

Inclusive and Extractive Institutions: A Reasonable Dichotomy?

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What separates the civic mentality of contemporary Egyptian diplomats from that of premodern Dutch burghers? This seemingly extraneous question informs the theoretical framework of *Pioneers of Capitalism*. In the late 1990s, when diplomats at the United Nations enjoyed exemption from paying parking tickets, representatives from Egypt topped the list of countries with high levels of corruption that took considerable advantage of their diplomatic immunity. While Egyptian diplomats often parked wherever they wanted and on average received 140 (unpaid) fines per year, not one Dutch, British, Canadian, Swedish, or Norwegian envoy was ever issued a parking ticket. Although the balance between state and market differs in these Western countries, they all share longstanding traditions that blend a strong civil society with capitalist development, an interaction that results in a large degree of respect for the law and trust in government policies. Conversely, everyone who (like this author) has spent some time in Egypt will understand that the lawlessness of Cairo's traffic is but a symptom of a larger structural distrust of authority.

Prak and Van Zanden argue that these differences of political culture are deeply embedded in history. The premise of their book is that the Dutch economy has been dominated by markets for centuries, but, moving beyond the singular focus on property rights and representative institutions associated with authors of the new institutional economics (NIE), they argue that state intervention, particularly after 1600, “restrained the capitalist impulse” and improved “the stability of the system” (208). The absence of such institutional constraints overseas

meant that the “excesses” of capitalism (143) were allowed to unfold in Dutch and other European colonies, leaving enduring legacies of underdevelopment in post-colonial societies. The argument that accidentally formed institutional arrangements underpinned the Dutch success story is brought home by a fascinating anecdote described in chapter 6. There readers learn how Jan Pieterszoon Coen’s plan to model the colonial settlement of Batavia on Dutch cities and their peculiar civic institutions derailed and culminated in the adoption of serfdom, slavery, and polygamy – practices that had virtually disappeared in the Netherlands by the time of Dutch overseas expansion. Prak and Van Zanden thereby reinforce a crucial insight already understood by Adam Smith; that is, that the absence of these predatory institutions on European soil, or the emancipation of the middle classes for that matter, were not the product of intellectual or moral advancement but rather a result of historical contingencies.¹

Prak and Van Zanden agree with the Scottish philosopher that commercialization and specialization – i.e., Smithian growth – resulted from fortuitous circumstances that are ultimately grounded in the geography of the Low Countries. *Pioneers of Capitalism* is embedded in a rich historiographical tradition that attributes premodern economic development in the Southern and Northern Netherlands to a dynamic balance of power between state, aristocracy, and cities.² In the high Middle Ages, monarchical centralization and urbanization went hand in hand, as the bargaining of city privileges for financial contributions to the royal treasury weakened the power of the nobility. The parallel rise of cities and the Burgundian-Habsburg state eventually came to clash during the Revolt of the Low Countries, which resulted in the circumvention of urban power in the Southern Netherlands and its triumph in the Dutch Republic. On a deeper level, however, commercial mobility was ensured by geographical endowments. The imminent threat from water stimulated migration toward towns and also boosted the early development of agricultural capitalism, as Prak and Van Zanden point out in chapter 3. However, the plurality of interconnected waterways – the most efficient method of transportation – also gave

1 Adam Smith, *Letters on jurisprudence* (Oxford 1978) 401-437.

2 E.g., Oscar Gelderblom, *Cities of commerce. The institutional foundations of international trade in the Low Countries, 1250-1650* (Princeton 2013); Bruno Blondé, Marc Boone and Anne-Laure Van Bruaene, ‘City and society in the Low Countries. Urbanisation and urban historiography’, in: Idem, (eds), *City and society in the Low Countries, 1100-1600* (Cambridge 2018) 1-21; Bas Splet, ‘Macht Stadtluft frei? Polycentricity, urbanization, and the “European miracle”: The case of the Low Countries, 1000-1800’, in: Brandon Christensen (ed.), *Polycentric federalism and world orders* (Lanham 2024), forthcoming.

rise to a polynuclear network of cities that prevented one single town from monopolizing commercial traffic. In the face of political upheaval, the commercial center could therefore move from Bruges to Antwerp and Amsterdam, but even these mighty metropolises faced competition from smaller cities. The States of Holland – the most powerful province in the federal state structure that emerged after 1572 – is illustrative of the polycentric nature of governance, for all eighteen represented cities (and one delegate of the nobility) had an equal vote.

Yet *Pioneers of Capitalism* also distinguishes itself from the existing historiography. In my opinion, it improves upon the previous synthesis of Dutch premodern economic history – *The First Modern Economy* by Jan de Vries and Ad van der Woude, first published in Dutch in 1995 and in English in 1997 – for three reasons.³ First, in sharp contrast to the 900 pages of small print that De Vries and Van der Woude needed to cover the early modern economic history of the Netherlands, Prak and Van Zanden have used less than a third of that volume, even though they have extended the analysis substantively to the social history of capitalism, geographically to the “Greater Netherlands”, and chronologically to the high Middle Ages. De Vries himself gracefully acknowledged the powerful ability of the authors to combine breadth with conciseness, writing on the back cover that the book is “simply the best *brief* account of Dutch capitalism ever written” (emphasis added).

Second, the long-term approach enables Prak and Van Zanden to trace the origins of market development. Here, they put their own spin on the institutional competition that marks the premodern history of the Low Countries by pointing out that the marshy peatlands of Holland were conveniently located on the border area between two distinct agro-economic systems. Combining the benefits of Carolingian feudalism (economies of scale) and “Frisian freedom” (free-market farming), the western part of the Netherlands developed into a highly urbanized region with advanced industries and a strong civil society long before the Revolt. Throughout his career, Van Zanden has made seminal contributions to developing measures for economic development (GDP estimates, church building activity, skill premia, per capita book consumption, etc.) that were still largely lacking when *The First Modern Economy* was published. These statistics demonstrate beyond reasonable doubt that the roots of the Little and Great Divergences, in which the economic trajectories of England and the Low Countries

3 Jan de Vries and Ad van der Woude, *Nederland 1500-1815. De eerste ronde van moderne economische groei* (Amsterdam 1995).

started to deviate from the European and global patterns, can be traced as far back as the late Middle Ages. *Pace* Karl Marx, capitalism did not originate in the forceful expropriation of the means of production, but was rather the result of “a relatively peaceful transition, in which people more or less voluntarily became more dependent on the market” (89). Still, Prak and Van Zanden pay heed to the role of the Southern Netherlands by introducing a cyclical, Braudelian element to their longitudinal analysis. The influx of economic, human, and cultural capital from the south after the Fall of Antwerp in 1585 gave rise to a short economic boom that underpinned the Golden Age and elevated the Dutch Republic to the nucleus of the capitalist world economy in the seventeenth and a large part of the eighteenth centuries.

Finally, the book also stands out in its emphasis on the social relations that (re)produced Dutch capitalism. In this sense, too, *Pioneers of Capitalism* is in sync with changing historiographical perspectives. The stamp of Prak, who made crucial contributions to rehabilitating the role of guilds in premodern economic development, is especially evident here. Whereas De Vries and Van der Woude combined their respective approaches of cliometrics and the *Annales* school, Prak and Van Zanden found in NIE a framework that merged their respective disciplines of social and economic history. The fact that “people did not seem to have found it a problem to live in two different ‘worlds’ that belonged to opposite sides of Cairo” (134) stemmed from the bifurcation between “inclusive” and “extractive” institutions. Elsewhere in this issue, Anne McCants discusses the latter. The remainder of this reflection comments on the alleged inclusivity of the Dutch economy.

Daron Acemoglu and James Robinson first developed the theoretical concept of inclusive and extractive institutions as a way of explaining what separates successful economies from failed states today and in the past. Such a broad scope necessarily limits the variables that make a difference, but conspicuous among them, according to Acemoglu and Robinson, is a degree of central order needed to suppress internal conflict, enforce the rule of law, and provide public goods in the common interest.⁴ The Dutch case reveals that state capacity is not necessarily at odds with decentralized institutions, however.⁵ In fact,

4 Daron Acemoglu and James Robinson, *Why nations fail. The origins of power, prosperity and poverty* (London 2012); see also Noel D. Johnson and Nark Koyama, ‘States and economic growth. Capacity and constraints’, *Explorations in Economic History* 64 (2017) 1-20.

5 Alexander William Salter and Andrew T. Young, ‘Polycentric sovereignty. The medieval constitution, governance quality, and the wealth of nations’, *Social Science Quarterly* 100 (2019) 1241-1253.

the idiosyncratic federal governance structure of the Republic owes its success to preventing predation by the central government, a common concern of NIE authors, while also precluding the emergence of city-states. After all, omnipotent urban elites were not immune to rent-seeking behavior, as historians like S.R. Epstein have pointed out.⁶ The Revolt gave unprecedented power to capitalists, to be sure, but even merchant-dominated city magistrates and provincial governments had to be mindful of the interests of other civil society groups, such as guilds, militias, and drainage boards. On the national level a similar negotiation process guided policymaking in the States General, whose authority was largely limited to foreign and defense matters. The stadtholders, finally, were given much leeway in their military roles and remained a political force to be reckoned with throughout the seventeenth and eighteenth centuries. In short, after the Southern Netherlands returned to Habsburg rule and followed most of Europe on the road to royal absolutism, the Republic continued “to balance local and regional interests” (111).

The book’s long-term view, a strength acknowledged above, enables Prak and Van Zanden to argue that much of the inclusive institutional setting that guided the Dutch path to capitalism was in place before 1585. Historically low interest rates, a proxy for the quality of market institutions, were achieved in the Low Countries as early as the fifteenth and sixteenth centuries. “The economic miracle of the sixteenth and seventeenth centuries must ultimately be attributed to this ... high level of confidence in markets and institutions”, the authors conclude (203). However, in chapters 6 to 8, which deal with the period after 1600, an argument is developed for the vital importance of newly created institutions in curtailing the “excesses” of capitalism in the domestic economy. In Amsterdam, the metropole of global capitalism in the seventeenth century, the establishment of the Exchange Bank (*Wisselbank*) and the Credit Bank (*Bank van Lening*) produced strict regulation of the money market, while the Dutch East and West India Companies (VOC and WIC) exemplified the close coordination between state and market. These state-protected institutions, Prak and Van Zanden argue, were instrumental in stimulating long-term investments at the expense of short-term speculation. While the Exchange Bank mostly held to a 100 percent reserves policy and curtailed the activity of private cashiers, the VOC managers resisted

6 S.R. Epstein, ‘Introduction’, in: Idem (ed.), *Town and country in Europe, 1300-1800* (Cambridge 2001) 1-29.

the pressure of some shareholders to pay out short-term dividends and instead opted for re-investing profits.

According to Prak and Van Zanden, these novel institutions helped to put into practice the “popular capitalism”, promoted by Land’s Advocate of Holland Johan van Oldenbarnevelt, as “slightly less wealthy people from outside the merchant class” possessed VOC shares (124). “Wider circles of the population” are also said to have lent money to the provincial states, enhancing citizens’ confidence in the efficiency of the public finance system (188). Preliminary results from a set of probate inventories from Amsterdam’s notarial archives, however, demonstrate that company shares, bank accounts, and government bonds remained concentrated in the hands of a very tiny elite – even in the financial heart of the Republic. The Gini coefficient for public bonds, for instance, almost reached perfect inequality, compared to much lower Ginis for overall wealth inequality, which nonetheless increased after 1680 in spite of the pioneering progressive taxes that were introduced in Holland after that date. Rather than deepening the inclusivity of credit markets – private lending and borrowing were already widespread across the social spectrum before the Golden Age – these public investment instruments contributed to increasing inequality and the rise of the fiscal-military state, which tied together the interests of the provincial states and a relatively small group of financiers.⁷ The Exchange Bank was an important nexus between special interest groups, too, because its excellent reputation facilitated lending to the VOC and the City of Amsterdam (whose debt was customarily written off rather than repaid), propping up these entrenched institutions in times of financial difficulty.⁸

In chapter 8, the final one before the conclusion, the authors make a convincing case that the regent classes did not give up entrepreneurialism to become rentiers in the eighteenth century. Rather, Dutch capitalism managed to adapt to new circumstances and found new avenues of growth in agriculture, international finance, and slave-based plantations. Toward the end of our workshop, Van Zanden remarked that the question whether extractive institutions abroad

7 Bas Splet, ‘Unlocking the potential of probate inventories in household finance. Amsterdam, 1630-1780’, paper presented at workshop ‘Towards a comparative history of household finance before and after the Industrial Revolution’, Antwerp University, 20-21 October 2023.

8 Pit Dehing, *Geld in Amsterdam. Wisselbank en wisselkoersen, 1650-1725* (Hilversum 2012) 187-193; Stephen Quinn and William Roberds, ‘How Amsterdam got fiat money’, *Journal of Monetary Economics* 66 (2014) 1-12.



*Illustration 1 Portrait of Johan van Oldenbarnevelt
(source: painted by Michiel Jansz. van Mierevelt, Rijksmuseum, Amsterdam, The Netherlands,
<http://hdl.handle.net/10934/RM0001.COLLECT.6739>)*

undermined inclusive institutions in the domestic economy deserves further investigation. More broadly, we can ask whether the institutions set up after 1600, which were very much focused on consolidating Dutch primacy in global trade and finance, steered economic activity away from industrialization. Dutch industry did grow in the seventeenth century, but Catharina Lis and Hugo Soly have argued that it never overtook the Southern Netherlands in terms of output or employment

levels.⁹ In two short paragraphs, Prak and Van Zanden acknowledge that the shift toward agriculture, international finance, and plantations had “negative consequences” for industrialization after 1800 (184), but in general very little attention is paid to the question why Britain and even the Habsburg-controlled Austrian Netherlands beat the Dutch pioneers of capitalism on the road to the Industrial Revolution.

Instead, Prak and Van Zanden emphasize the resilience of local civic institutions during the turbulent transition to the nineteenth century. The Patriot Revolution, in their view, demonstrates that support for corporate republicanism remained strong, at least until the French invasion of 1794-1795, which marked the end of the Dutch and the beginning of the Batavian Republic. However, after a Prussian military intervention had cut their revolution short in 1787, many Patriots had already recognized the inadequacy of traditional governing institutions and begun to embrace national conceptualizations of popular sovereignty under the influence of the French Revolution.¹⁰ Not unlike the French Jacobins, moreover, their attitude toward the lower classes remained deeply ambivalent, a point underscored by Prak during the workshop. This feature again raises the question of how inclusive urban civic bodies really were, especially in the eighteenth century, when established citizens in Amsterdam and elsewhere tightened the screws on their privileges, making it harder for the “underclass” of immigrants to climb the social ladder.¹¹ Ultimately, mechanisms of exclusion between the middle classes and the urban poor, who at times sided with the Orangists out of dissatisfaction with the republican-minded regents, remains under-studied in *Pioneers of Capitalism*. Given that the book is constructed as a balancing exercise between Smithian and Marxist views of capitalist development, a deeper exploration of the alienation of the proletariat would have been a valuable counterbalance to the rather optimistic image of the “coordinated market economy” that Prak and Van Zanden see emerging in the Netherlands after 1600. Is it possible, for instance, that the resilience of civil society in the Republic,

9 Catharina Lis and Hugo Soly, ‘Different paths of development. Capitalism in the Northern and Southern Netherlands during the late Middle Ages and the early modern period’, *Review (Fernand Braudel Center)* 20 (1997) 233-234.

10 Simon Schama, *Patriots and liberators. Revolution in the Netherlands, 1780-1813* (New York 1977) 132-135.

11 Maarten Prak and Lidewij Hesselink, ‘Stad van gevestigden, 1650-1730’, in: Willem Frijhoff and Maarten Prak (eds), *Geschiedenis van Amsterdam, volume II.2. Zelfbewuste stadstaat, 1650-1813* (Amsterdam 2005) 89-104; Erika Kuijpers, *Migrantenstad. Immigratie en sociale verhoudingen in 17^e-eeuws Amsterdam* (Hilversum 2005).

as in contemporary mixed economies and in other premodern societies with powerful middle classes, made it easier to tolerate high levels of inequality?¹²

Suffice it to say, in closing, that the characterization of the Republic's domestic economy as "inclusive" is too one-sided. This bias does not mean, of course, that Dutch capitalism in the seventeenth and eighteenth centuries is better described as "extractive growth", in keeping with the terminology of Acemoglu and Robinson. The reality is more complex. Although some interventions highlighted by Prak and Van Zanden, such as poor relief and bread market regulation, certainly benefited poorer segments of the population, others primarily aimed to steer scarce economic resources in a direction that served the interests of a specific group of established citizens and therefore share some of the characteristics of the "extractive" Dutch colonial institutions – even if some of the mercantile benefits trickled down the social hierarchy. Their connection to economic growth moreover remains contentious. In a commentary on the Dutch-language predecessor to *Pioneers of Capitalism*, published a decade ago, De Vries asked the poignant question whether the litany of civic institutions together formed "a superior institutional arrangement that fosters economic growth" or rather "a costly institutional arrangement that requires a rich society for its maintenance".¹³ Although Prak and Van Zanden mention this critique in passing in the introduction (6), it is never directly addressed.

As mentioned at the beginning of this essay, a large body of historiography ascribes the Dutch economic miracle of the seventeenth century to a fortuitous combination of geographical and institutional circumstances. Deviating from Smith's insight, Prak and Van Zanden suggest that additional institutions and policies were deliberately designed after 1600 to keep Dutch capitalism on the right track and prevent it from becoming exploitative. The Enlightenment thereby sneaks into the analysis through the back door. Capital was certainly steered by the state, and thus the label of a "coordinated market economy" makes sense, but the steersmen first and foremost were concerned with protecting their own interests. These interests aimed to establish the Republic as the center of global trade and finance precisely at the moment that these sectors offered the most potential

12 Guido Alfani and Matteo Di Tullio, *The lion's share. Inequality and the rise of the fiscal state in preindustrial Europe* (Cambridge 2019) 177.

13 Jan de Vries, "The Netherlands and the polder model. Question the polder model concept", *BMGN – Low Countries Historical Review* 129 (2014) 99–111.

for economic growth. This was no longer the case after 1800, however, when institutional constraints on industrial development became evident. In this light, further research can embark on a thorough weighing of the pros and cons of domestic innovations after 1600. Theory will have to continue complementing empirical research in this endeavor, perhaps unfortunately so, but the dichotomy between an “inclusive” domestic economy and an “extractive” colonial regime is in any case too simplistic.

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