

Free Seas, Free Trade, Free People: Early Dutch Institutionalism

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1. Is There Anything Worth Mentioning?

“If you take into account how much less than elsewhere there was a necessity in the prosperous Low Countries to think about the causes of the wealth of the nation, you will see clearly why economics did not share in the flowering of sciences that this country experienced during the seventeenth century” (van Rees 1865, 286). Two propositions may be inferred from this quotation: there are almost no memorable seventeenth-century Dutch economists; and during the period, Dutch economic welfare and free trade as institutional foundations were not the result of a well-formulated economic doctrine but evolved more or less spontaneously.

Although the second proposition has interesting implications for the theory of institutional development, I will deal with it here only briefly. The first proposition can be corroborated by a quick glance through relevant texts on the history of economic theory. Blaug (1985) mentions de Groot only in passing, as does Hutchison (1988). Before Adam Smith, Holland seems to have had little to contribute to the emergence of political economy. Schumpeter, well acquainted as usual with not only

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the highways but also the byways of economic thinking, does name all four authors whom I too think worth mentioning: Huigh de Groot, Dirk Graswinckel, Pieter de la Court, and Baruch Spinoza. Of Graswinckel and P. de la Court, he even says that they “would have to be ranked very high in a history of economic thought or policy” (1954, 368 n. 11), but they did not contribute to economic analysis, that is, to pure theory, which was his concern. Compared to that of the early mercantilists in England, the first generation of cameralists in Germany and Austria, the French Colbertists, or even the sixteenth-century Italian economists, the Dutch scene seems dull and uninspiring.

I disagree with this assumption. In order to prove my case, I will look closely at the ideas of de Groot (also known as Hugo Grotius, 1583–1645), Graswinckel (1600–66), and P. de la Court (1618–85). Baruch (or Benedikt) Spinoza (1632–77) is yet another case in question. Dealing with him in this article would, however, overextend its size. I have already devoted a separate paper to him (Wagener 1993), which is justified by his importance and the higher degree of his abstraction.

The first two were well-known lawyers; the last was a famous philosopher, who nevertheless in his youth was ensnared in commercial affairs. Only Pieter de la Court, a Leiden textile merchant and entrepreneur, had intimate knowledge of concrete economic problems and practice. All four of them had the same political-institutional interest typical of their age; they were interested in economic order, which, for them, was an integral part of the political order.

The Dutch political literature of the period is full of books and pamphlets that occasionally treat economic problems.¹ Even these four institutional economists only occasionally dealt with such questions. Given these facts, why have they been selected from the multitude? When reading Laspeyres 1863 and van Rees 1865, the answer becomes evident: they are by far the most interesting from the point of view of economics, which did not exist as a science at that time. And so far no other star of seventeenth-century Dutch political-economic thinking has emerged,

1. For a survey see Laspeyres 1863 (indeed, the Laspeyres of the index numbers) and the book already quoted by O. van Rees (1865), which grew out of an improved translation of Laspeyres into Dutch. Both works are up to now the best references on Dutch economic thought in the seventeenth century.

Laspeyres is based on the stock of the Royal Library. Pamphlets collected by the Royal Library in The Hague number about 30,000, and are catalogued in Knuttel (1889–1920). This covers the period from 1486 to 1853; the seventeenth century is contained in the first three parts.

by which I would not like to exclude the possibility that there is still one hiding among the 30,000 pieces in Knuttel 1889–1920 or in some forgotten philosophical treatise.

In a recent article, van Tijn (1992) has made a different choice: he omits de Groot and Spinoza and takes up Willem Usselinx (1566/7–after 1647) and Franciscus van den Enden (1602–74). Usselinx, however, is not much of a theorist and is interesting only as a proto-colonialist propagating the settlement of colonies in the West Indies as an outlet for home production. Van den Enden, who was one of Spinoza's teachers, is clearly inferior to his pupil. He is remarkable as the first Dutch political writer to construct an optimal order or "the best government possible of a free people" (quoted in van Tijn 1992, 23), which, as a true utopian socialist, he tried to implement in an American colony, but which never came to fruition.

If I adhere to Schumpeter's subdivision of mercantilists into pamphleteers and consultant administrators, the tone of *Het welvaren van Leiden* (*The Wealth of Leiden*),² P. de la Court's (1911) first economic work, would rank it among the pamphlets. Yet it was not published and distributed like a pamphlet, but circulated in manuscript among the Leiden establishment. His second, and best-known economic work, *Interest van Holland* (*The True Interest of Holland*, 1662), clearly falls into the category of consultancy, that is, the design of an optimal economic order and policy. The same is more so of Graswinckel's *Placcaet-boek* (*Book of Regulations*, 1651), which analyzes the economic consequences of historical regulations of the grain trade. While Pieter de la Court confines himself to the interests of trade and industry, and the provinces of Holland and Zeeland, Graswinckel entertains ideas concerning all economic sectors and keeps the whole republic in mind. Less down-to-earth and less concerned with day-to-day politics, de Groot and Spinoza deal with political and economic order in general and thus may be called institutionalists.

Can we really call these authors mercantilists? Should they not be treated as liberals *avant la lettre*? If it is sufficient to have been an economic writer of the period 1550–1750 in order to qualify as a mercantilist, the answer is obvious. If in addition, some inclination toward protectionism and state intervention is necessary, we would hesitate. All of these

2. If *welvaren* is translated as wealth, of course, the title becomes an allusion to Adam Smith. In both cases, the welfare or prosperity of a community is meant.

authors pled for free trade and against (too much) state intervention. As far as these ideas are concerned, there is little new in Physiocracy or in Adam Smith.

Yet free trade is, as P. Wiles has remarked, “a kind of mercantilism, the mercantilism of the strongest power” (1968, 555; see also Zimmerman 1987, 82). Holland was the strongest economic power during the seventeenth century. And free trade was its most powerful instrument of protectionism, as it became later for England. Since the merchants of Holland and Zeeland also formed the political ruling class, their interests were transposed into policy almost automatically. There was little need for consultant administrators. The authorities knew what they needed to do. Free trade was favored because it was considered advantageous for the Dutch merchant class and not because it was considered generally welfare maximizing. To be clear: the medieval conception that trade was a zero-sum game was shared even by de la Court. The idea of freedom as an instrument for protection was clearly recognized at the time. When the merchants of the Republic petitioned the king of Sweden in 1668 for religious freedom, Pieter de Groot, the son of Huigh, wrote the following to Johan de Wit, the grand pensionary [chancellor] of Holland: “I have to confess to the opinion that nothing more ruinous can be found for trade in our states than such freedom of religion. I think that it would attract many families from our country if it were conceded in Denmark” (quoted in Thalheimer 1928, 34).

Free trade did not result from insight into its beneficial effects, but purely from the private interests of the decision makers. Yet private interest as a motive force of the economic system was one of the central themes of the four writers. Its best-known formulation is in Mandeville’s (1924) subtitle, *Private Vices, Public Benefits*.³ In a more rudimentary state economic individualism was present earlier: “The best policy works with few laws, the best government governs least, but leaves everyone as his own legislator” (Graswinckel 1651, 95). The precedence of private

3. B. de Mandeville (1670–1733) was 26 when he emigrated in 1696 to London. As Kaye (Mandeville 1924, c) remarks correctly, we should not overlook the Dutch environment and influences in which he grew up. “Mandeville held that the selfish good of the individual is normally the good of the state. . . . This was a profoundly important step. Hitherto, except for a very few tentative and unsystematic anticipations, defence of *laissez faire* had been opportunist rather than a matter of general principle. Mandeville allowed it to be made *systematic*. It is through his elaborate psychological and political analysis that individualism becomes an economic philosophy” (cii–ciii). Opportunism in his “liberal” views is apparent with P. de la Court, not so with the three others.

interests over collective interests prevailed during the Eighty Years' War even to the rejection of the rule that one does not trade with the enemy, sanctioned by de Groot as testifying to "the highest degree of reason and profit" (1925, 750). The fact that private interests spontaneously carried seventeenth-century Holland into a free-trade regime must be explained by the specific historical circumstances. Under different circumstances, they could as easily have led to protectionism. From our perspective, the reaction to Colbertism in the 1770s seems to be protectionist. De la Court knew of cases in which protectionism would be advisable.⁴

The economic ideas of these three authors, to be presented in more detail in the following paragraphs, center around free seas, free markets, free people, and the role of the state in the economic system. Their plea for freedom of trade or free enterprise, free mobility of labor and capital, and freedom of religion is remarkable for their time. We must be careful, however, not to overread the texts or overinterpret the authors' intentions.

Dutch "liberalism" had a considerable impact in its time on other European nations, but certainly more through its practical policy and its successes than by its ideology. The English particularly admired and envied Dutch welfare and economic growth. It set them thinking about what was to be learned from Holland about a competitive market economy. This is, of course, not to say that there was perfect competition in the Low Countries during the seventeenth century nor a clear understanding of its operation (which in a dynamic setting, we do not have even today). But Graswinckel and de la Court and, later, Spinoza, understood quite well the effect of competing private interests on the promotion of the general welfare on which modern capitalist market societies are founded. And they also stressed the interdependence of this economic system with a political order that, although not necessarily democratic, gave sufficient decision-making power to the prevailing economic interests.

The analysis of the Dutch economic miracle has been said to be one of the starting points of political economy as a science:

If it can be said that the first step in economic reasoning was the isolation of the key variables of the subject—value, profit, interest rates, markets, production processes—from the social context in which they

4. The most conspicuous case was his plea for an inverse most-favored nation treatment: the Netherlands should apply such tariffs to the goods of other countries as were applied to Dutch goods in those countries. Of course, this is not mercantilist protectionism, but simple "tit for tat," the most effective strategy in a repeated noncooperative game.

were enmeshed, then the Dutch can be held responsible for pushing English thinkers in this direction. . . . The Dutch were the ones to emulate, but to emulate was not easy, for the market economy was not a single thing, but a complex of human activities which appeared as a self-sustaining process. (Appleby 1978, 74)

This gives too much credit to the Dutch political economists, for abstract value did not concern them at all, nor the nature of profit. Of course, they did see profit making as being at the core of the economic process, but they were interested mainly in that “complex of human activities” that we call the political and economic system and which defines the conditions for profit making.

It is rather astonishing that the political and economic literature of the Low Countries was completely ignored in England. The main work of de la Court, the *Interest van Holland* of 1662, was translated within three years into German. French and English translations followed, but at a time when Dutch economic growth had long stagnated and the Dutch republic had already lost its leading position, that is, by the first decade of the eighteenth century. The most thorough English translation was not published until 1743 (see Wildenberg 1986, 131–33).⁵

Pieter de la Court had a direct and considerable influence on one of the most prominent of the first generation of German cameralists, J. J. Becher (1625–82), who spent some time in the Netherlands and quite often approvingly refers to Dutch practices and ideas (see Böhle 1940, 37–38, 58–60; Starbatty 1990, 69).⁶ Yet, Adam Smith comments extensively on the wealth and the economic policy of the United Provinces without ever referring to a Dutch author. He is well aware of the institutional causes of this success story. “The republican form of government seems to be the principal support of the present grandeur of Holland. The owners of great capitals, the great mercantile families, have generally either some direct share, or some indirect influence in the administration of that government” (Smith 1976, 906). Smith concludes that if had they not and that administration were in the hands of nobles and soldiers—the choice between the two had been illustrated on the frontispiece of

5. The French and English translations were published under the name of Johan de Wit, the grand pensionary of Holland who had been murdered in 1672. Evidently, one wanted consultancy straight from the horse’s mouth and not from some obscure pamphleter.

6. However, Becher could not accept the basic idea. He defends a regulative responsibility of the state and rejects an economic order in which “all people are free to turn their disorderly self-interest in all possible directions” (quoted in Böhle 1940, 39).

Johan de la Court's *Considerations of State* (1661; see Wildenberg 1986, 83), making it unmistakably clear which was preferable—they would certainly choose to leave, given the high level of taxes⁷ and the low level of profits prevailing in the country. One might be inclined to assume that Smith knew the de la Courts' ideas because their central message (most clearly in J. de la Court 1663, but also in P. de la Court 1662 and 1669, which during Smith's time was available in English) was that the economy will thrive only under the republican form of government.

2. Huigh de Groot (1583–1645)

I do not need to relate in detail the life of Huigh de Groot here. Let it suffice to say that after a promising career as lawyer and politician, he was sentenced and imprisoned in 1619 because of religious and political conflicts. He escaped and emigrated to Paris where he later served as resident ambassador of the Queen of Sweden. His first visit to Stockholm was ill fated; he fell ill and died at the Baltic port of Rostock (like Descartes who died 5 years later at Stockholm).

Among his numerous literary, historical, religious, and juridical works three books are of interest here. *De jure praedae commentarius* (*Commentary on the Law of Prize and Booty*) was written in 1604, but not published during his lifetime. It reappeared in 1868 (Grotius⁸ 1950). The second, *Mare liberum* (*The Freedom of the Seas*, 1916), was published in 1608 and is actually chapter 12 of the above manuscript.⁹ And

7. Spinoza had already remarked with a sigh, "What nation ever had to pay so many heavy taxes as the Dutch?" (1958, 395). The low level of profitability to which Smith alludes indicates, however, a comparatively low level of institutional and market uncertainty. This seems to have been the decisive difference between the Low Countries and their neighbors.

8. Citations throughout to de Groot's work may be found in the reference list under Grotius.

9. The genesis and publication history of these two titles is most revealing and amusing (see the introduction to Grotius 1950; de Pauw 1960; Dumbauld 1969). In brief: a Dutch private company captured the Portugese *Catharina* in the East Indies and sold its booty in Amsterdam. The proceeds amounted to 3.39 million guilders. After deduction of total costs of 1.48 million guilders, there remained a reasonable profit (see de Pauw 1960, 19). The only problem was that some pacifist shareholders of the company, Mennonites, disapproved of this unchristian activity. Not only did they give away their shares, but they threatened to set up a competing company in France. This being the case, the United East Indian Company (VOC) was in need of a pamphlet defending its practice of prize taking, and their young lawyer de Groot wrote *The Law of Prize and Booty*.

The pamphlet turned out to be a voluminous, erudite, and systematic treatise, rather ill suited for its purpose and was not published. In 1607, the Dutch and the Spaniards began peace negotiations. A major stumbling block was the refusal by the Spaniards to admit Dutch trading

De iure belli ac pacis (On the Law of War and Peace), published for the first time in 1625, is de Groot's magnum opus.

At the outset of Dutch capitalism *The Law of Prize and Booty* appeared. In the epilogue, the spirit of capitalism is present in a form that Marxists would consider representative. The author exhorts the enterprising merchants: "Let them defend the right of commerce against every possible injury! . . . and let them also acquire enemy property both for their country and for themselves!" (Grotius 1950, 365). He begs the authorities "that they will not permit toil to go without rewards, valour without honour, peril without profit, and expenditures without reimbursement" (365). And he finally prays to God, "seeing that it has pleased Him to select the Dutch in preference to all others," to propagate and police his will, which is the law of nature according to the first axiom of the book (365). It is only fair to mention that de Groot later renounced these "puerile ideas" (*illa puerili*; compare to de Pauw 1960, 48).

These particular puerile ideas are considered today, however, as major works by de Groot enabling us to understand better his later writings (Tuck 1991). First of all, one should mention his methodological approach. De Groot chose the axiomatic method with explicit reference to mathematics.¹⁰ He sets up nine axioms (rules) from which he deduces thirteen norms (laws), with the help of which he develops his juridical doctrine on just war and prize taking.

ships to the East Indies. The VOC again needed a pamphlet extolling their right of free access and free trade. They recalled de Groot's impressive treatise, and in 1608 chapter 12 was published under the title of *Mare liberum* but without any indication of the author.

This pamphlet was widely read and its message was challenged not only by Spanish jurists, but also by the English and Italians. W. Welwood's attack received a reply by de Groot. In 1618 during one of the repeated fishing disputes between the English and the Dutch, J. Selden also wrote a reply to *Mare liberum*. This pamphlet was not published before 1635, under the title of *Mare clausum*. By this time, de Groot was not unfavorable to it—the interests of the Dutch, and certainly the Swedes, and his own views had changed. But he was unable to reply because he was then the Swedish representative in Paris and the Swedes were claiming the Baltic Sea as *mare clausum*. The reply was written by Graswinckel, a distant relative of de Groot who had helped him earlier in writing *De iure belli ac pacis*. Graswinckel's pamphlet was not published immediately either. He even received 500 guilders under the condition that he not publish it (Liesker 1901, 33). He did eventually publish it in 1653 when it seemed opportune.

Yet in 1916 when the English translation of *Mare liberum* was published, the edition was meant to support the American claim of free seas against belligerent Europeans, especially English blockades (see the preface to Grotius 1950, x–xi).

10. It is well known that Spinoza later chose a geometric approach for his *Ethics*. Evidently, the mathematization of the social sciences dates from their very beginnings.

The particular case of the *Catharina*, and hence the whole book, is about property rights. De Groot has a contractual approach to the formation and change of institutions. But, as we will see, he is not always consistent. Institutions are formed by consensus. The foundation of a contractual approach is individual freedom, constrained only by nature. The primary law of nature, or God's will, is that man acquire what is needed for self-preservation. The secondary law of nature, formed by universal consensus, establishes the "law of inoffensiveness" and the "law of abstinence," which are primitive forms of property rights through which a stable society, still in the state of nature, is created.¹¹ Elaborate forms of property rights are a later product of state legislation.

Social institutions, such as property rights and the regulation of their exchange, can have several sources. Six follow, introduced in their order of importance and validity:

- the primary law of nature, or God's will;
- the secondary law of nature or primary law of nations, that is, mankind as a whole;
- the will of the individual;
- the will of the commonwealth, that is, by the will of the individual, contractually formed states;
- the will of the state's authorities; and
- the consensual agreement of all states.

This order establishes not only a normative hierarchy, it also reflects a historical sequence from a primitive state of nature to higher forms of civilization.

From the second and the third sources are derived natural liberty or individual autonomy and subjective valuation of goods—the exchange of goods is voluntary and people are free to value their goods as they like. This leads to one of the fundamental propositions of liberalism: "Liberty with regard to action is equivalent to ownership with regard to property" (Grotius 1950, 18).

11. Agreements on this level, the law of nations, are, of course, of a highly hypothetical nature. It boils down to the assumption that men already in the state of nature live in a societal context, a proto-civic state, and agree about norms, namely the law of nations. In their own self-interest men will respect property and collectively punish infractions in order to protect their own property. In fact, here de Groot postulates the spontaneous evolution of cooperation (compare to Axelrod 1984 and Den Uyl 1985). De Groot later abandoned this view in the context of property and free trade.

These principles, and hence the primary and secondary law of nature, cannot effectively regulate interpersonal communication. So, the “lesser social units” are formed by general agreement for the sake of self-protection and acquisition of the necessities of life. They are given regulatory and jurisdictional powers. Once formal property rights are established, the exchange of goods is determined by the order of thirteen laws derived from God’s will, mankind’s consensus, individual will, and the agreed-upon regulations of the state and their implementation by the authorities.

This, however, does not fully explain how property rights came into being. De Groot considers the question in chapter 5 of *Mare liberum* (1916, 15–44). In the primitive state of nature, there were no private property rights, since there was no state. What could be called property rights, but which lacked the exclusiveness of private property, was the legitimate use of the necessities of life, which on principle were in common ownership. The transition from the primitive state of nature to the civic state, or from common ownership to private and public ownership, did not happen by force, but was an evolutionary process. It should be noted that property rights and the state must have evolved simultaneously.

The first necessities of life imply by their very nature a form of ownership, for as an individual uses them others are excluded from their use. This reasoning was extended to the secondary necessities of life: clothes, furnishings, and some animals. And finally, since the supply of land was insufficient to satisfy the needs of everyone indiscriminately, property rights are established on real estate. In short, needs and scarcity created property rights. These needs are not invariable—they evolve in the course of time.

In *De iure belli ac pacis* de Groot specifies that “the enjoyment of this universal right then serves the purpose of private property” (Grotius 1925, 186). Occupation, which in the primitive state is allowed by anyone, creates private ownership for direct consumption. But very soon men detected what Böhm-Bawerk has called the productivity of round-aboutness. The subsequent story of the development of private property produces the concepts that we are familiar with from similar “Austrian” stories: knowledge, division of labor, scarcity, rivalry (188).

De Groot’s needs and scarcity theory of property differs from John Locke’s (1960) labor theory of property. Of course, needs and scarcity make men work. Yet for the lawyer de Groot, well versed in Roman law, the action that establishes property rights cannot be labor, but must be

occupation of the property. The act of occupation is seizure or enclosure. What cannot be occupied and never has been occupied cannot become exclusive or private property. And what nature has made such that its use by some individuals does not affect its use by others “ought in perpetuity to remain in the same condition as when it was first created by nature” (Grotius 1916, 27), that is, as common property. Such goods are called public gifts or public goods. De Groot is the founder of public goods theory, defining them by their essential two properties: non-exclusiveness and non-rivalry.

For his argument it is important to distinguish public goods from free goods (*res nullius*), such as fish or wild animals. For these, once caught, can become private property. The sea is a public good par excellence, hence the freedom of the seas. As a matter of fact, he claimed not only the freedom of the open sea, but also of coastal waters and even free access to the shore. This institution stems from the second source, the primary law of nations. So it can be changed only by universal consensus.¹²

A similar train of argument pertains to free trade. By nature men have similar needs and by nature their endowments are different. In the first instance, this implied interregional trade. But once private property of factors of production came up, by necessity, interpersonal trade followed suit. “Hence commerce was born out of necessity for the commodities of life. . . . Somewhat later they invented money, which as the derivation of the word shows, is a civic institution” (Grotius 1916, 62). Trade is derived from nature and should obey the law of nature, while the concrete forms of exchange and, notably, money¹³ are products of state legislation. The conclusion from the argument is famous. “Therefore freedom of trade is based on a primitive right of nations which has a natural and permanent cause; so that right cannot be destroyed, or at all events it may not be destroyed except by the consent of all nations. For surely no one nation may justly oppose in any way two nations that desire to

12. This extremely demanding claim could not be upheld by de Groot later. He became engaged in free trade and fishing disputes between the Dutch and the English. In the course of these it was accepted that the sea, or more precisely the coastal waters, can be enclosed by a land-based military power—the famous cannon-shot rule. As far as this goes, property rights can be established by state legislation and interstate agreement.

13. De Groot takes the state theory of money from Aristoteles who wrote: “this is why money is called *nomisma* (customary currency), because it does not exist by nature but by custom (*nomos*), and can be altered and rendered useless at will” (1990, 285). The editor of Grotius 1916 (62) disputes, probably incorrectly, de Groot’s corresponding etymology of the Latin *nummus*.

enter into a contract with each other” (Grotius 1916, 63–64).¹⁴ This plea against monopolistic and protectionist measures has had considerable impact. But did it also have an impact on de Groot himself? There is a controversy as to whether in later years he denounced his original ideas (see, for instance, de Pauw 1960 and Oudendijk 1970). Indeed, he did come into a delicate position when he was asked by the VOC to defend their monopoly claim in the Moluccas against English challenges. One may conclude that by doing so he turned upside down the ideas in *Mare liberum*, which the English quoted with pleasure (especially since they knew its author).

What de Groot in fact did was to come back to the sentence quoted above from which he derives the freedom of contract. The exclusiveness of the Dutch trade relations with the Moluccas was based on (allegedly mutually beneficial) contracts between the Dutch and the local authorities. But were not the English, or the rest of the world, thus deprived of the necessities of life? The question of monopoly is treated especially in book 2 of *De iure belli ac pacis* (Grotius 1925, 205, 353). In contrast to chapter 12 of *Mare liberum*, here de Groot holds monopolies admissible: it does not matter from whom we obtain the goods we want. As far as the necessities of life are concerned, the monopolist is obliged to sell to any demand at a fair price, and he ought not to restrict supply by artificial measures such as import and supply restrictions or cartel agreements. Here, de Groot formulates the rule of abuse that is still the legal principle of Dutch monopoly control. As far as luxuries (*supervacua* and *voluptaria*—such were the Dutch imports from the East Indies) are concerned, there are no natural obligations.

Yet de Groot has not given up his “liberal” convictions—as can be read from book 2 of *De iure belli ac pacis* (Grotius 1925), where he advocates, among other freedoms, free mobility of commodities and people. What really has happened between the writing of his younger years and the later works is that he lost the confidence in his ability to found norms and rights, such as property rights, in the law of nature prior to the civic state. He became more skeptical. The evolutionary view gave way to the contractual view; there has to be a state in order to assign property rights. The state (we have no indication that he has changed his view of it; Grotius

14. The last sentence is crucial so its translation deserves special care. The 1916 translator committed a major translation error, which evidently was corrected during the printing of the book because I came across two specimens of the 1916 edition with diametrically opposed versions. The one quoted above renders correctly the Latin original.

1950, 19–20), is an imitation of the natural interdependence of men on which rational people agree. So he may have had the impression that the natural state and the civic state are not so far from each other in any case.

3. Dirk Graswinckel (1600–66)

Graswinckel is certainly the least known of the early Dutch political economists. Like de Groot, he was a lawyer and he worked, as mentioned above, for de Groot when he was writing *De iure belli ac pacis* in Paris. For the greater part of his adult life, he was a public administrator. Although author of many treatises and pamphlets defending freedom and property rights in the politico-economic sphere,¹⁵ Graswinckel only wrote one book for which he can claim a place in the history of political economy (see Laspeyres 1863; van Rees 1865; Liesker 1901): *Placcaten, Ordonnantien ende Reglementen Op't Stuck van de Lijf-tocht* (*Book of Ordinances on Grain Trade*; Graswinckel 1651). The first part contains a collection of historical decrees or policy measures on the grain trade. In the second part,¹⁶ the author comments upon these regulations. We do not know what made him write the book. The last serious crisis that had triggered formulation of regulations lay more than twenty years in the past. There was no public discussion on the topic, as there was a hundred years later in France. Then, the subject was taken up again by the French economists. Their formula for solving the problem became the best-known economic slogan: *laissez faire, laissez passer*. Graswinckel's insight into the problem is by no means less than theirs. His book was complemented by Herbert's *Essai sur la police générale des grains, sur leurs prix et sur les effets de l'agriculture* of 1753 (1910) and by Turgot's *Lettres au Contrôleur général sur le commerce des grains* of 1770 (1970). These two books mark the beginning and the end of a vivid debate on grain politics (see the excellent survey by Kaplan [1976]). Herbert, the Physiocrats, and Turgot defend free trade, stressing that consumer needs cannot be satisfied along lines that neglect the interests of the producers and that no measure can make bread cheap if supply is short of demand. Graswinckel defended the same position. But there is one es-

15. We have absolutely no idea why he defended the independence of the Republic of Venice against the Duke of Savoy in 1634 and 1644, but it earned him a golden chain and the order of San Marco (see Nieuw Nederlandsch 1974, vol. 3, col. 489). In the same way, a future historian of thought may wonder how J. Sachs came to advise the Poles about the transformation of their economic system.

16. All references are to the second part, which is paginated separately.

sential difference. He wrote one book, which was hardly read, which was not translated into a more common language, and which therefore had no impact. The participants in the French dispute were a rather large group, and they left us numerous works on political economy in a readable language: they had impact. So, Kaplan's characterization of Herbert's work as "the most detailed and cogent critique yet written on the public administration of the grain trade" (1976, 101) may be warranted even if it does disregard Graswinckel. In general, we may conclude that the free-trade argument did not change significantly over time: government intervention is costly, ineffective, and even counterproductive.

The central problems Graswinckel dealt with were policies with respect to the grain trade, above all, questions concerning tariffs, export and import restrictions, prohibition of forestalling and trade in futures, price control, and the like. It should be clear that such questions can only be dealt with on the basis of some understanding of the market-price mechanism. Graswinckel's insight into the functioning of markets was extraordinary for his time. When I list the propositions by their modern names, I certainly do not mean to imply that modern theory was initiated in seventeenth-century Holland.

Theory of value: the price of land is determined by its value product. "It is evident that the price of land ought to be calculated by its fruits and by the pleasure that can be derived from them" (Graswinckel 1651, 100–1). This has a rather subjectivist, Austrian ring (lacking, of course, the marginalist specification). Quantity theory of money: the naive quantity theory of money is to be found earlier in Bodin and in the Netherlands in Salmasius (1638). Graswinckel, however, goes further. He recognizes explicitly the difference between price level and relative prices and the impact of demand on relative price. Even more remarkable, he ventures a proposition that much later was reformulated in Fisher's equality, namely, that monetary inflation *ceteris paribus* leaves the real magnitudes unchanged. "If we put aside money and we price the goods against each other, taking labor wages into account, we see that all things keep their former prices except those that came into esteem by way of luxury and excessive consumption or by stupid fashion" (153).

Theory of monopoly: Graswinckel considers monopolies one of the most detrimental phenomena in economic life. He ridicules the general complaint about the increase in the number of corn-profiteers:¹⁷ "for

17. The same complaint about the *accapareurs* (speculators) a century later triggered the

surely a few are worse than many, because we need not fear monopolists if they are numerous, but need to fear them very much if they are few” (158). Factor price equalization: he analyzes the effect of trade on the price of land. If import tariffs are lowered, the export of Poland and the Baltics increases and so do prices of land there, while the price of land in the Netherlands falls. Uncertainty and expectations: “The apprehension of dearness is the major cause of dearness, and the intention to prohibit price increases means nothing less than to advance them” (133). The only thing government can do is collect and publish information. If there is no shortage, no unexpected and unwarranted price changes will happen. And if there is a shortage imminent, prices will go up in time and people will be more careful with existing stocks. The effect of government intervention: using the example of the ordinance to sell only in retail, Graswinckel makes a good observation. To prohibit wholesale trade is either not manageable or leads to excessive controls that will make the traders increase their prices in order to have insurance in case of being caught. In modern parlance: restrictions of property rights will have a price effect.¹⁸

Given these theoretical insights, which are presented in the book non-systematically, I can focus on some of Graswinckel’s policy recommendations. He is very careful in weighing the pros and cons of a measure and he always takes the historical situation into account. This relativism can lead to misunderstandings. Laspeyres (1863, 207) and Schumpeter (1954, 197–98)¹⁹ stress that Graswinckel objects to forestalling. This seems astonishing for an author who is constantly defending “natural freedom and property rights” (Graswinckel 1651, 93) and the normal working of the market. And it is wrong. Of course, forestalling and wholesale trade in general imply the danger of monopolies and “collusion” (117) which at times can be serious. But much more important is the lowering of the transaction costs (individual farmers bringing their

Physiocrat reaction of *laissez faire* (see also Aftalion 1987).

18. The phenomenon of rent seeking was well known at that time as well. J. de la Court (1662, 80–85) remarks that state-granted monopolies are much more harmful than private monopolies, an idea that appears throughout P. de la Court’s writings, too. Publicly licensed monopolies cause unnecessary expenses and favor the sellers more than the buyers who could contest private monopolies. Rent seeking (he calls it by its proper name, “corruption”) is feasible for the sellers only, since their claim is concentrated whereas the consumers would have to spend too much money to keep the prices of all consumer goods down.

19. Schumpeter does not quote Laspeyres, but his treatment of the Dutch political economists gives the impression that he was informed about them by Laspeyres.

produce to the market) and the provision of capital by wholesale trade because they have a supply effect.

There is a two-sided capital shortage. On the one side, the farmers need capital in order to be able to produce. Land will not be fully utilized: "In agriculture much will remain undone by those who cannot take the risk or by those who cannot find credit for their expected crop" (113). Forestalling is an efficient means of credit production and of risk sharing that maximizes grain production. The consumers, on the other side, are unable to provide the necessary credit; because they lack the means to store their annual or even quarterly demand, they buy by the day or by the week. This makes necessary stocks with the traders that would be very unwise to prohibit or to distribute by force.²⁰

He comments on export control in a similar vein. Sufficient stocks, stable prices, and a stable real income guarantee political stability in a country. So, prohibition of grain export in times of extreme shortage seems to be a functional policy, doesn't it? No, it all depends on the circumstances. In 1501, the year of the first decree that he analyzes, trade intensity was perhaps too low for the price mechanism to work properly. In 1628, during the worst crisis in the last 150 years, this was no more the case. He admits that the policy reaction to it was moderate, concentrating only on the prohibition of exports, but it was ineffective. It is the price mechanism that does the job: "the most forceful prohibition of export is a high price of grain" and "corn goes to the highest market without any interference by regulations" (133). Herbert thought government grain policy to have been warranted in earlier times and he was very cautious about his stand on export controls (see Kaplan 1976, 101, 104).

A widespread argument for government intervention in those days as well as in our own was social fairness or poor relief. Graswinckel does not dispute the objective. What he disputes is price-policy as an appropriate instrument. Artificially low prices will affect the traders and, above all, the farmers, and thus will have a supply effect. The rich will benefit from such a policy indiscriminately. Poor relief, however, is a task for the rich and not for the traders or the farmers. So income redistribution is to be preferred over price control (Graswinckel 1651, 146).

20. Regulations that prohibit storage or impose forced selling were considered at the time as effective measures of price control. "But since these regulations neither increase supply nor diminish demand, from where should the dampening effect upon prices come?" (Graswinckel 1651, 148). In a similar vein, Herbert wrote a century later that "the severe police of grain never caused an ear to grow" (quoted in Kaplan 1976, 102).

In order to understand Graswinckel's tariff policy recommendations, it is necessary to know that he advocated high prices for land, as Quesnay also did later.²¹ A high price for land requires a high price for Dutch land products, above all dairy products, which leads him to advocate import tariffs and export promotion. High prices in themselves are not bad. In the well-known mercantilist controversy, cheapness and plenty versus dearness and plenty (see Schumpeter 1954, 285–87), he, again like Quesnay later, votes for “Keynesian” dearness and plenty: “Nothing better than dearness in abundance” (Graswinckel 1651, 123). Everything has its price: dearness implies higher labor costs that influence the competitiveness of Dutch manufactures. So also in this sphere, import tariffs and export promotion are needed. Graswinckel became a victim of the fact that once you start to influence one price, the whole price system gets out of equilibrium.

The overall conclusion to his treatise is “that the freedom of trade in grain has to be maintained in this country as far as possible” (170). He is aware of the fact that the qualification may set the doors wide open for state intervention. So he sets restrictions: “Necessity need not be extended so far that everything which is useful for the community has to be considered necessary. . . . For it is counterbalanced by a great value and utility: that nobody should be worse off even if a thousand people would benefit from it” (170)—a first step in the direction of the Pareto-norm.

4. Pieter de la Court (1618–85)

Pieter de la Court, son of an immigrant from Flanders, never published a book under his full name. He used the French (D.C.) or Dutch (V.D.H., V.H.) initials of his name. Since these were the same as those of his younger brother Johan (1622–60), who wrote on similar topics and whose works were edited after his early death by his brother, it is not clear who wrote what. After Kossmann's analysis (1960, 36–37), it has been gener-

21. The reason may have been less the fact that he was a landed proprietor (Quesnay has been accused of similar motives), but because of his view of the wealth of a nation. The wealth of a nation can be measured by the price of its land (Graswinckel 1651, 122). There was a certain priority of land and its crops: “From this you live, with the rest you play” (151). And, finally, he advocated a unique tax from land, in order to keep trade free of taxes that also would have supply effects. A high price for land enlarges the state's tax base. Graswinckel's ideas on taxes differ widely from P. de la Court's (1669, see also below), which are much more mercantilist.

ally accepted that the purely political works flowed from the pen of Johan while the three books which interest us most here are Pieter's work:²² *Het welvaren van Leiden (The Wealth of Leiden)*, a manuscript from 1659 which circulated in several copies but was not printed (de la Court 1911); *Interest van Holland, ofte gronden van Hollands-welvaren (The Interest of Holland or the Causes of the Wealth of Holland)* the main work by de la Court was published for the first time in 1662 and draws heavily on the earlier manuscript; and *Aanwysing der heilsame politike gronden en maximen van de republike van Holland en West-Vriesland (Indication of the Wholesome Political Foundations and Maxims of the Republic of Holland and West-Frisia)*, an enlarged edition of *Interest* published in 1669.²³

This account has been challenged several times, most recently by J. Lucassen (1992). Careful comparisons of text and style have led him to conjecture that *The Wealth of Leiden* was drafted by Johan, while *Interest* was written by Pieter (and others, see note 23) using his brother's manuscript. The deviations, it seems to me, are minor. Liberal views are perhaps more outspoken in the manuscript of 1659, but that is what you would expect from a manuscript in contrast to a book which, like

22. Why did the de la Courts not indicate their authorship? Several reasons have been proposed. As the successful son of immigrants, Pieter was not very popular among the Leiden establishment. (The same must have been true for Johan but is not documented.) His real passions were politics and theology and in *Interest* he attacks church administration and propagates freedom of religion. Even in the comparative liberal United Provinces this was not completely without danger. Pieter was prohibited from taking communion by his church immediately after *Interest* came off the press and was summoned by the city administration of Leiden (Wildenberg 1986, 43–44).

23. It has always been assumed—and P. de la Court (1669) has provided unmistakable hints in his introduction—that Johan de Wit, the most influential grand pensionary of Holland, contributed extensively to *Interest*. Such rumors induced English and French translators to ascribe the whole book to de Wit.

Apart from many notations by de Wit in the margins of the manuscript, there seems to be a high probability that de Wit scrapped two chapters and indeed wrote chapters 29 and 30 of *Interest* (Wildenberg 1986, 20–21; Lucassen 1992, 30). Van Rees tried to disprove this theory (1865, 370–71). In addition, Pieter de Groot, son of Huigh and pensionary of Amsterdam, also commented on and revised some parts of the text (Lucassen 1992, 31). The leaders of the Republican, anti-Orangist party in Holland considered P. de la Court's book important enough to see to it that their views were correctly rendered. It is no wonder that after the assassination of the de Wit brothers in 1672, Pieter de la Court, as well as Pieter de Groot, fled to Antwerp.

Interest reflects the views not of a single person, but a whole faction in Dutch politics. It is a book with a highly programmatic political character, and the liberal economic views, which it still contains, were evidently shared by the bourgeois establishment of Amsterdam. So, it is quite understandable that the book immediately went to several editions and that it has been translated into German, French, and later, English.

Interest, has been given a carefully balanced programmatic argument by its authors and commentators, namely the influential politicians Johan de Wit and Pieter de Groot. Of course, if Johan de la Court was indeed the author of *The Wealth*, the accepted view that Pieter contributed the economic ideas and Johan the political ideas has to be reversed or one even has to conclude that all the ideas were Johan's and Pieter only adopted, arranged, and published them. The best we can do concerning the intricate puzzle of authorship is to follow Wildenberg (1986, 24) and speak of a collective de la Court.

In sum, de la Court has written one book on economic questions. According to Kossmann (see Blom and Wildenberg 1986, 1), he was no great thinker, no great economist, and no great writer. This was already the view of van Rees (1851 and 1865) and of van Tijn (1956). Defending the interests of the leading nation of the time, Holland, and especially its leading class of manufacturers and merchants, de la Court is more liberal than his English, French, and German mercantilist contemporaries. But his economic insights or theoretical foundations are by no means more advanced, nor are they backward. Having been an entrepreneur in the Leiden textile industry and trade, he has a very practical down-to-earth approach. One could even call him the model bourgeois capitalist from whom Marx and Weber could have learned a lot about the system and the spirit of capitalism. Apart from castigating the regulations of the guild system more than a century before Adam Smith and with equal vehemence, he deserves a place in the history of political economy because he was one of the first to stress the necessity of organizational unity for commercial society, that is, the correspondence of political and economic interests.

The central message of de la Court was freedom of trade or undiluted property rights. The welfare of Leiden, Holland, or any nation consists in economic activity that is correlated with a growing active population. This age-old idea is not so paradoxical as one may think. If Leiden is able to attract people, particularly very mobile entrepreneurs with technical know-how and physical capital, this testifies to its profit opportunities and competitiveness. It is perhaps not correct to call him a populationist (van Praag 1963), for he is not interested at all in populationist policies like his contemporary Colbert (1619–83). What he asks for is that government should do everything to make Leiden attractive. *Ubi libertas ibi et populus et divitiae* (“where there is liberty there will be people and riches”; P. de la Court 1669, 7). By liberty, he means the whole spec-

trum of liberties: first and foremost freedom of religion, then freedom of trade and consumption, then free competition (“sure profits make people stupid and inert”; 1662, 41). Finally, the political system, that is, the republican form of government, is important. A monarch cannot bear populous cities and rich and independent classes.

Government plays a crucial, though preferably passive, role for the wealth of nations. This makes politics or political economy extremely important. De la Court’s central proposition in this context is organizational unity. He holds that men are guided solely by their individual interests. This was de Groot’s primary law of nature, but the influence of Hobbes may also be assumed. The magistrates make, of course, no exception to this rule.²⁴ This leads to the conclusion that the magistrates ought to be recruited in such a way that their personal interests coincide with the public interest.

Since the all-important entrepreneurs are profit oriented, profit opportunities are the source of the wealth of Leiden and should, therefore, become the main objective of policy. Profits, however, accrue from trade. Here, de la Court seems to go astray. He adheres to the medieval and early mercantilist idea that trade is a zero-sum game. It is true that the discourse on usury since the Scholastics has differentiated between consumer credit and producer credit and found that interest is admissible under certain conditions. This implies a productive role of capital. De la Court does not deal with usury. He focuses on marketing and trade. The surplus of Leiden derives from foreign trade: not production in Leiden but marketing abroad creates wealth. Therefore, policy has to look after the export activities and only in the second instance after domestic production (de la Court 1911, 54–55).²⁵

24. The same idea is also found in Spinoza 1958. It has been observed by Kossmann (1960, 47) that Spinoza’s two political treatises show a remarkable influence by the de la Court brothers’ ideas.

25. We have to observe, however, that Leiden was in a kind of “Japanese” situation: it depended wholly on imports of raw materials and of the necessities of life. Gains in export therefore were a question of life and death for domestic industry and the population. The same is true, on a different scale, for Holland and the Netherlands as a whole which, at that time, were unable to feed their population. The commercial success aroused similar feelings of admiration and jealousy as is the case now with Japan. Cardinal Richelieu wrote, “The riches of the Dutch—who are, strictly speaking, only a handful of people crowded together in a nook of the earth where there is nothing other than water and pastures—are an unrivaled proof of the utility of commerce. Although this nation gets nothing from its land but butter and cheese, it supplies almost all nations of Europe with a major part of what they need” (quoted in van Praag 1963, 350).

The rest follows logically. Leiden had only two export activities, university education²⁶ and the manufacture of textiles. The latter is more important than the former, since it is more labor intensive: it sets more people to work. Thus the wealth of Leiden depends on the demand for academic grades and the demand for textile produce, which is more stable. This is another argument for the priority of the textile industry. The demand for textile products is mediated by the merchants. Producers and workers depend upon them. So, it is the textile merchants who ought to participate in the city government because they represent the public interest. What the merchants need is freedom: “*That the subjects enjoy as much natural liberty as possible*” (10).

Freedom of trade was contested in those days by the guilds who regulated production conditions; the so-called halls, which regulated product specification and quality; and monopolies, which received exclusive rights by public charter. Regulations interfere with trade in two detrimental ways: they influence demand and they influence profits.

Any kind of demand is good. It is not a task of supply to look after the true interests of demand. De la Court did not refrain from making his view dramatically clear: *si mundus vult decipi, decipiatur* (“if the world wants to be cheated, let it be cheated,” 15). He uses a similar argument against the quality control of the halls. If customers in Poland or Germany want cloth of lesser quality, Leiden should supply it and not leave the market to others. And Leiden should not inform its customers about the quality by means of trademarks or other forms of controlled guarantees because in trade there is no question of cheating if supply and demand agree: “I even hold that there are no counterfeited commodities in the world” (57). This is pure *caveat emptor* in market transactions or completely undiluted property rights. The counterargument that lack of regulation may hurt the reputation of Leiden’s products is put aside with a classical formulation: “for the subsistence of this city and of the merchants in particular reputation is not worth a straw if there is, or will come, no profit with it; for first one has to look for a living and then be reputable” (61).²⁷

Modern theory would consider undiluted property rights efficient only in the context of perfect, or at least equally distributed, knowledge. His

26. It should be observed that de la Court, unlike Adam Smith (1976, 331), considers services like teaching and research as wealth-producing activities.

27. Bertolt Brecht had only to translate: *Erst kommt das Fressen, dann kommt die Moral* (Grub first, then morals).

zero-sum view of trade draws de la Court to a different opinion, although he grasps the importance of transaction costs. Every reduction of transaction costs, for instance by improving knowledge, reduces profit opportunities: With regard to standardization of weights and measures: “each trade would be spoiled by such simplified ways of calculation and will turn elsewhere where the profits of merchants could not be controlled in such an exact way” (59); and a similar argument holds for the quality marks employed by the halls: they devalue the specific knowledge of domestic merchants and thus diminish their profit opportunities.

His view on monopoly would have earned de la Court applause from later centuries’ liberals. While Graswinckel argued on principle against all monopolies—as the neo-liberal school in Germany did—he considers monopolies that are not created and protected by government charter normal phenomena of economic life: “an unchartered monopoly is part of freedom” (107). Hayek and Friedman most probably would agree. De la Court can accept, however, the infant industry argument that “a privilege in order to win an activity or a new inhabitant may be beneficial if the privilege is short lived, but it means death to impose a compulsory regulated activity” (96).

A stance against chartered monopolies ought to imply a critique of the East Indian and West Indian Companies. And indeed, Pieter de la Court denounced both trade monopolies because of very negative effects on turnover (P. de la Court 1669, chaps. 16, 19). The policy of the VOC was “to reap maximal profits with minimal trade and shipping” (86). According to his estimate, turnover of trade in textiles could have been ten times as big without the monopoly. “One should, however, be careful with the conclusion that de la Court ‘therefore’ was a free-trader,” van Tijn remarks. “His propaganda for settlements and free trade and seas outside of Europe has in essence a mercantilist orientation” (1956, 359). This is necessarily the case as long as the theory of mutual benefits from trade is not well understood.

De la Court’s tax policy recommendations, expounded in chapter 24 of *Aanwijzing*, are equally mercantilist (P. de la Court 1669). His basic principle of tax policy reads “that one should tax least those means of subsistence on which we depend most, which we could lose first and, once lost, could not easily recover and whose loss could furthermore entail the loss of other important economic activities” (115). Two important criteria are derived from this principle: first, the competitive advantage

of nations, or the exit propensity of an economic activity; and, second, the share in total welfare production.²⁸

In the first instance, taxes should be on basics and on luxury goods since both will meet general consensus and, hence, cause the least costs. A per capita tax, like the poll tax, is discouraged; it makes the ordinary people extremely angry because of its inequity and hardness. The needs of the state, however, demand more sources of income. Then the criteria are applied to construct a hierarchy of taxable activities: first, land-based production can be taxed heavier than knowledge-based production; second, production for internal consumption can be taxed heavier than export production; and, third, among the export sectors, there is also a hierarchy with the shipowners at bottom, then trade and fisheries, with the merchant-manufacturers at the top; they should be spared most since the prosperity of the nation depends on them.

In the times of cameralism and Colbertism, therapeutical nihilism, that is, the view that nature heals all ills, must have been considered an exceptional point of view. We have seen already that J. J. Becher was unable to follow de la Court, who advocated it emphatically: "The most careful and praiseworthy governors will never decide in doubtful affairs to the detriment of natural freedom. They will follow the example of good doctors and leave it to God and nature rather than using dangerous medicine" (de la Court 1911, 56). De la Court uses two arguments for this proposition, which are better known from Hayek and from Buchanan, that of the problem of knowledge and of the problem of the individual interests of the governors.

The magistrates, consisting mainly of jurists, know little about textile industry and textile trade. They presume that they collect sufficient information by institutionalizing corporate bodies like halls and guilds. They fail to see that their information is biased by the private interests of guildmasters and hall officials. Things improve if merchants take part in city government, since they have experience, but even they should abstain from regulation because markets change and laws are adapted to changing

28. In 1662 (19–21), he already had estimated the employment structure of the population in Holland and West-Frisia. Total population was given at 2.4 million people, active in the following trades (interpreted as complexes with adjoining and auxiliary activities, as a percentage of the total): fisheries (18.75%); agriculture (8.33%); export manufacture and shipbuilding (18.75%); export trade (18.75%); goods and services (27.08%); unproductive (nobility, government, rentiers, beggars; 8.33%). If this is anywhere near correct, Holland was at that time already a highly developed country by modern standards.

situations with a costly time lag. The magistrates usually do not change a law until they have sustained significant losses—and that is too late (64).

Knowledge is the first precondition of political participation according to the de la Court brothers (J. de la Court 1662; see also van Tijn 1956, 323–24). The second is independence. This excludes foreigners and the mentally ill as unknowledgeable, as well as the poor, because knowledge costs money, which they do not have. Even larger is the group of dependent people: servants, women, minors, and wage workers. This does not lead him to the conclusion that the government should do something about education and income redistribution. Here he is a good mercantilist and a liberal at the same time: he believes that only hard budget constraints and fear of poverty make people work (de la Court 1911, 113).

To conclude this section I must return once more to the question of institutional design, which seems to have been at the center of discussion in Holland during the period and which is so dominant in Spinoza's economic-political writings. Starting from the axiom that each individual, ruler as well as ruled, follows his own interests or passions,²⁹ the de la Court brothers' "primary problem was to design a constitution which would keep the encroaching wills of both rulers and ruled in check" (Malcolm 1991, 549). Contrary to Hobbes, they advocated democratic institutions because, first, these would provide welcome checks and balances and, second, the will of the government would reflect broadly the interests of the people—as far as they were considered fit for participation.

5. Conclusion

In their justly famous *The Rise of the Western World* (1973), North and Thomas defended the view that the beginning of the period of modern economic growth was not marked by the industrial revolution, but by the institutionalization of an economic order which made it possible to realize profit opportunities. This development was by no means "inevitable" (94). There were countries, like the Netherlands and England, which succeeded in establishing a commercial and growth-oriented economic order, certainly not without resistance from other social forces. A major impediment was the fiscal crisis of the state: "Each state, involved in a fight for survival, desperately sought new sources of fiscal revenues" (97).

29. Hirschman (1977) shows that interests are materially oriented while passions are much broader. In this sense, de la Court speaks of the *Interest of Holland*. Interests imply a quest for rationality, while passions seem to be just the opposite.

In countries where the commercial and growth-oriented order did not take off, like France and Spain, this was due to property rights regulations that tried to solve the fiscal problem in a suboptimal way.

By now it should be clear that the early Dutch institutionalists were aware of the importance of economic order for the welfare of their nation. Freedom of trade, free mobility of people and capital, deregulation, interdependence of the political and economic systems, control of monopolies, and neutral taxes were the themes which de Groot, Graswinckel, and the de la Court brothers discussed. If there is one central proposition to be extracted from their texts, it ought to be the free-trade proposition: free trade increases the wealth of nations and socializes the people. Pieter de Groot, son of Huigh and friend of Pieter de la Court, tried to communicate this idea to the French during the Colbert period when he was an envoy to France in 1670 and wrote a note on the abolition of trade restrictions. Starting from his father's view that communication and free trade derive from natural (or divine) law, since lands and climates are differentiated by nature, he concludes:

It is easily understood that those who advance trade also advance the means that make the people happy and content. On the other side, those who make it difficult by blocking its outlets with such excessive impositions that sales become impossible, deprive their subjects not only of the enjoyment of what grows elsewhere, but also of the possibility to resell in exchange what they have to offer. Thus they force their people to retain the surpluses they have and to remain unable to buy what they need. (This is only part of *one* beautiful French sentence quoted in full in van Rees 1865, 311–12).

There is very little of mercantilism to be found in this passage and quite a lot of the proposition that trade is mutually beneficial. The argument is taken up again by David Hume when he criticizes “such impolitic contrivances” as trade restrictions: “they deprive neighbouring nations of that free communication and exchange which the Author of the world has intended, by giving them soils, climates and geniuses so different from each other” (1985, 324). We had, however, to wait for Adam Smith to learn that the deliberate human division of labor is more important than the natural division of labor, which also implies the development and use of machinery.

The fact that the North-Thomas hypothesis was anticipated by contemporary Dutch economic thinking—we might as well call it the de la

Court hypothesis—does not yet corroborate its validity. And indeed, the history of Dutch economic growth creates some paradoxes in this context (see van Zanden 1992). The Dutch economic miracle was a rather short episode from 1580 to 1650. It was accompanied by rapid population growth, mainly due to immigration, so that per capita growth was less spectacular. When this growth period started, the level of productivity and welfare was already comparatively high. This prompts the hypothesis “that the first major period of growth in the Dutch economy took place before 1500” (6). About 1650, growth came to a halt and the next one and a half centuries were characterized by a stationary state. The writings of the de la Court brothers mark, in fact, the end of the Dutch economic miracle.

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