher taxes which allegedly hurt Dutch economic competitiveness, but this argument is not particularly persuasive for reasons outlined above. However it was probably the case that the policy of long-term austerity eroded Dutch military capabilities, and the capabilities of the Dutch admiralties in particular. This naval weakness may have been a factor in enabling the Danes and Swedes (if not necessarily the Prussians, Russians, and Austrians) to challenge Dutch economic dominance. In the 17th century, the ability of Dutch naval forces to intervene in the Baltic to maintain a balance of power in that region was an important factor in keeping Scandinavia open to Dutch exports.

While the concerns regarding state debt may provide a partial explanation for Dutch military retrenchment, other factors clearly were at work. For one, many other European states, not least of all, England, also had large and growing debts in the 18th century. In fact, British victory over Napoleon is sometimes credited to its ability to borrow cheaply from deep financial markets. In 1830 in the midst of the English industrial revolution, English government debt was equivalent to fully 200% of the British
Dutch elite chose a policy of military retrenchment for a complex variety of reasons that may have had more to do with unrealistic aspirations regarding their long term ability to remain neutral in conflict among Europe’s great powers (Carter 1974). Isaac de Pinto’s confidence in the ability of Europe’s major powers to maintain a regime of collective security and transcend national differences was surely not an isolated opinion.

As an economic matter, the high levels of Dutch government debt were not a major factor in precipitating decline. The Dutch economy in the 18th century was not lacking for capital, and so savings invested in provincial and municipal bonds were not being drawn away from productive investment. The Dutch Republic enjoyed the lowest rates of interest of any state in Europe, and at 2.5% would be considered extremely low even by contemporary standards (de Vries and van der Woude 1997: 683). Moreover, Dutch investors were major exporters of capital by the end of the 18th century, investing heavily in English and later French, Russian and American government bonds. The extremely low interest rates of the Dutch economy were a symptom of the Republic’s economic weakness. There were few potentially profitable avenues for investment in a moribund economy, and so Dutch investors were happy to lend funds to the Dutch government and foreign governments as well.

**Conclusion: Implications for the United States**

Although there are a number of differences between the United States and the Dutch Republic in terms of world historical time, availability of natural resources, and geographic and population size, the Dutch Republic and its 21st century protégé share one critical feature in common. In the face of rising trade protectionism among poorer, but quickly growing economies, both the Dutch Republic and the United States chose to maintain unilateral free trade policies. As Table (3) shows, the United States average tariffs on a wide variety of industrial goods are a small fraction of the combination of border taxes that the People’s Republic of China levies on imported manufactured goods. The Chinese are not unique. The United States co-exists with a large number of fast-growing economies that protect domestic manufacturing through strategically undervaluing their currencies or imposing tariffs and bans on
manufactured imports. Like the Dutch Republic, the United States is an island of economic liberalism in a sea of mercantilism.

The experience of the Dutch Republic suggests that even in the face of high unemployment and general economic decay, a government dominated by financial and commercial interests that benefit from unrestricted trade flows may successfully resist pressures to adopt mercantilist trade policies. This can occur even when transparently mercantilist powers experience sustained, impressive economic growth and come to dominate the regional and international economy. The Dutch did not turn to protectionism before the invasion of 1795 and the defaults of the French and Swedish governments had decimated the Dutch rentiers. Only in the wake of this disaster, did advocates of mercantilism come to power in the Hague, and the full implementation of these policies had to wait until the Dutch were liberated from French domination in 1815 (Schiff 1979: 45).

The United States government has been criticizing the Chinese for currency manipulation and other mercantilist trade policies for many decades, and yet evidence suggests that the US continues to move toward freer and freer trade, signing new trade agreements and eliminating already trivially low tariff barriers. This unresponsiveness to a changing international environment and general economic decay may strike some observers as strange, even surprising. After all, the British did eventually adopt imperial preference in 1931 and the UK maintained relatively high tariff barriers well into the 1970s (Reuveney and Thompson 1997). Awareness of the Dutch experience demonstrates that the loyalty of the United States to free trade policies is not particularly unusual, and suggests this pattern should continue into the indefinite future, regardless of how the US economic landscape is transformed. The United States unwavering commitment to free trade is difficult to understand unless one recognizes that like the Dutch Republic, the US economic landscape has become increasingly dominated by financial and commercial interests. In 2004, profits from the financial services and insurance industry were fully 2.4 times again as large as profits for all manufacturing (see Table).

What will the long term consequences be for the United States if it maintains its current trade policies? Economies are exceedingly complex and diverse systems that are subject to non-linear change.
In many ways, understanding economic change at the national scale is somewhat akin to the study of ecological transformation or even climate change. The experience of the Dutch Republic, with its initial mix of technological advantages and vast wealth, provides invaluable insight into what happens to otherwise highly sophisticated lead economies if they choose to maintain laissez faire trade policies in the face of mercantilist challenges. The decay of Dutch industry ultimately pushed the society to the technological and economic periphery, eroding other Dutch strengths in commerce, higher education, and ultimately finance.

Evidence suggests that the United States has already experienced significant, absolute industrial decline, and it is not surprising that this decline is correlating with declining nominal and real incomes (see Tables 5 and 6). The United States has the ability to rethink its economic policies, and reverse this decline. The Dutch economy, after all, eventually recovered from the nadir of the early 1800’s. If the Dutch experience is any guide, it indicates the focus of US economic policy makers should be directed to revising US trade policies in order to revive domestic manufacturing. A focus on either military retrenchment, or economic austerity as some have suggested is unlikely to prove any more successful for the United States than it was for the United Provinces three centuries ago.
Table 1: Change in Per Capita Income, 1600-1820 (International 1990 Geary-Khamis Dollars); Dutch Republic vs. UK, Southern Netherlands, France, Sweden, Average for 29 West European Countries.

<table>
<thead>
<tr>
<th></th>
<th>Dutch Rep.</th>
<th>UK</th>
<th>S. Neth.</th>
<th>France</th>
<th>Sweden</th>
<th>29 WEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1600</td>
<td>1,381</td>
<td>974</td>
<td>976</td>
<td>841</td>
<td>824</td>
<td>896</td>
</tr>
<tr>
<td>1700</td>
<td>2,130</td>
<td>1,250</td>
<td>1,144</td>
<td>910</td>
<td>977</td>
<td>998</td>
</tr>
<tr>
<td>1820</td>
<td>1,838</td>
<td>1,706</td>
<td>1,319</td>
<td>1,135</td>
<td>1,198</td>
<td>1,204</td>
</tr>
</tbody>
</table>

% Change 1600-1700: + 54.2%  + 28.3%  + 17.2%  + 8.2%  + 18.6%  + 11.4%

% Change 1700-1820: - 13.7%  + 36.5%  + 15.3%  + 24.7%  + 22.6%  + 20.6%

Source: Maddison 2003, 58, 59, 66.

Table 2: Change in Population, 1600-1820 (millions); Dutch Republic vs. UK, Southern Netherlands, France, Sweden, Total for 29 West European Countries.

<table>
<thead>
<tr>
<th></th>
<th>Dutch Rep.</th>
<th>UK</th>
<th>S. Neth.</th>
<th>France</th>
<th>Sweden</th>
<th>29 WEC</th>
</tr>
</thead>
<tbody>
<tr>
<td>1600</td>
<td>1.50</td>
<td>6.17</td>
<td>1.60</td>
<td>18.50</td>
<td>0.76</td>
<td>73.78</td>
</tr>
<tr>
<td>1700</td>
<td>1.90</td>
<td>8.56</td>
<td>2.00</td>
<td>21.47</td>
<td>1.26</td>
<td>81.46</td>
</tr>
<tr>
<td>1820</td>
<td>2.33</td>
<td>21.33</td>
<td>3.43</td>
<td>31.25</td>
<td>2.58</td>
<td>133.04</td>
</tr>
</tbody>
</table>

% Change 1600-1700: + 26.7%  + 38.7%  + 25.0%  + 16.1%  + 65.8%  + 10.4%

% Change 1700-1820: + 22.6%  + 148.0% + 71.5%  + 45.6%  + 104.8% + 63.3%

Source: Maddison 2003, 34, 35, 45.

Table 3: Customs Revenues: England vs. Dutch Republic (millions of English pounds)

<table>
<thead>
<tr>
<th></th>
<th>1700</th>
<th>1710</th>
<th>1720</th>
<th>1730</th>
<th>1740</th>
<th>1750</th>
<th>1760</th>
<th>1770</th>
</tr>
</thead>
<tbody>
<tr>
<td>English: Gross Customs Revenue</td>
<td>-</td>
<td>-</td>
<td>2.8</td>
<td>3.0</td>
<td>2.9</td>
<td>3.7</td>
<td>3.9</td>
<td>-</td>
</tr>
<tr>
<td>Customs Revenue Net</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Export Drawbacks</td>
<td>1.2</td>
<td>1.3</td>
<td>1.7</td>
<td>1.6</td>
<td>1.4</td>
<td>1.7</td>
<td>1.9</td>
<td>2.6</td>
</tr>
</tbody>
</table>

Dutch: Customs Revenue | 0.3  | 0.1  | 0.1  | 0.2  | 0.2  | 0.2  | 0.2  | 0.2  |

Table 4: Free Trade vs. Mercantilist Coalitions in the Dutch Republic (1742)

Ten Occupations that collectively contributed the most to Holland’s tax base in 1742 (16 major cities)
(Average income measured in guilders per year. Per capita income in Holland in 1742 was around 150 guilder per year.)

<table>
<thead>
<tr>
<th>Occupation</th>
<th>No. of Individuals</th>
<th>Average Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Free Trade Coalition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regenten (&quot;ruling&quot; class)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>1,024</td>
<td>4,746</td>
</tr>
<tr>
<td>Rentiers &amp; other*</td>
<td>4,336</td>
<td>2,222</td>
</tr>
<tr>
<td>Administration</td>
<td>614</td>
<td>1,660</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>2,802</td>
<td>3,080</td>
</tr>
<tr>
<td>Retail trade</td>
<td>4,084</td>
<td>1,062</td>
</tr>
<tr>
<td><strong>Total (%)</strong></td>
<td>12,860 (77.7%)</td>
<td></td>
</tr>
<tr>
<td><strong>Mercantilist Coalition</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturers</td>
<td>852</td>
<td>1,981</td>
</tr>
<tr>
<td><strong>Total (%)</strong></td>
<td>852 (5.1%)</td>
<td></td>
</tr>
<tr>
<td><strong>Other</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical care</td>
<td>726</td>
<td>1,364</td>
</tr>
<tr>
<td>Construction</td>
<td>613</td>
<td>996</td>
</tr>
<tr>
<td>Transportation</td>
<td>520</td>
<td>970</td>
</tr>
<tr>
<td>Miscellaneous**</td>
<td>991</td>
<td>1,594</td>
</tr>
<tr>
<td><strong>Total (%)</strong></td>
<td>2,850 (17.2%)</td>
<td></td>
</tr>
</tbody>
</table>

* Rentiers numbered 3,567 with an average annual income of 2,415 guilders, those with no listed occupation numbered 769, with average incomes of 1,323 guilders per year. ** Miscellaneous includes butchers (223), clergymen (174), millers (158), tailors (145), schoolmasters (113), lawyers (94), and kassiers (84). [Kassiers were the private bankers of the Amsterdam elite.]
Source: de Vries and van der Woude 1997: 572, 573, 575.
Figure 1: Average percentage ad valorem Tariffs (MFN) and value added import taxes: USA v. PRC (2009)

Table 5: Hegemon risen? Steel, auto and electricity production in US and PRC: 2000 v. 2010

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel production*</td>
<td>101.8</td>
<td>127.2</td>
<td>58.2</td>
<td>567.8</td>
</tr>
<tr>
<td>(million tons)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vehicle production</td>
<td>12.8</td>
<td>2.0</td>
<td>7.7</td>
<td>18.2</td>
</tr>
<tr>
<td>(millions produced)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity production**</td>
<td>25.0</td>
<td>9.5</td>
<td>21.5</td>
<td>17.1</td>
</tr>
<tr>
<td>(% global total)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


Source: WTO Tariff Profiles 2009, p 60, 167
Table 6: High Speed Rail Networks* in PRC, Japan, EU, US & Russia compared, 2010 (km of track)

<table>
<thead>
<tr>
<th></th>
<th>PRC</th>
<th>Japan</th>
<th>EU</th>
<th>USA</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td>In operation</td>
<td>4,175**</td>
<td>2,535</td>
<td>5,952</td>
<td>362</td>
<td>0</td>
</tr>
<tr>
<td>Under Construction</td>
<td>6,058</td>
<td>508</td>
<td>2,355</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Planned</td>
<td>2,901</td>
<td>583</td>
<td>8,055</td>
<td>900</td>
<td>650</td>
</tr>
<tr>
<td>Total</td>
<td>13,134</td>
<td>3,626</td>
<td>16,362</td>
<td>1,262</td>
<td>650</td>
</tr>
</tbody>
</table>

* High speed is defined as trains capable of achieving speeds higher than 250 km/hr.
** Total does not include 345 km of track operational in Taiwan.

Source: "High Speed Lines in the World" Updated January 2011, International Union of Railways
http://www.uic.org/IMG/pdf/20110111_a1_high_speed_lines_in_the_world.pdf


<table>
<thead>
<tr>
<th></th>
<th>Post World War II Boom</th>
<th>Real Estate Bubble &amp; Bust</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>3.3</td>
<td>8.4</td>
</tr>
<tr>
<td>All Manufacturing</td>
<td>21.0</td>
<td>39.9</td>
</tr>
<tr>
<td>Profits of Financial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector relative to</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Note: Manufacturing includes all durable and non-durable goods industries such as machinery, equipment and motor vehicles, food and beverages, chemicals, petroleum, coal products, plastics, electronics, furniture, and aircraft among others. Source: US Bureau of Economic Analysis.

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