

THE ORGANIZATION OF MARKETS AS A KEY FACTOR IN THE RISE OF HOLLAND,
FOURTEENTH-SEVENTEENTH CENTURIES. A TEST CASE FOR AN INSTITUTIONAL
APPROACH¹

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I Introduction: the theoretical background

The crucial importance of institutional arrangements for economic development and growth has become widely accepted. Following the publication of D.C. North and R. Thomas' *The rise of the Western world* in 1973, it has become almost a commonplace to assert that the 'rules of the game' of economy and society limit, encourage and channel incentives, and thus shape economic development and growth, in past and present. Recent research in the field of economic history and institutional economics has applied this concept to market exchange. It is now becoming clearer that the specific institutional organization of the market, the rules which are developed by all parties involved, including the state, determine to a large extent the impact of market exchange on the long term performance of the economy, for example whether markets stimulate growth, or retard or even block it. The specific institutional framework within which transactions take place determines to an important extent the opportunities for marketing, but also the risks and costs involved, and thus the degree to which market exchange can develop. By incorporating the institutional framework into the analysis it can thus be better understood why the rise of markets had such a divergent effect on the development of economies.

The work by Daron Acemoglu and others on the nineteenth and twentieth centuries has demonstrated the valuable contribution New Institutional Economics (NIE) can make to our understanding of the preconditions for economic development and growth. It also argues that favorable institutions, however diverse in nature, have something in common: they provide a check on concentration of property and

¹ We should like to thank Bruce Campbell (QU Belfast) and Jean-Laurent Rosenthal (Caltech Los Angeles) for their comments on an earlier version of this paper.

production factors. By ensuring access to economic resources to a broad segment of the population they stimulate sustained economic development.²

The origins of institutions have been, and still are, the subject of discussion. The notion that institutions develop more or less spontaneously because they provide a good answer to economic needs is popular, but it is also problematic. It suggests that efficient institutions - 'efficient' being defined as contributing most, in a given set of circumstances, to the welfare of society- will automatically prevail over less efficient alternatives. Unfortunately reality is different. Many societies end up with obviously inefficient institutions simply because powerful groups or individuals create and sustain institutional arrangements that support their own interests, if necessary at the expense of aggregate welfare. A more credible way to account for the development of institutions is the 'social conflict view': the notion that institutions are the effect of a confrontation of various social groups. This implies that the institutions in place are not automatically the most efficient ones for society at large; they merely suit best the interests of the group in power.³ Subsequently a self-reinforcing process is set in motion: *de facto* power-holders solidify their political domination and acquire *de jure* power as well, which they use to sustain the institutions that benefit them.⁴

The importance of this institutional approach for understanding pre-industrial economic development and the early growth of markets has been widely accepted. In Western Europe, a number of important market regulating institutions, such as law on contracting (concerning selling, buying, hiring, borrowing etc.), notaries, regular verification of weights and measures, public weigh houses, and banks, date back to the late Middle Ages. Because these fundamental market institutions emerged then, this period also offers the best opportunity to study their importance and effects, for instance by contrasting them with the earlier institutions that they replaced. The institutional approach also allows us to bring together economic theory and the knowledge acquired through the more traditional medieval studies in which religious and social norms, and jurisdictional arrangements are central.

² Daron Acemoglu, Simon Johnson & James A. Robinson, 'Institutions as a fundamental cause of long-run growth', in: Philippe Aghion & Steven N. Durlauf ed., *Handbook of economic growth* (Amsterdam 2005), 395-396.

³ This point was recently made forcefully by Sheilagh Ogilvie, 'Whatever is, is right'? Economic institutions in pre-industrial Europe', *Economic History Review* 60 (2007), 649-684.

⁴ Acemoglu, Johnson & Robinson, 'Institutions as a fundamental cause', 388-396.

However, it has proven to be difficult to assess, let alone to quantify the effects of institutions on the functioning of the market in this pre-statistic period. A single institution may have many effects, some of them beneficial and others damaging to the functioning of markets: how to weigh the advantages against the disadvantages? Moreover, institutions interact: frequently a combination of institutions contribute to a single effect.⁵ For medieval institutions the task is even more daunting than for modern ones, because of the scarcity of reliable and detailed data. These problems have also been indicated by Larry Epstein, who concluded that: 'some institutional bundles provided more effective productive incentives than others, although for the moment we must remain agnostic about which of them promoted economic growth and technological innovation most efficiently'.⁶

Apart from the fact that insufficient efforts have been made to assess and quantify the effect of institutions, the existing examples are not fully convincing. In the work of Avner Greif on the organization of medieval trade, the assumed economic effect of institutions largely remains theoretical and abstract.⁷ His empirical material mainly serves as an illustration of insights from game theory, but does not offer a systematic test for his hypotheses.

One of the few other attempts to demonstrate the effects of institutional change on the functioning of the market has been made by North and Weingast, who called attention to the effects of the Glorious Revolution on government funding.⁸ The improved position of the English Parliament guaranteed that the sovereign would commit to financial institutions – and would no longer renege on debts as was the practice before. This should have had a favorable effect on the amounts the kings could borrow in the capital market and the interest rates they paid. North and Weingast therefore used the decline in interest rates as an indicator for improved property rights. However, the latter has become subject of debate. Larry Epstein demonstrated that the long-term trend of interest rates in England does not show a sharp drop after the

⁵ Ogilvie, 'Whatever is, is right?', 668-671.

⁶ S.R. Epstein, *Freedom and growth. The rise of states and markets in Europe, 1300-1750* (London, 2000), 171.

⁷ Greif, *Institutions and the path to the modern economy: Lessons from medieval trade* (New York: Cambridge University Press, 2006).

⁸ Douglass C. North & Barry R. Weingast, 'Constitutions and commitment: The evolution of institutional governing public choice in seventeenth-century England', *The Journal of Economic History* 49 (1989) 803-832.

Glorious Revolution, but the continuation of a trend that already started in the fourteenth century.⁹ The results of the North/Weingast paper thus remain contested.

There is clearly more need for empirical testing. This was one of the main goals of a collective research project on the rise and organization of markets in late medieval Holland.¹⁰ In this paper we will demonstrate to what degree our research can help to illuminate two crucial issues: 1) the factors behind the development of the specific institutional framework of markets and 2) the effects of institutions on the functioning of the market. To this end, we have not merely focused on commodity markets, but also on factor markets i.e. the markets for land, capital and labor, which are perhaps even more important in explaining differences in economic development.¹¹ After all, most economic historians would agree that mobility of factors of production, specialization and technological change is promoted, although not uniquely, by the rise of wage labor, land leases, and large-scale loans and investments and the concomitant market competition.

Holland offers a relevant test case for the effects of economic institutions on the development of markets. In a process which started in the eleventh/twelfth centuries, this region grew from a peripheral, backward corner of Western Europe into an economic, political and cultural world power, in the course of which society and economy underwent a profound transformation. The apogee of this development was in the seventeenth century, the Golden Age of the Dutch Republic, but it seems to have already been well on its way more than a century before. In 1514, an inquiry was held into the economical situation in the county. By that time, about 45% of the population of Holland lived in cities, greatly depending for its nourishment on grain imports. In exchange, the region's agricultural and industrial sector produced many export goods. A substantial part of the population earned an income in trade or transport.¹² With respect to the labor market,

⁹ Epstein, *Freedom and growth*, 16-29. Cf. recent contributions indicating that the financial revolution took several decades to materialize P. Temin & H.-J. Voth, 'Private borrowing during the financial revolution: Hoare's Bank and its customers, 1702-1724' in *Economic History Review* 61 (3) (2008) 541-564, 4; D. Stasavage, 'Partisan politics and public debt: The importance of the "Whig Supremacy" for Britain's financial revolution', *European Review of Economic History* 11 (2007) 123-153.

¹⁰ The research project "Power, Markets and Economic Development: The Rise, Organization and Institutional Framework of Markets in Holland, Eleventh - Sixteenth Centuries" was carried out at Utrecht University, 2001-2007 (funded by the Netherlands Organisation for Scientific Research, applicant Bas van Bavel).

¹¹ Bas van Bavel, Tine de Moor, & Jan Luiten van Zanden, 'Factor Markets in Global Economic History', *Continuity & Change* 24 (2009) 9-21.

¹² Van Zanden estimates the tertiary sector at 22% in 1514. Van Zanden, 'Taking the measure of the early modern economy. Historical national accounts for Holland in 1510/1514', *European review of*

about half of the labor performed in the countryside in sixteenth century Holland consisted of wage labor.¹³ The start of these developments can be dated back even further. Especially the second half of the fourteenth century witnessed massive urbanization and a rise of the secondary and tertiary sectors, which can be labeled as the jump-start of the Holland economy.¹⁴

The idea that a key role in this development could be attributed to the organization and institutional framework of markets is reinforced by the study of J. de Vries and A.M. van der Woude on the economy of the Netherlands in the early modern era.¹⁵ They found that already in the sixteenth century Holland possessed a highly developed market economy, characterized by a large market freedom, efficient markets and low transaction costs which they tentatively explain by the large degree of freedom and the absence of a feudal legacy in Holland. Although these authors barely touch upon the pre-history of this situation, it is obvious that the origins of the market structures of this relatively modern economy must be sought in the Middle Ages.

A close historical examination of the development of market institutions in medieval Holland does result in a number of observations that allow us to test the effects of the institutional framework that was in place by 1500. In order to corroborate these findings we use two approaches. Firstly, our observations can be strengthened by a comparative approach. The simultaneous development of similar institutions and the growth or integration of markets observed in other regions is not yet a proof of a causal relation between the two, and neither are the cases when the absence of these institutions coincided with the underdevelopment of markets there, but still such a comparison will bring us closer to understanding the effect of institutional arrangements. In our tentative comparisons we mainly focus on the institutional framework and functioning of markets in Flanders and Eastern England, which were, next to Holland, the parts of Northwestern Europe where economic development was most precocious. All three areas, of roughly similar size, are examples of pre-industrial florescence, although

economic history 6 (2002) 131-163, esp. 138; See also Van Bavel, 'Early proto-industrialization in the Low Countries? The importance and nature of market-oriented non-agricultural activities in the countryside in Flanders and Holland, c. 1250-1570', *Revue Belge de philologie et d'histoire* 81 (2003) 1109-1187, esp. 1143.

¹³ B.J.P. van Bavel, 'Rural wage labour in the in the sixteenth-century Low Countries. An assessment of the importance and nature of wage labour in the countryside of Holland, Guelders and Flanders', *Continuity and Change* 21 (2006) 37-72, esp. 62-63.

¹⁴ B.J.P. van Bavel & J.L. van Zanden, 'The jump-start of the Holland economy during the late-medieval crisis, c. 1350 – c. 1500', *Economic History Review* 57 (2004) 503-532.

¹⁵ J. de Vries & A.M. van der Woude, *The First Modern Economy: Success, Failure and Perseverance of the Dutch Economy, 1500-1815* (Cambridge, 1997) 159-165.

economic growth stagnated earlier in Flanders than it did in Holland, where stagnation only set in during the seventeenth century.¹⁶ Not all relevant indicators for the performance of markets are available for these areas, but where possible we have used them to lend our analysis a comparative aspect.

Secondly, we refrain from trying to measure the impact of individual institutions, since it would be impossible to isolate their effect from that of other institutions. Instead we use four indicators that reflect the functioning of the whole of the markets for goods, land, labor and capital: levels of interest rates, the volume of the market, the integration of markets and the accessibility of markets. These indicators are chosen because they can be linked to the quality of the institutional framework: directly in the case of interest rates, at least indirectly in the other cases. Since other elements also influence these indicators interpretation is not always straightforward, but this is at least a first step. Before we embark on this, we will better introduce the main study area, Holland.

II The case: Holland in a comparative perspective

Holland is the western-most part of the present-day Netherlands, an area roughly embracing some 6,000 km², and bordering on the North Sea. The South of Holland is crossed by the rivers Meuse and Rhine. This coastal region was under the counts of Holland, until it became integrated in 1433 in the Burgundian and in 1506 in the Habsburg empire, together with a host of other principalities in the Low Countries. By that time, it had become one of the most densest populated parts of Europe and by far the most urbanized one, with the urbanization rate approaching 45 %. The region possessed one of the most vibrant economies in Europe, making its way towards its Golden Age in the seventeenth century, when the Dutch Republic dominated world trade, with the Holland town of Amsterdam forming the main center.

In the eleventh century, there was nothing which pointed to this future prominence of the Holland economy. Holland was for a large part a wilderness, consisting of inhospitable peat bogs, hardly inhabited yet. Compared to neighboring regions, such as Flanders, Brabant and the Rhineland, this was a marginal area. This area only became reclaimed in the eleventh to thirteenth centuries, as the count of Holland

¹⁶ For the chronology of economic growth in Holland: J.L. van Zanden, 'Early modern economic growth', in: M. Prak (ed.), *Early modern capitalism. Economic and social change in Europe, 1400-1800* (London, 2001).

attracted settlers to do the hard clearing work by offering them freedom and clear property rights to the land. A society of free peasants emerged, without much influence of ecclesiastical and secular lords. The area had become ever more densely populated when it was hit in the thirteenth and fourteenth centuries by the subsidence of the reclaimed peat soils, a natural process causing problems with the water and making arable agriculture and the cultivation of bread grains nearly impossible. In 1348, the Black Death reached northwestern Europe: densely populated Holland with its ecological difficulties would seem to be a ready victim of the plague. Instead, the effects of the Black Death, that hampered economic and demographic development in large parts of Europe, have been less dramatic in Holland. In the first decades after the epidemics the Holland population declined, but the economy continued to develop and demographic recovery took just a few generations. Meanwhile urbanization continued during the fourteenth century. While only 14% of the population lived in the towns in 1300, their share mounted up to a quarter around 1350 and a third in 1400. About 44% of the ca. 260,000 inhabitants of the region lived in towns by 1500. The increase in urbanization rate was predominantly caused by the growth of towns, which more than doubled in absolute size between 1348 and the beginning of the sixteenth century, and not the result of a decline of the rural population.¹⁷ While other European regions experienced a 'late medieval crisis', Holland displayed dynamism, characterized by thriving export industries and a strong development of trade and services.¹⁸ This economic development and growth sustained up to the seventeenth century, the Golden Age, when stagnation set in.

These economic and demographic developments set Holland apart from the many parts of Western Europe which were characterized by stagnation or crisis, but even contrasts with dynamic, neighboring regions such as Flanders and Eastern England. The latter two regions had been progressive in economic development and displayed dynamism in the eleventh to thirteenth centuries, but struggled after the mid-fourteenth century. Population numbers stagnated or even declined, and urban growth came to a halt. In Flanders, the urbanization rate declined from c. 33-36 % in the fourteenth century to c. 25 % in the fifteenth century and after.¹⁹ In Eastern England the urbanization rate was maintained better, or even increased in some parts in the fourteenth and fifteenth centuries. Around 1300 at least 13% of the population of Essex

¹⁷ See for an overview Van Bavel & Van Zanden, 'The jump-start of the Holland economy', 505, and Hoppenbrouwers, 'Van waterland tot stedenland', 136

¹⁸ Van Bavel & Van Zanden, 'Jump-start'

¹⁹ Blockmans et al., 'Tussen crisis en welvaart', 43-46.

lived in towns and 14% of the population of Suffolk. Especially in Suffolk this figure rose in the following centuries; In 1524-1525, 27% of the population lived in towns.²⁰ However, this growing urbanization rate was not the result of urban population growth in absolute terms but rather of severe decline of the rural population, in many cases by more than a half. Population numbers in Eastern England remained low until far into the sixteenth century.²¹ At the same time, markets contracted or were deserted.

The difference with Holland can hardly be explained by geographical factors. Holland, Flanders and Eastern England were all located on the southern shores of the North Sea, had similar climatic conditions, and enjoyed similar advantages of location near waterways. There were differences in soil conditions, but these rather disadvantaged Holland, since the region was slowly sinking into the water. The hypothesis to be tested here, is that the organization of markets formed a crucial difference. All three regions witnessed an early rise of market exchange of goods, in the high Middle Ages, and later also of land, labor and capital. It can therefore be hypothesized, in line with the preceding, that the specific institutional organization of these markets decided to what extent regions were able to cope with the challenges of the period. To what extent can the favorable development of Holland be explained by better market institutions? Did markets in Holland function better than elsewhere, especially compared to its neighboring regions Flanders and Eastern England?

Our analysis of the institutional arrangement of markets in late medieval Holland starts with a reconstruction of the main institutions of market exchange and their specific characteristics (section III). Next, we attempt to assess both quantitatively and qualitatively what the effects of these institutions were on interest rates, the growth of the volume of the market, the integration of markets and the accessibility of markets in Holland (section IV). This will be followed by a tentative explanation of the contribution of socio-political elements to the emergence of specific institutions in Holland. To this end, we will look particularly at the elements standing out most clearly in the medieval history of Holland: the ecological situation, the occupational history and the structure of society (section V). Lastly, we will look at developments in the later sixteenth and seventeenth centuries, as both the institutional arrangement of markets and the social context seem to have changed (section VI). Conclusions follow.

²⁰ C. Dyer, 'How urbanized was medieval England?' in J.-M. Duvosquel and E. Thoen (eds.) *Peasants and townsmen in medieval Europe. Studia in honorem Adriaan Verbulst* (Ghent 1995) 169-183.

²¹ [L. R. Poos, *A rural society after the Black Death: Essex*], and M. Bailey, *Medieval Suffolk. An economic and social history, 1200-1500* (2007), 67 and 183-184.

III The development of market institutions in Holland 1100-1500

Property rights

In Holland, nearly absolute and exclusive property rights to land developed in the high Middle Ages, allowing for a dynamic land market. As a comparison with other parts of Western Europe shows, this was an exceptional development.²² In most regions transfers of land did not involve market transactions: they remained firmly embedded in all kinds of social frameworks, such as the extended family, the village community, the common or the manor. Even in Norfolk and other parts of Eastern England, where manorialism was relatively weak in comparison to other parts of England, there was a clear influence of lords and manorial courts on property rights to land and their transfer.²³ In Holland, however, and also in Flanders, these and the other non-market frameworks had lost their strength already at an early date or never held an important position. In the early phase of settlement, most peasants in Holland acquired free ownership of the land that they reclaimed from the peat lands. In the fourteenth century, the big majority of the peasantry in Holland was free and owner of the lands they cultivated, thus opening the way for exchange of land by way of the market. This development was sped up by the role of local and central authorities. In Holland, and in adjacent parts of Northwest Europe, local authorities already in the thirteenth/fourteenth century started to register property rights to land and land transfers, mainly for fiscal reasons.²⁴ This increased the security of land transfers. Also, levies on transfers were quite mild, or even absent at all, in contrast to the situation elsewhere in Europe where lords were able to extract high levies on land transfers: in Flanders 8 – 16 % of the sale price and in England sometimes even more.

In contrast to the solid legislation on land transfers and property rights the lease market was less regulated in Holland. Rights with respect to leased land remained unclear. Holland peasants claimed all kinds of permanent rights to the land, even when

²² B.M.S. Campbell, 'Factor markets in England before the Black Death', paper 2005, to be published in *Continuity & Change* 24 (2009), 16-22, and B.J.P. van Bavel, 'The land market in the North Sea area in a comparative perspective, 13th-18th centuries', in: S. Cavaciocchi (red.), *Il mercato della terra sec. XIII-XVIII. Atti delle "Settimane di Studi" e altri convegni* 35 (Prato, 2003), 119-145.

²³ J. Whittle, *The development of agrarian capitalism. Land and labour in Norfolk, 1440-1580* (Oxford, 2000) 93 and 99.

²⁴ Van Bavel, 'The land market in the North Sea area', 129-132, also for the following.

the lease was formally for a fixed term. This situation provoked conflicts and insecurity with respect to investments in leaseholds. Only in the sixteenth century, under the legal and social pressure of the growing group of urban landowners in Holland, lease rights became clarified; much later than in most of Northwestern Europe.²⁵

The emergence of a capital market was closely connected to the development of property rights to land. Long-term loans required debtors to use mortgages as securities, and therefore clear titles to property were of utmost importance. Whereas in Holland and the rest of the Low Countries property rights regimes allowed for the early emergence of capital markets, since the thirteenth and fourteenth centuries, unclear property rights to land hindered the emergence of a mortgage system in England.²⁶

In Holland, clear property rights were distributed among all social groups, including women, who were allowed to participate in land markets and capital markets. Access to these markets provided women with a rather independent position: for instance, women in Holland often ran their own households after they had been widowed.²⁷ In this respect, however, differences between the three areas under scrutiny appear to have been rather small, and all three rather contrasted with other parts of Western Europe.²⁸

Likewise, the history of labor in Holland is characterized by early personal freedom. In most parts of Europe the freedom to hire oneself out was very much restricted by feudal institutions. Moreover, in the wake of the Black Death many regions implemented severe labor laws²⁹ In England, the aim of the fourteenth century statutes on labour was to restrict the mobility of the landless population and to keep wages on

²⁵ B.J.P. van Bavel, 'The emergence and growth of short-term leasing in the Netherlands and other parts of Northwestern Europe (11th-16th centuries). A tentative investigation into its chronology and causes', in: Id. & P. Schofield (eds.), *The rise of leasing*, CORN 10 (Turnhout, 2009), 179-213.

²⁶ P.R. Schofield, 'Access to credit in the early fourteenth-century English countryside' in P.R. Schofield & N.J. Mayhew (eds.), *Credit and debt in Medieval England c. 1180-c. 1350* (Oxford 2002), 106-126, there 119.

²⁷ Martha C. Howell, *The marriage exchange : property, social place, and gender in cities of the Low Countries, 1300-1550* (Chicago: The University of Chicago Press, 1998), pp***; Tine Moor en J. L. van Zanden, 'Girlpower. The European Marriage Pattern (EMP) and labour markets in the North Sea region in the late medieval and early modern period', 2005, 6-7
<<http://www.iisg.nl/hpw/papers/demoor-vanzanden.pdf>> [bezocht 8 Maart 2009].

²⁸ Jane Whittle, 'Inheritance, marriage, widowhood and remarriage: a comparative perspective om woman and landholding in north-east Norfolk, 1440-1580', *Continuity and change : a journal of social structure, law and demography in past societies*, 1998, 33-72 *** Nakijken

²⁹ Samuel Cohn, 'After the Black Death: labour legislation and attitudes towards labour in late-medieval western Europe', *The Economic History Review* 60:3 (2007) 457-485

pre-epidemic levels. They proclaimed service compulsory for every single man or woman without visible means of existence. The breaking of contracts before the end of the obligatory term of usually one year was punishable by fines, imprisonment and corporal punishment.³⁰ The developments in England cannot be entirely related to demographic decline. Cohn shows that labour shortages occurred in many parts of Europe in the second half of the fourteenth century; yet, the reactions of legislators differed and sometimes did not follow at all.³¹ One of the clues of the situation in England is that the landholding English gentry formed an important political power as they had access to the parliaments personally or via petitions.³² The legislation of the mid-fourteenth century predictably represented their interests in an attempt to strengthen the employers control over labour.³³ This situation did not alter during the subsequent centuries. The commercialisation of society during the thirteenth and fourteenth centuries did not bring new social groups to power nor did it restructure the labour market.³⁴ The amount of wage labour increased, but labour relations did not change fundamentally.³⁵ The Flemish legislation on service dates from the fifteenth century onwards.³⁶ In Holland, on the other hand, labor legislation for agricultural workers and servants was virtually absent and remained so after 1350.³⁷ The nobility and church only exploited a few domains, mainly in the sandy area behind the dunes. Labor service was limited to these domains and was replaced by taxes by the late Middle Ages.³⁸ Smallholding combined with working for wages during a part of the year was very common. As early as 1350 the proto-industrial sector must have offered ample opportunity to earn extra income to rural households. The labor-input in non-agricultural activities in the countryside of

³⁰ Hatcher, 'England in the aftermath of the Black Death'; Clark, 'Medieval Labor Law and English Local Courts'; and on sixteenth century legislation: Woodward, 'The background of the Statute of Artificers'.

³¹ Cohn, 'After the Black Death'.

³² According to Janssens we should see the law in this period as a direct expression of the interests and power of the ruling classes. Janssens, 'Different categories of wage earners', 12.

³³ Given-Wilson, 'Service, serfdom and English labour legislation, 1350-1500', 24

³⁴ See e.g. Britnell, *The commercialisation of English society*.

³⁵ According to Dyer, the proportion of the population that depended for a part or all of their income on wage labour could vary from 18 per cent in Staffordshire to 52 per cent in Essex. This might have been the case already by 1300. Dyer, *An Age of Transition?*, 220.

³⁶ In Flanders run-aways could count on a whipping, see the ordinances of Hulsterambacht 1440 and 1546, Bosch, 'Rechtshistorische aantekeningen' (1931), 384, A Brabant by-law from 1587 states that a servant that breaks his contract will be submitted to criminal law: *Ibidem*, 382.

³⁷ *Ibidem*, 355-418; and J.W. Bosch, 'Rechtshistorische aantekeningen betreffende de overeenkomst tot het huren van dienstpersioneel', *Themis : regtskundig tijdschrift : verzameling van bijdragen tot de kennis van het publiek- en privaatrecht*, 1932, 23-92 / 215-277.

Holland can be estimated at a quarter of the total rural population in 1350, increasing to 40 per cent in 1450.³⁹ Probably a strong increase of wage labor in the Holland countryside took place in the course of the fifteenth and sixteenth centuries. According to Van Bavel's estimates, about half of the labor performed at the countryside in sixteenth century Holland consisted of wage labor.⁴⁰

The responsibility for the protection of property rights was shared by the state (the counts of Holland and their government apparatus) and groups of subjects that were active in local administration. In the Low Countries princely power seems to have brought about a relatively favorable legal framework, in a precocious development.⁴¹ As a result, unlike elsewhere, there were only few other authorities, like manorial and feudal lords, bishops and abbots, who settled disputes. This princely judiciary was only a part of the legal apparatus though: in towns and villages representatives of local communities stood over disputes involving criminal and civil law during court days. Their sentences over transactions involving land, capital, commodities and labor were done on court days, and these were executed by sheriffs and other government agents. Appeals could be lodged at regional courts, which were organized by bailiffs, and supreme courts in The Hague and from the fifteenth century on, also in Malines.

Courts of appeal provided a check on local judiciaries from the fourteenth and fifteenth centuries. Combined with occasional investigations into the functioning of the government apparatus, they put a check on nepotism and corruption. Also, supreme courts showed a great concern for the costs of legal proceedings, and assisted people with modest means by having them represented by government agents working *pro deo*.⁴² Moreover, some institutions were especially aimed at quickly resolving disputes at little expenses, like the summary execution, which allowed creditors to seek compensation for default without going through formal proceedings.⁴³ Similar institutions that helped

³⁸ P.C.M. Hoppenbrouwers, 'Van waterland tot stedenland. De Hollandse economie ca. 975- ca. 1570', in: T. de Nijs en E. Beukers, *Geschiedenis van Holland tot 1572* part I (Hilversum 2002) 103-148, 137.

³⁹ Most important were the production of textiles, beer, cheese, peat, hemp, bricks, fishing (especially herring) and shipbuilding. Van Bavel, 'Early proto-industrialization in the Low Countries?', 1143.

⁴⁰ See Van Bavel, 'The transition in the Low Countries', 292, 301.

⁴¹ H. De Schepper & J.-M. Cauchies, 'Legal tools of the public power in the Netherlands 1200-1600' in A. Padoa-Schioppa (ed.), *The Origins of the Modern State in Europe, 13th to 18th Centuries. Legislation and Justice* (Oxford / Strasbourg 1996) 229-268, esp. 254 and 265.

⁴² M.C. Le Bailly, *Recht voor de Raad. Rechtspraak voor het Hof van Holland, Zeeland en West-Friesland in het midden van de vijftiende eeuw* (Hilversum, 2001).

⁴³ Developments in Holland are discussed by C.J. Zuiderdijk, *Medieval capital markets. Markets for renten, state formation and private investment in Holland (1300-1550)* (Leiden/Boston 2009).

secure the investments of creditors also existed in England, but these seem to have been so rigorous that they scared debtors from contracting mortgages. This is regarded as a major element that prevented the emergence of capital markets in England.⁴⁴

As said, by and large this relatively favorable situation existed not only in Holland but in several parts of the Low Countries. The legal framework of Holland may have stood out in one respect: whereas in other highly urbanized areas like Flanders large parts of the countryside were gradually subjected to urban jurisdictions, in Holland rural courts managed to remain independent in this respect.⁴⁵ Together with the unimportance of feudal authorities, like manorial and banal lords, bishops and abbots, this contributed to the transparency of the juridical system and thus helped to keep the costs of civil proceedings low.

Information exchange and registration

Many of the Holland institutions facilitating information exchange in commodity trade were similar to those used in other countries. Printed merchant manuals for instance, giving conversion rates for coinages, dates of fairs and lists of local weights and measures, appeared in the sixteenth century.⁴⁶ Brokerage was in common use long before that: the first Dordrecht by-law that regulated brokerage in this river trade centre dates from 1291.⁴⁷ In the main fishing ports, fish auctions using a descending bid system were in use from at least the early fifteenth century onwards.⁴⁸

Notably however, and perhaps more different from other parts of Western Europe, public auctions also existed in small towns, in the countryside, and for other matters than commodities, such as excises, tithes, mills and land. In the sixteenth century auctions of leaseland became common in Holland, and the authorities increasingly made auctions even compulsory. Announcements were made by way of printed posters hung

⁴⁴ R. Ashton, *The Crown and the Money Market 1603-1640* (Oxford 1960), 8-9. Cf. low possibilities for english peasants to borrow also R.H. Britnell, 'England and Northern Italy in the early fourteenth century: the economic contrasts' in *Transactions of the Royal Historical Society* fifth series: 39 (1989) 167-183, pp. 169-170; R.L. Hopcroft & R.J. Emigh, 'Divergent paths of agrarian change: Eastern England and Tuscany compared' in *Journal of European Economic History* 29:1 (2000) 9-51, pp. 15-16.

⁴⁵ P.C.M. Hoppenbrouwers 'Town and country in Holland, 1300-1550' in S.R. Epstein (red.) *Town and country in Europe, 1300-1800* (Cambridge 2001) 54-79, at 72-73.

⁴⁶ An example: *Een zeer huerbuerlic registre ofte Handbouck voor alle man* (Ghent 1544). This booklet was printed in Ghent, but gives details for Holland as well as for the southern Low Countries.

⁴⁷ A.C.F. Koch, J.G. Kruisheer & E.C. Dijkhof, *Oorkondenboek van Holland en Zeeland*, V, nr. 2659.

⁴⁸ H.A.H. Kranenburg, 'Het afslagwezen voor de visserij in het Beneden-Maasgebied 1400-1600', *Zuid-Hollandse Studiën* (1954) 72-92, at 80-82.

in public places.⁴⁹ This system reduced underhand arrangements and made information widely available.

Literacy in Holland was very high in the late sixteenth century.⁵⁰ Before that time we have no data on literacy, but recent experiments by De Moor and van Zanden with calculating numeracy of the population by looking at age heaping suggest that the level of numeracy, especially of women, in Holland and Zeeland was relatively high.⁵¹ This all aided the exchange of information and accessibility of markets.

Information asymmetry was also tackled by institutions provided by local public bodies. Aldermen kept registers of transactions on the markets for real estate and capital, which they used to provide contracting parties with information about property rights. Transactions on these markets were subject to public announcements, challenging anyone with claims on the real estate that was to be sold or mortgaged to step forward. In the sixteenth century, this was a strict condition for official ratification. In Holland, local public bodies had a monopoly on voluntary jurisdiction. To claim property rights, civil law required that parties had made a contract ratified by local aldermen. Only few people opted for contracts ratified by lords, clerics or even notaries, which were not fully recognized by civil law and provided little security. Notaries were even banned from ratifying transactions of land or the creation of annuities. Information on these transactions was therefore found at one place, reducing information costs and insecurity.⁵² In contrast, in England this information was not registered by a single authority, as well as in France, where numerous notaries kept their own registers, making it as good as impossible for participants in the market to gather information.

To be sure, for 'smaller' transactions involving consumer credit or labor agreements contracting parties usually did not record a contract. They were satisfied with

⁴⁹ J.A.E. Kuys & J.T. Schoenmakers, *Landpachten in Holland, 1500-1650* (Amsterdam, 1971), 26 and 34.

⁵⁰ Erika Kuijpers, 'Lezen en schrijven. Onderzoek naar het alfabetiseringsniveau in de zeventiende-eeuws Amsterdam', *Tijdschrift voor sociale geschiedenis*, 1997, 490-522.

⁵¹ T De Moor en Zanden, J.L., 'Van fouten kan je leren. Een kritische benadering van de mogelijkheden van 'leeftijdstapelen' voor sociaal-economisch onderzoek naar gecijferdheid in het pre-industriele Vlaanderen en Nederland', *Tijdschrift voor Sociale en Economische Geschiedenis*, 5 (2008), 55-86; Tine Moor en J. L. van Zanden, "Every woman counts". A gender-analysis of numeracy in the Low Countries during the Early modern period', 2008
<http://www.lowcountries.nl/antwerpen2008/2008_antwerpen_demoor.pdf> [bezocht 8 Maart 2009].

⁵² Note that this does not mean that all contracts in Holland were registered in a central place, but that all contracts concerning land, houses and mortgages within a jurisdiction were recorded in one place, namely the local court of that particular jurisdiction.

oral agreements, reinforced by the presence of witnesses or the use of tally. However the vast majority of 'larger transactions' in Holland was concluded in the presence of two or more aldermen or other local authorities, who were witnesses and attached their seals to the contract. Labor contracts usually were not written down, but common law provided generally accepted norms on rights and duties of both employer and employee.

Compared to England, where the interests of employers were represented in elaborate labor laws, the absence of formal labor legislation in Holland is striking. In England the laborers freedom to move from one place to the other was restricted and maximum wages were set time and again. The breaking of a contract by workers was punishable by criminal law.⁵³ Comparable measures were never taken in Holland. Laborers in both agriculture, services and in the urban industries enjoyed more contractual freedom and therefore a stronger bargaining position as to the terms of the contract than in neighboring regions.⁵⁴ Presumably the effect of this was that working for wages became more attractive in Holland while the flexibility and volume of the labor market must have increased as a result.

The absence of extraction by force

The state could provide some vital economic institutions, but at the same time it could well be a major threat to property rights. The purveyances of victuals that took place in late thirteenth and early fourteenth century England provide a good example. In preparation for a military campaign the Crown would issue orders to the sheriffs of one or more counties to acquire a specified quantity of grain or other foodstuffs. Officially the goods were to be purchased from the producers, but the price that was offered was often below market rates or covered only part of the goods, and payment was frequently deferred endlessly or even withheld entirely. Lords and ecclesiastical institutions were often able to acquire an exemption; peasants were usually not and suffered badly.⁵⁵

⁵³ C. Given-Wilson, 'Service, serfdom and English labour legislation, 1350-1500, in: A. Curry and E. Matthews, eds., *Concepts and Patterns of Service in the Later Middle Ages* (Woodbridge: Boydell, 2000) 21-37; E. Clark, 'Medieval Labor Law and English Local Courts', *American Journal of Legal History* 27 (1983) 330-353; and on sixteenth century legislation: D. Woodward, 'The Background to the Statute of Artificers: The Genesis of Labour Policy, 1558-63', *The Economic History Review*, New Series, 33:1 (Feb 1980) 32-44.

⁵⁴ On labor contracts of servants in both the Northern and Southern Low Countries, for instance, see: Bosch, 355-418; Bosch, 23-92 / 215-277

⁵⁵ J.R. Maddicott, 'The English peasantry and the demands of the crown 1294-1341', in: T.H. Aston ed., *Landlords, Peasants and Politics in Medieval England* (Cambridge 1987), 299-318; James Masschaele, *Peasants, Merchants, and Markets. Inland Trade in Medieval England, 1150-1350* (New York 1997), 36-41.

Even though the counts of Holland frequently waged war, as with the conquest of the areas controlled by the high nobility and the region of Westfriesland, they were not in a position to act in the same way: They did not have the power to impose similar exactions, either in the towns or in the countryside. Army provisions therefore had to be bought at regular market conditions. The accounts of the preparations for the wars with the Frisians around 1400 show that purveyors sent out by the count frequented urban markets in Holland, Utrecht and Guelders in order to purchase cattle and grain. The purveyors, well-to-do high-ranking officials, were frequently expected to advance part of the expenses from their own means for lengthy periods. Sometimes the sellers themselves also had to wait for their money. However there is no evidence that compulsion was used to force them to sell.⁵⁶

French and English Kings but also Flemish towns frequently levied forced loans. The counts of Holland seem to have lacked the necessary power to do the same. Of course, the relative unimportance of forced loans also reflects the strength of market structures: particularly when the main towns warranted the debts, the counts of Holland had little trouble to borrow in the capital market, and attracted credit not only from Holland, but also from Brabant and Flanders. Therefore, on a local and central level there is little evidence of this type of extra-economic measures.⁵⁷

Likewise, labor services to local lords and central authorities had disappeared at an early stage. In medieval Europe, states or authorities could commandeer labor not only for military purposes but also for public works or other non-public goals.⁵⁸ In Holland, however, the occurrence of corvée labor or forms of forced labor were rare and from the late fourteenth century onwards restricted to exceptional occasions of acute threats of war or flooding.⁵⁹

With respect to property rights to land, and the possible threat of expropriation, the Holland situation also was favorable. Expropriation by the state was very rare. The reverse, that is, the state protecting peasant property rights and land, and disallowing their transfer to non-peasants, did not occur in Holland either, in contrast to Germany

⁵⁶ Antheun Janse, *Grenzen aan de macht. De Friese oorlog van de graven van Holland omstreeks 1400* (The Hague 1993), 299-308.

⁵⁷ Zuijderduijn, *Medieval capital markets*, 107-108, 152-153; Cf. the importance of forced loans in Southern Europe J.D. Tracy, 'On the dual origins of long-term debt in Medieval Europe', in: M. H. Boone, C. A. Davids and P. Janssens (eds.), *Urban public debts. Urban government and the market for annuities in Western Europe (14th-18th centuries)* (Turnhout, 2003), 13-24.

⁵⁸ M.W. Beresford, *New Towns of the Middle Ages. Town plantation in England, Wales and Gascony*. (London 1967) 182; A. Rigaudière, A. 'Le financement des fortifications urbaines en France du milieu du XIV^e siècle à la fin du XV^e siècle.' *Revue historique*, (1985) (553 (jan)): 19-95, there 36.

and France, for instance.⁶⁰ In these latter areas this policy was mainly dictated by the fiscal needs of the state, since only peasant landownership could be taxed, while the land owned by religious institutions, noblemen and patricians was often exempted from taxes. In Holland, on the other hand, these exemptions were abolished already from the fourteenth century. After that, fiscal extraction no longer prompted authorities to intervene in the land market.

Due to the legal security experienced over time, trust in the state, town council or local authorities would grow. People were confident that dealing with the state (i.e. by paying taxes, lending out money, investing in public projects) would pay off. To the state, on the other hand, the market offered an alternative that was superior to extraction by coercion. Purchasing services and commodities on the market allowed the state to choose from a greater range of products and services without risking the opposition of social groups and organizations. Efficiency benefited: the labor productivity of qualified and well paid workers for instance was probably higher than the productivity of subjects that were forced to do corvée tasks.⁶¹

A similar favorable situation, with the near absence of non-economic coercion, applied to the relationship between town and countryside. Elsewhere, accessibility of markets was often severely restricted by trade monopolies. The effect is clearly visible in attitudes towards rural trade. In Flanders for one both the large cities and the smaller towns claimed regional trade monopolies: they required peasants to bring grain and other victuals, but also the products of specialized agriculture (for instance dairy products) or rural industries (such as linen cloth), to the urban market. Although not all towns were equally successful in enforcing such regional monopolies, they were widespread.⁶² In England towns rarely managed to impose such impediments to trade though.⁶³

In Holland there is little evidence of this kind of regional monopolies. Some -but not all- of the small towns in Holland's few grain producing regions claimed a monopoly

⁵⁹ Kuijpers, 'Who digs the town moat' unpublished paper (2008).

⁶⁰ [Van Bavel, 'The land market in the North Sea area', ???]

⁶¹ Rigaudière, 'Le financement des fortifications urbaines', 37

⁶² D. Nicholas, *Town and countryside: social, economic, and political tensions in fourteenth-century Flanders* (Bruges 1971), 117-118; Peter Stabel, *Dwarfs among Giants. The Flemish Urban Network in the late Middle Ages* (Louvain 1997), 163-165.

⁶³ Hopcroft & Emigh, 'Divergent paths of agrarian change', 20.

on the grain trade in their district.⁶⁴ In addition the counts sometimes granted monopoly rights to towns situated near the border for strategic reasons: this was a way to gain the support of the urban population, establish comital authority in a contested area, and prevent the shift of commercial activity and fiscal gains to neighboring rulers.

Geertruidenberg, on the Brabant border, is a good example: the early thirteenth-century charter of liberties of this town, situated on the overland trade route from Holland to the southern Low Countries, declared it to be the compulsory cattle market for the entire rural region of Zuid-Holland. Almost two centuries later, in 1398, the privilege was confirmed.⁶⁵ Still, these examples all relate to a limited number of towns, especially in the Holland border regions. Most towns simply did not possess the political power needed for this kind of coercion; English towns also had limited control over their surroundings.⁶⁶

The absence of extraterritorial urban powers in Holland also contributed, at the end of the fourteenth and the beginning of the fifteenth century, to the rise of a new type of rural trade venues, highly specialized in nature. On the North Sea coast informal beach markets for sea fish developed, and in the northern part of the county public scales for dairy emerged in several villages. Both fish markets and dairy scales had direct connections to interregional trade routes; thus they provided fishermen and farmers with easy access to markets abroad.⁶⁷

Moreover urban markets in Holland were usually relatively open to outsiders. Elsewhere, for instance in Flanders, burghers or guild members who wanted to operate as traders on the local market were frequently given priority over others. Downright exclusion was rare, but traders from other towns or from the countryside usually had to pay more to get access or were forced to accept restrictions as to when, where and what they could sell. In Holland limitations of this kind were not common.⁶⁸

Coercive extraction by private persons or feudal powers was even more conspicuously absent in Holland than extraction by central authorities and towns. From

⁶⁴ Unger, 'De Hollandsche graanhandel en graanhandelspolitiek in de Middeleeuwen', *De economist* (1916) 243-270, 337-387, 461-487, esp. 356-357.

⁶⁵ K.N. Korteweg, 'Het stadsrecht van Geertruidenberg', *VMOVR* 10 (1946), 16-83, esp. 67-68; Reinoud Rutte, *Stedenpolitiek en stadsplanning in de Lage Landen (12de-13de eeuw)* (Zutphen 2002), 115-117; C. de Jong, 'De veemarkt te Geertruidenberg, anno 1398', *Taxandria* 49 (1942), 249-255, 267-275, esp. 254.

⁶⁶ Hopcroft & Emigh, 'Divergent paths of agrarian change', 20. J.A. Galloway, 'Town and country in England, 1300-1570' in S.R. Epstein (ed.) *Town and country in Europe 1300-1800* (Cambridge 2001) 106-131, 116-117 [nog nakijken].

⁶⁷ Dissertation Jessica Dijkman, forthcoming.

⁶⁸ Dissertation Jessica Dijkman, forthcoming

the reclamation and occupation onwards, Holland was populated by a majority of free peasants and burghers, whereas nobility and religious institutions were few and weak, and did not possess the non-economic instruments to extract surpluses. Also, manorial lords with a right to labor services and other types of extraction had never been prominent in Holland and already disappeared at an early stage. In England, and even in less manorialized Norfolk, a large part of the owners of large estates still disposed of at least some servile labour to cultivate their lands until the end of the fourteenth century. Moreover, villains were liable to manorial jurisdictions, could not defend their claims to land tenancy at royal courts and had to pay fees when they desired to marry or to move away. Manorial lords could enforce their right to servile labour at local and higher courts.⁶⁹ A long history of serfdom left its traces in social relations and people's image of society in which the majority was destined to toil in service of a minority.⁷⁰

IV Effects of institutional development

Markets can be considered efficient when transaction costs are low, which reflects well-respected property rights and a high degree of trust between parties, elements which reduce both search and information costs and the costs for protecting property rights and contracting. Because it is almost impossible to measure these transaction costs directly - except for interest rates as a direct indicator for the efficiency of the capital market -, testing the maturity or efficiency of markets must be more indirect. One approach is to focus on the relative *size* of these markets; this is based on the assumption that high market dependency can only exist if markets function adequately. Another is to investigate the *integration* of markets, since this reflects the absence or presence of possible barriers. A last one is to look at the *accessibility* of markets: markets that are easily accessible for large groups provide benefits to society as a whole. As mentioned earlier, interpretation is complex, because each of these indicators may also be influenced by other factors.

⁶⁹ Whittle, *The development of agrarian capitalism*, ch. 2 on legacy, esp. 37-63; Marc Bailey recently claimed however, that there is a gap between jurisdiction and practical enforcement and that in Suffolk villeinage was rather insignificant before the Black Death: Mark Bailey, 'Villeinage in England: a regional case study, c. 1250-c. 1349', *The economic history review*, 2009, 430-457.

⁷⁰ See for the discussion on the decline of serfdom Zvi Razi, 'Serfdom and Freedom in Medieval England: A Reply to the Revisionists', *Past and Present*, 195 (2007) 182 – 187; Hatcher, 'English Serfdom and villeinage: towards a reassessment', 3-39; Given-Wilson, 'Service, serfdom and English labour legislation, 1350-1500', 24; And on the mental implications: Dyer, 'Work ethics in

Interest rates

The level of interest rates is perhaps the most evident quantitative test of the efficiency of the institutional framework of the capital market.⁷¹ For Holland, there is ample evidence of a rather dramatic decline of interest rates for long-term loans, annuities (*renten*), from 10% in the fourteenth century to little over 6% in the fifteenth century and 5% in the sixteenth century. Most of this drop took place between c. 1350 and c. 1450.⁷²

Even though comparing is difficult, it seems that this decline is also visible elsewhere, at least in Northwest Europe.⁷³ In England institutions allowing for long-term loans appear to have been in use already in the twelfth century. So-called ‘rent charges’ served to create long-term debt at rates of return that dropped from c. 10% to c. 5-6% in the late Middle Ages.⁷⁴ However, in England mortgages initially carried the risk of expropriation on default: as soon as payments were in arrears, the mortgagee got possession of the security. Furthermore, possibilities to redeem the mortgage did not exist. According to Ashton, this is why landowners rarely created rent charges.⁷⁵ The position of the mortgagor only improved in the second half of the sixteenth century and this transformation of the mortgage was finished in the fourth decade of the seventeenth century.

In Holland, mortgagors also ran the risk of losing their property, but already at an early stage authorities were far more lenient.⁷⁶ So, in England contracting long-term debt involved relatively high risks for the debtors at least until the second half of the sixteenth century. These unfavorable conditions seem to hint at a relatively immature institutional framework of capital markets.

In the seventeenth century observers complained about a lack of possibilities to contract long-term debt. Some of them attributed this to a lack of securities; for instance,

the fourteenth century’; John Hatcher, ‘Labour, leisure and economic thought before the 19th century’, *Past and Present* 1998; 160: 64-115.

⁷¹ D.C. North, *Institutions, institutional change and economic performance* (Cambridge 1990) 69. Cf. the use of interest rates as an indicator for the development of market institutions also H.J. Habakkuk, ‘The long-term rate of interest and the price of land in the seventeenth century’ in *Economic History Review* 5 (1952) 26-45, 40-44.

⁷² Zijderduijn, *Medieval capital markets*, 175-179.

⁷³ Homer & Sylla, *A history of interest rates*, 136-143; Epstein, *Freedom and growth*, 19 figure 2.1; Zijderduijn, *Medieval capital markets*, [p-p]. G. Clark, ‘Cost of capital and medieval agriculture’, in *Explorations in Economic History* 25 (1988) 265-294, esp. 273-275.

⁷⁴ Clark, ‘Cost of capital and medieval agriculture’, 268-273; Habakkuk, ‘Long-term rate of interest and the price of land’, 44-45.

⁷⁵ Ashton, *The Crown and the Money Market*, 8-9.

⁷⁶ Zijderduijn, *Medieval capital markets*, 218-223.

in 1671 the economic theorist N. Philpot wrote in his pamphlet entitled ‘Reasons and proposals for a Registry of Deeds’ that ‘the difficulty to borrow money proceeds not from its scarcity, but the diffidence of good security.’⁷⁷ Therefore, the author pushed for the registration of property rights. As long as institutional improvements did not materialize, it was government policy to lower interest rates by imposing a maximum rate. This probably did not help much: if this rate, which was set by law at 6% since 1545, did not accord with the market rate, creditors are unlikely to have continued to invest in the capital market.⁷⁸ In contrast, there is no evidence of maximum interest rates affecting the decline Holland experienced.⁷⁹

Volume

In Holland, capital, labor and commodity markets all grew to high volumes already in the Late Middle Ages. There was, for instance, a marked increase in public debt. Initially contracting long-term debt was limited and reserved to the counts of Holland and some of the largest cities. However, from the end of the fourteenth century on, other public bodies also began to participate in capital markets, and at the beginning of the sixteenth century all towns of Holland and 60% of the villages had created long-term debt, usually at interest rates little over 6%.⁸⁰ Towns elsewhere in Northwest Europe turned to capital markets as well.⁸¹ In England public debt emerged relatively late: London was the first English town to create public debt, at the end of the fifteenth century.⁸²

The impressive volume of the commodity market in Holland can be inferred from the considerable growth of the share of labor input devoted to market oriented activities between 1350 and 1500. Estimates have been made for Holland, Flanders and England based on the share of the population living in towns (minus a correction for urban labor going into food production for the household), the share of rural labor

⁷⁷ N. Philpot, ‘Reasons and proposals for a Registry of Deeds’ in *Harleian Miscellany* III, 304. Quoted by J. Spurr, *England in the 1670s. ‘This masquerading age’* (Oxford 2000) 129-130 and Habakkuk, ‘Long-term rate of interest and the price of land’, 40.

⁷⁸ Spurr, *England in the 1670s*, 127.

⁷⁹ Zuijderduijn, *Medieval capital markets*, 242-246.

⁸⁰ Zuijderduijn, *Medieval capital markets*, 112-129; J. Zuijderduijn, ‘Het lichaam van het dorp. Publieke schuld op het Hollandse platteland rond 1500’ in *Tijdschrift voor Sociale en Economische Geschiedenis* 5 (2008) 107-132.

⁸¹ E. Isenmann, *Die deutsche Stadt im Spätmittelalter* (Stuttgart 1988) 174-176; H.-J. Gilomen, ‘Renten, Rentenkauf, Rentenmarkt’ in *Lexikon des Mittelalters* VII (Munich/Zürich 1995) 735–738; Tracy, ‘On the dual origins’.

⁸² Webber & Wildavsky, *A history of taxation and expenditure in the Western World*, 253-254, 257.

devoted to non-agrarian activities and the share of agrarian labor going into production of foodstuffs and raw materials intended for the market.

	Estimated share of labor input devoted to market oriented activities ⁸³	
	c. 1350	c. 1500
Holland	50-52%	84-92%
Flanders	58-64%	65-71%
England	42-51%	60-72%

The figures are of course no more than approximations, but they do indicate marked differences between the three regions. In Flanders market orientation was already high in the middle of the fourteenth century, but it did not increase much afterwards. In England and Holland growth did take place, but in Holland it was much more pronounced: by the early sixteenth century some five-sixth of labor input was devoted to market oriented activities. To be sure, this exceptionally high figure may well have been influenced by more than just institutional causes. After about 1400 Holland had to import almost all of its bread grains: wheat and rye could no longer be cultivated on the subsiding peat soils. Still, the rapid commercialization that speaks from the figures would not have been possible without an efficient organization of markets to support it.

A similar estimate can be produced for the size of the wage labor market. This has been attempted for rural labor in the sixteenth century.⁸⁴ In the central part of Holland around the middle of the century, almost half of all rural labor was performed as wage labor, mostly found in proto-industrial activities. This is a bit less than in the Guelders river area, to the east of Holland, where 55-60 % of rural labor was for wages, but far more than in inland Flanders (c. 25 %). This is also far more than the share of wage workers in the total rural population in various English regions amounting to between a quarter and a third in the sixteenth century. In Norfolk in around 1525, for example, 20-35 per cent of the rural population consisted of wage laborers, a proportion

⁸³ Dissertation Jessica Dijkman, forthcoming.

⁸⁴ B.J.P. van Bavel, 'The transition in the Low Countries. Wage labor as an indicator of the rise of capitalism in the countryside, 14th-17th centuries', in: P. Coss, C. Dyer & C. Wickham (eds.), Rodney Hilton's *Middle Ages. Past & Present Supplement 2* (Oxford University Press, 2007), 286-303, and Id., 'Rural wage labour'.

which remained more or less constant during the rest of the sixteenth century,⁸⁵ but in other parts of England. (such as Leicestershire and Lincolnshire) wage labor was less important. On average, in the sixteenth century, wage labor in England amounted to c. 20-33 per cent of the total rural population.⁸⁶

Integration

Judging on the interest rates, it seems that Holland capital markets were already fairly well integrated. At the beginning of the sixteenth century, large towns, small towns and villages on average paid about the same interest on long-term debts, respectively 6.3, 6.4 and 6.5%.⁸⁷ Also, some regions within Holland show signs of integration, although interest rates in the North show a greater variation.⁸⁸

In the small town of Edam we also encounter some other signs of market integration: when we look at interest rates, the spread around the mean was quite small. In 1514 61% of the long-term loans had the average interest rate of 5.6% and in 1563 this was even 81%.⁸⁹ Differences between town and countryside were also modest: in 1514 the average interest rate encountered in the town of Edam was 5.7% and in the surroundings 5.3%, and in 1564 this was respectively 5.6% and 5.8%.⁹⁰

Commodity markets were also well integrated. In the late fifteenth and early sixteenth century peat prices in central Holland for instance largely moved in concert.⁹¹ An analysis of wheat price movements suggests that at least for bread grains this was already the case by the early fifteenth century. In itself this is not surprising. A similar claim can be made for the southern Low Countries.⁹² For England, with its abundance of early price data, an efficient and coherent market for grains on a national level, with only

⁸⁵ J. Whittle, *The development of agrarian capitalism. Land and labour in Norfolk, 1440-1580* (Oxford, 2000), 227-231, with some notes by the author on the reliability and interpretation of the data in the sources.

⁸⁶ J.P. Cooper, 'In search of agrarian capitalism', in T. H. Aston and C. H. E. Philpin (eds), *The Brenner Debate: Agrarian class structure and economic development in pre-industrial Europe* (Cambridge, 1985), 138-191, esp. 167-168.

⁸⁷ For the main cities 33 interest rates are known, for the smaller cities 43, and for villages 206.

⁸⁸ C.J. Zijderduijn, 'Village-indebtedness in Holland 15th-16th centuries', t.b.p. in CORN volume.

⁸⁹ T. de Moor, J.L. van Zanden & J. Zijderduijn, 'Micro-credit in Late Medieval Waterland. Households and the efficiency of capital markets in Edam en De Zeevang (1462-1563)' in S. Cavaciocchi (ed.) *La Famiglia nell'economia Europea secc. XIII-XVIII. The economic role of the family in the European economy from the 13th to 18th centuries* (Florence 2009) 651-668, at 658-659.

⁹⁰ De Moor, Van Zanden & Zijderduijn, 'Micro-credit', 659.

⁹¹ Charles Cornelisse, *Energiemarkten en energiehandel in Holland in de late middeleeuwen* (Hilversum, 2008) 217-218.

limited price differentials between locations, can even be demonstrated for the beginning of the thirteenth century.⁹³ When it comes to the integration with markets abroad however Holland does stand out: in the early fifteenth century its external links were stronger and more consistent than England's or those of the southern Low Countries. The driving force behind Holland's international grain trade was no doubt the demand for grains. However if market structures had been less favorable, it is doubtful if it would have been possible to build up the same robust and wide-flung international trade network.

Wage differentials between town and countryside were small. In inland Flanders, nominal wages in the countryside were still close to the urban ones in the early fourteenth century, but in the late fourteenth and fifteenth centuries there emerged an urban/rural wage differential of some 50-70 per cent, perhaps because it was in this period that urban and guild restrictions on immigration and entry in urban occupations became tighter.⁹⁴ In Holland, on the other hand, the urban/rural difference at the time was and remained very small, or was even absent altogether.⁹⁵ For the fourteenth century, this can still be attributed to the small size of the cities, but after the dramatic growth of Holland towns in the fifteenth and sixteenth centuries, this was no longer the case, thus pointing to the absence of institutional barriers. Guilds developed very late in Holland and did not acquire the political role in urban government as their counterparts in Flanders had. Important towns like Delft, Leyden, Haarlem, Alkmaar and Hoorn only got guilds in the first half of the sixteenth century, as a reaction to the competition of crafts and proto-industries from the countryside.⁹⁶ However, this resulted in ordinances that mildly limited the right to set up crafts and sell on the urban market, but did not try to regulate the availability nor prize of labor. Guild ordinances that contain rules for the employment of in-living apprentices and journeymen let alone setting wages, are very

⁹² Tits-Dieuaide, *La Formation des prix céréalières en Brabant et en Flandres au Xve siècle* (Brussels, 1975), 36-44.

⁹³ Gregory Clark, 'Markets and economic growth: the grain market of medieval England' (Working Paper University of California, Davis, 2001), 8-13. Cf. David Farmer, 'Prices and wages' in: H.E. Hallam ed., *The agrarian history of England and Wales, II, 1042-1350* (Cambridge, 1988), 716-817, at 742-744.

⁹⁴ P. Stabel, *De kleine stad in Vlaanderen. Bevolkingsdynamiek en economische functies van de kleine en secundaire stedelijke centra in het Gentse kwartier (14de-16de eeuw)* (Brussel, 1995) 185-192, E. Thoen, *Landbouweconomie en bevolking in Vlaanderen gedurende de late middeleeuwen en het begin van de moderne tijden. Testregio: de kasselrijen van Oudenaarde en Aalst, eind 13de - eerste helft van de 16de eeuw* (Gent, 1988) 955-960

⁹⁵ Van Bavel and Van Zanden, 'The jump-start', 511-513.

⁹⁶ P. Lourens and J. Lucassen, 'De oprichting en ontwikkeling van ambachtsgilden in Nederland (13de-19de eeuw)', in: C. Lis en H. Soly, (red.), *Werelden van verschil. Ambachtsgilden in de Lage Landen* (Brussel 1997) 43-77, esp. 47-48 and 50.

scarce until the late seventeenth century. Immigration was encouraged when labor ran short.⁹⁷

Another important reason for the small prize differences between town and country in Holland is that agricultural wages had to compete with the many other wage earning opportunities of the mobile rural population, both in the countryside and in the towns. In regions with an important large landholding class represented in government, rules usually represent the manorial interest of restricting mobility and keeping wages low.⁹⁸ The count of Holland and the Estates, on the other hand, never set wages for agricultural labor nor did they restrict labor mobility by any measure. By 1500 Holland seems to have had a highly integrated labor market involving the mobility of especially the rural work force during a substantial part of the year.⁹⁹

Accessibility

There is ample evidence suggesting that capital markets were accessible to large parts of the population. For instance, the tax registers of Edam, a small town to the Northeast of Amsterdam show that a considerable proportion of the households was either creditor or debtor of long term debt: more than 30% in 1462, little over 20% in 1514, and more than 50% in 1563. In the surrounding countryside figures were lower, but still significant, at 18% (1462), 5% (1514) and 23% (1563). Also, we encounter many women among the creditors and debtors.¹⁰⁰ This broad access is also visible elsewhere in the Low Countries,¹⁰¹ but not as much in England, where access to capital markets was

⁹⁷ In 1406 Leyden, for example, a by-law states that anyone, wherever he comes from, will be allowed to work in Leyden for a servant's or journeymen's wage. Hamaker, *De Middeneeuwsche keurboeken van de stad Leiden*, 60.

⁹⁸ This was the case in England after the Black Death but also in many other Western European regions. Samuel Cohn, 'After the Black Death: labour legislation and attitudes towards labour in late-medieval western Europe', *The Economic History Review* 60:3 (2007) 457–485.

⁹⁹ In 1510 and in 1515, for instance, hundreds of hired labourers who were working at the dikes near Haarlem (at its peak over 900 labourers at any one time) were recruited in all parts of Holland and beyond: P.J.E.M. van Dam, 'Digging for a dike. Holland's labor market ca. 1510', in P. Hoppenbrouwers & J.L. van Zanden (eds.), *Peasants into farmers? The transformation of rural economy and society in the Low Countries (Middle Ages-19th century) in the light of the Brenner debate*. CORN Publication series 4 (Turnhout, 2001) 220-255, see the tables on p. 247-249.

¹⁰⁰ Zuijderduijn, *Medieval capital markets*, 231-242. It is important to stress that due to some shortcomings of the source, these are minimum figures.

¹⁰¹ For instance in Den Bosch at the beginning of the sixteenth century: J. Hanus, *Tussen stad en eigen gewin. Stadsfinanciën, renteniers en kredietmarkten in 's-Hertogenbosch (begin zestiende eeuw)* (Amsterdam 2007).

particularly poor in the countryside,¹⁰² not the least because of the low proportion of peasant landholding there and the resulting impossibility to use land as a collateral.

The towns of Holland managed to service a geographically highly dispersed public debt: they found creditors all over the Low Countries. Clearly, for foreign creditors to invest in public debt, and for Holland towns to contract and service public debt, efficient markets were a requirement.¹⁰³

Theory predicts that favorable institutions are able to lower transaction costs. The results for the impact of the institutional framework on market performance in Holland c. 1500 show different results for the different markets. The performance of the lease market was probably less than in the other areas. Internal integration in the market for goods –at least grain market integration, grain being the only commodity for which reliable price data are available- was no higher than in Flanders or England. On the other hand, at the end of the Middle Ages market orientation in Holland was very high. Also, the capital market and especially the labor market were much more mobile and flexible than in the other areas. Of course, market performance was not exclusively determined by institutions, but, still, these differences do point to differences in the institutional framework. We can surmise on the basis of the preceding that in Holland the framework of the markets for goods, and even more those for capital and labor, but not that for lease, possessed a more favorable institutional framework than the other parts of Western Europe. How to explain this?

VI A tentative explanation of favorable and unfavorable institutions

We believe the explanation can be found in the combination of two developments, both resulting from the geographical characteristics of Holland, and its associated occupation history: the process of reclamation and settlement of the Holland peat areas in the eleventh to thirteenth centuries and the subsidence of these soils and the resulting ecological crisis in the second half of the fourteenth century. Both factors have been mentioned by other authors as particular to Holland, and even as essential in the

¹⁰² R.H. Britnell, 'England and Northern Italy in the early fourteenth century: the economic contrasts' in *Transactions of the Royal Historical Society* fifth series: 39 (1989) 167-183, pp. 169-170; R.L. Hopcroft & R.J. Emigh, 'Divergent paths of agrarian change: Eastern England and Tuscany compared' in *Journal of European Economic History* 29:1 (2000) 9-51, pp. 15-16.

economic development of this region, but their implications for the institutional framework have remained at best a vague intuition. Our research now shows how already before the thirteenth century the foundations were laid for institutions favoring market efficiency, thus providing a basis for accelerated specialization and commercialization when at the end of the fourteenth century a drastic economic transformation as a result of the ecological crisis became necessary.

Social developments

Early modern Holland, in contrast to other parts of Western Europe, was characterized by the absence of a truly feudal past. In the words of Jan de Vries and Ad van der Woude: there was no ‘society of orders, where each member held a legally fixed position assigned by birth’, and ‘barriers against social mobility were absent’, which encouraged innovation and initiative.¹⁰⁴ The origins of Holland’s weak feudal structures are to be found in the land reclamations of the Middle Ages. Since Holland had been an uninhabitable peat wilderness for long, people only lived on the sandy soil near the shores of the North Sea and the banks of rivers. Here, noblemen and religious institutions gained some importance in the wake of the disintegration of the Carolingian Empire and established their rule. However their influence did not reach the virgin peat lands. When colonists started to reclaim these peat lands from the tenth century onwards, the counts allowed them to create a completely different society, not based on feudal structures, but on direct relations between sovereign and subjects. The settler communities were incorporated in the fabric of the state. The colonists recognized the count’s supreme authority, paid taxes and served in the count’s army at his command, but were otherwise largely free to run their own affairs. At the local level the count’s authority was represented by an appointed functionary, the sheriff. Thus a layer of local public bodies formed characterized by broad participation but also by a balance of powers: representatives of the local elite had to collaborate with governments agents.¹⁰⁵

Towns only gradually started to develop, especially in the thirteenth and fourteenth century: later than in neighboring areas such as Flanders and the Rhineland. These towns emerged when village communities and princely rule were already firmly

¹⁰³ Zijlenderdijn, *Medieval capital markets*, 129-134.

¹⁰⁴ De Vries & Van der Woude, *The first modern economy*, 160.

¹⁰⁵ The argument goes back to Van der Linden’s article in the *Nieuwe Algemene Geschiedenis der Nederlanden* (Van der Linden, ‘Het platteland in het Noordwesten’, 73-78). Cf. a recent survey of the reclamation of the peat lands by Hoppenbrouwers, “Van waterland tot stedenland” and about the position of the nobility De Vries, “The transition”, 75-76.

established. The number of towns was quite large, but they were all small or medium-sized: no large, dominant metropolis came into being.

The weak influence of nobility and clergy meant that the inhabitants of towns and villages had ample possibilities to take initiatives. Particularly the situation in the countryside stands out: most peasants were smallholders without any obligations toward local lords. They organized themselves in public bodies that took responsibility for taxation, public debt and public works.¹⁰⁶ The need for water management also provided an impulse for local organization. This was often organized on a village level, or even at the level of individual polders, and in a (quasi-) public way, including mechanisms for representation and collective funding.

In many heavily urbanized pre-industrial societies large towns subjugated their surroundings. This was the case in Italy and to a lesser extent, also in Flanders and Brabant. Urban jurisdictions were in part established due to a lack of organization in the countryside: towns had to ensure the supply of commodities from the countryside, and rural incompetence – imagined or real – was often seen as an invitation to take over the reins.¹⁰⁷ Where urban jurisdictions emerged town governments could impose institutions favoring the urban economy, usually by restricting trade and industrial production in the countryside. In Holland the thirteenth- and fourteenth-century counts were strong enough to prevent the towns from extending their jurisdiction over the countryside. In the fifteenth and sixteenth centuries resistance by local lords and competition between towns helped to keep urban greed in check.¹⁰⁸ Moreover rural organizations protected villages against urban ambitions, for instance by taking sides with local lords and filing legal procedures. As a result, unlike elsewhere, villages managed to increase or at least retain the level of public services.¹⁰⁹

Ecology

The aforementioned land reclamations had another crucial effect in the long run. As the reclaimed peat land in Holland slowly started to sink and became ever wetter, some of the peasants gave up agriculture and migrated to cities, causing urbanization to increase

¹⁰⁶ Cf. the early emergence of public bodies Van der Linden, 'Het platteland in het Noordwesten', 78; Van der Kieft, "Stedelijke autonomie", 99; Mitteis, *Rechtsfolgen*, 20-21.

¹⁰⁷ [D. Nicholas, *Town and countryside*]

¹⁰⁸ P.C.M. Hoppenbrouwers, 'Town and country in Holland, 1300-1550' in: S.R. Epstein ed., *Town and country in Europe 1350-1750* (Cambridge, 2001) 54-79, at 76-78.

¹⁰⁹ J.C.N. Raadschelders, *Plaatselijke bestuurlijke ontwikkelingen 1600-1980. Een historisch-bestuurskundig onderzoek in vier Noord-Hollandse gemeenten* (Ph.D. thesis Leiden 1990); Van Braam, 'De bureaucratiseringsgraad', 463-466; Lesger, *Hoorn als stedelijke knooppunt*, 215.

and urban industries to expand. The remaining peasants adapted to the new conditions: they gave up cultivation of bread grains, which grew during winter when water tables were highest, and they switched to summer grains and livestock farming. They sold the fruits of their labor on the market; the growing urban population no doubt contributed to the success of this agricultural transition.¹¹⁰ This favorable turn of events is certainly not self-evident: an ecological disaster on this scale could easily have led to general depopulation. That this did not happen - in fact by the year 1400 the population of Holland was almost back to pre-Plague levels - demonstrates the influence of pre-existing institutional arrangements: clear property rights and open and transparent factor and commodity markets discouraged squeezing and stimulated a positive interaction between town and countryside.

A combination of ecological crisis, ample transport possibilities offered by the water, and the favorable market organization, favored the commercialization and specialization of the economy and the emergence of proto-industrial activities in Holland's countryside.¹¹¹ Thus, in the second half of the fourteenth century Holland witnessed a transition to a heavily commercialized economy, with little to no possibilities for subsistence farming. Its population had to market butter, cheese, peat, bricks and other proto-industrial products to earn money they required to buy grain that was imported from Northern France and later from the Baltic. The switch to labor-extensive livestock farming also provided an impulse for labor markets: a large part of the rural population had to look for additional employment, for instance in towns, but also as day laborers in rural proto-industries. Finally, capital markets are likely to have received a boost when entrepreneurs started to look for funding to set up proto-industries.¹¹²

Both in the Holland towns and in the countryside also the tertiary sector rapidly developed. In 1514, only 25 per cent of labor in Holland was active in agriculture, supplying less than 20 per cent of GDP. If fishing and peat digging are included, the primary sector still involved no more than 39 per cent of labor, generating only 31 per cent of GDP. Industry accounted for 38 per cent of the labor force and 39 per cent of GDP, and services for 22 per cent and 30 per cent, respectively.¹¹³ A very large share of the Holland population was active in shipping and other transport services, retail,

¹¹⁰ De Boer, *Graaf en grafiek*, 211-245.

¹¹¹ Van Bavel & Van Zanden, 'The jump start'; Van Zanden, 'Taking the measure', 149-150; Van Zanden, 'A third road'; Van Bavel, 'Early proto-industrialization?'.

¹¹² Van Bavel, 'Early proto-industrialization in the Low Countries?', 1162; Hoppenbrouwers, 'Mapping an unexplored field', 54-57.

¹¹³ Van Zanden, 'Taking the measure'.

wholesale trade, measuring, administrating, both in town and countryside. This exceptional importance of the services sector in Holland was in part forced by the ecological disaster, but it was also enabled by the flexible organization of the labor and capital markets, and in its turn further stimulating the labor and capital market. This perhaps explains why exactly these markets developed that favorably in Holland. Also, it may explain why the lease market lagged behind there, since this market related to the relatively unimportant agricultural sector, and not to the services sector, and was not part of this positive feedback cycle between economy, market development and institutions.

The unfavorable organization of the lease market is also directly linked with the high medieval occupation history of Holland and the social structure that emerged here. The society of free peasants was hostile towards limited use rights to the land and remained so up to the sixteenth century. Only then, as peasant landownership was bought up by wealthy urban investors, this started to change. The absence of feudal power, the strength of associations and communities, the broad participation and the fragmentation of power all went back to the high Middle Ages and made their impact felt during the following centuries. As a result, except for the lease market, no social group in late medieval Holland was able to bend institutions to their own interest.

There are indications that at the end of the period under investigation change set in. In towns like Alkmaar income and wealth inequality increased markedly between the middle of the sixteenth and the middle of the seventeenth century.¹¹⁴ This process was even more pronounced in the metropolis of Amsterdam, and seems to have been widespread in the seventeenth-century Republic. Simultaneously town governments and patriciates became more closed, and barriers to acquire citizenship were raised.¹¹⁵ Material and political inequality thus increased in the sixteenth and seventeenth centuries. Perhaps the elite of merchant-entrepreneurs in the Holland towns, and especially in Amsterdam, used this economic and political power to freeze or adapt market institutions to their own interest. Here, we limit ourselves to a few possible examples.

Until the sixteenth century capital markets were only rarely subjected to taxation. Emperor Charles V was the first to tax long-term loans, in 1542. Initially he taxed the profits derived from mortgages, but in the seventeenth century the creation and

¹¹⁴ W.J. van den Berg en J.L. van Zanden, 'Vier eeuwen welstandsongelijkheid in Alkmaar, ca. 1530-1930', *Tijdschrift voor Sociale Geschiedenis* 19:2 (1993) 193-215.

¹¹⁵ M.R. Prak.

alienation of long-term loans were also taxed.¹¹⁶ This development coincided with monopolization: the public debt created by the States of Holland increased rapidly, and to promote Holland bonds, buyers received tax-exemption. So, on the one hand investing in capital markets became less attractive due to taxation, and on the other hand the state used tax-cuts to improve its position on the capital market.

Likewise, scale enlargement caused some of the most profitable ventures to become exclusive to economic elites. Whereas it was possible to subscribe to public debt investing small amounts of money in the Late Middle Ages, under the Dutch Republic entry sums rose. Also, entry sums for shares in the East India Company were high. Economic growth coincided with demands for new types of funding, which may have been efficient from a strictly economic perspective, but cut out large parts of the population. Scale enlargement was also found in landownership. In the sixteenth and seventeenth century the small-scale peasant landownership, so characteristic of the Holland countryside, became accumulated by wealthy burgher-investors.¹¹⁷ Especially the newly-reclaimed polders became the exclusive domain of the patriciate of the large Holland towns.

Commodity market regimes underwent changes as well. In the latter part of the fifteenth and particularly in the sixteenth century urban resistance to rural trade for instance increased. In 1515 the towns began pressuring the Habsburg government into banning rural trades and industries. Sixteen years later Charles V issued an ordinance to this effect.¹¹⁸ To be sure, existing activities were usually left in peace, so urban victory was far from complete. Still there can be no doubt that urban policy towards rural commerce became increasingly restrictive. In 1596 the Estates of Holland even made a complete inventory of all rural weigh houses, as the start of a campaign aimed at the removal of all unauthorized facilities that had not been in operation before the 1570s.¹¹⁹

VII Final observations

¹¹⁶ 't Hart, 'Public finance, 1550-1700', 13; Liesker & Fritschy, *Gewestelijke financiën ten tijde van de Republiek der Verenigde Nederlanden. Deel IV. Holland (1572-1795)*, 359.

¹¹⁷ Van Bavel, 'Political economy'.

¹¹⁸ E.C.G. Brünner, *De order op de buitennering van 1531. Bijdrage tot de kennis van de economische geschiedenis van het graafschap Holland in den tijd van Karel V* (Utrecht, 1918); for a concise summary P.C.M. Hoppenbrouwers, 'Town and country', 64-66.

¹¹⁹ *Register van Hollandt en Westvrieslandt*, 1597 (The Hague, 1574-1798), 76-81.

Explaining the development of institutions and assessing their effects is never an easy task. We do not pretend that our focus on a limited number of indicators for market efficiency solves all methodological problems, but we do think that this approach allows us to link up institutional theory and empirical data and thus contributes to a better understanding of pre-modern economic development.

Our research shows that already in the late Middle Ages Holland possessed a **favorable institutional organization of markets**, even compared to advanced regions such as Flanders and Eastern England. Although it is possible, even easy, to find many institutions held in common between these three regions, there are also clear differences. Especially the capital and labor markets in Holland compare favorably to elsewhere. This was not necessarily the only cause of Holland's rapid commercialization; non-institutional factors, such as the ecological problems that made the cultivation of bread grain almost impossible, and the favorable geographical location of Holland, played a part as well. However, favorable institutions did facilitate an adequate response to opportunities, ecological threats and external changes, thus allowing for a strong rise of markets and high market performance.

This development of markets was an intermittent process, evolving over many centuries, taking its shape under the interaction of various social groups and organizations that often clashed in pursuit of their own interests. One of the results of this analysis is the insight gained in the **role of authorities** in the development of this institutional framework. In Holland, this role turns out to have been mostly positive. This applies particularly to the role of authorities on the local level of the village and the town, but also on a regional or central level. The explanation for this exceptional situation appears to lie in the **balance** between different parties involved in political decision-making, both political bodies and organizations, and social groups, precluding dominance by way of power and necessitating these parties to co-operate or at least to arrive at a rational compromise. In its turn, this situation appears to be rooted in the period of occupation of Holland, i.e. the high Middle Ages, as Holland was colonized by free peasants under a territorial lord, creating a situation of exceptional freedom and a near-absence of non-economic force, with the nobility gaining only a weak position, in contrast to most other parts of Western Europe, and allowing various other groups to organize themselves and acquire a role in political decision-making. Especially the cooperation at a grassroots level emerging in the period of occupation made Holland stand out.

We also observe a strong **interaction between the various markets**. In particular the emergence of a well-functioning capital market enabled and reinforced the rise of land and labor markets. The resulting feedback cycle in Holland had a positive character, speeding up the growth of markets. In its turn this situation interacted with the real economy, and especially with the rise of the tertiary sector, which benefited from the favorable capital and labor markets, and probably stimulated their further development. Also, in a feedback cycle, these favorable markets and the possibilities they offered to broad groups in society, interacted with the socio-political composure which produced and further developed institutions. Perhaps this favorable context for the organization and functioning of markets helps explaining why economic growth and development proceeded longer than in Flanders, an area where market exchange also developed early but received an institutional organization which seems to have offered less flexibility and accessibility, and probably resulted in higher transaction costs.

The research also shows that the organization of trade and exchange of land, labor and capital is not the automatic expression of a natural human drive to trade or to make a profit. On the contrary, it is the result of very specific social conditions. Differences in these conditions result in a sharply differing organization, even between regions closely situated to each other, with sharply diverging effects on economic development. This situation to a large extent evolved at a **regional and local** level: not necessarily at a national level, let alone that of the modern nation states, often central in the analysis of institutional organization and economic development.

Furthermore this study shows that the institutional organization of markets as we know it now, already developed here from the high Middle Ages onwards. The foundation laid here in the tenth-twelfth centuries strongly influenced future developments. The form this organization took in Holland at that time, appears to have been conducive to economic growth. This research thus reveals, at least in part, the roots of the Golden Age of Holland and helps to explain why the Golden Age took place exactly here, in a **path-dependent** process of many centuries.

Knowledge on the mechanisms of long term economic development may enhance our understanding of economic failure. In many economies the institutional organization of exchange played, and still plays, a negative role, limiting or blocking economic growth. This research shows how hard it is to break or change this institutional organization, since these institutions are hardly the result of rational economic or social decision-making, but rather of existing social relations, the balance of power, custom and

vested interests. The Holland case also suggests that even in cases where market institutions had been conducive to economic growth these tend to petrify and become detrimental if too much economic and political power is concentrated in the hands of a single group in society. This insight is important today, both for development economics and in the western world.