

## HUGO GROTIUS AND THE DUTCH GOLDEN AGE

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*ABSTRACT:* This article provides a summary of the life and times of Hugo Grotius, his relevant works, and a brief overview and challenge of the accepted causes of the Dutch Golden Age. It then attempts to demonstrate a causal connection between Grotius's work and the prosperity and economic growth of the young Dutch Republic. This novel analysis presents Grotius as essential to the prominent portion of the Netherlands' history, during which it enjoyed the status of Europe's foremost economic and maritime power. It connects Grotius to European peace, Dutch free trade, development of industry, and sound financial institutions and proposes new causes of the Dutch Golden Age, all while locating Grotius firmly within the Austrian canon.

This paper examines the life, times, work, and especially the influence of Dutch humanist scholar, legal theorist, and natural law philosopher Hugo Grotius. Grotius lived and worked during the Dutch Golden Age, a period where seemingly out of nowhere the newly independent Dutch Republic became the most prosperous state in Europe and the foremost economic and maritime power in the world. Historians often term this golden age a miracle, but this article intends to add a new factor to their list of the causes of this sudden prosperity. This article attempts to demonstrate a causal connection between the application of Grotius's ideas of natural rights, contract theory, peace, and free trade and the economic growth of the Dutch Republic. It also locates and establishes Grotius

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as a key link in the line of Austrian economic thinkers from the Scholastics and their natural law to Carl Menger.

## GROTIUS'S LIFE

Hugo Grotius was born in 1583 in Delft to a prominent family. His father, Jan de Groot, was a merchant who, based on his records, traded timber and dealt in real estate and other investments. He also held significant positions of political office. Hugo Grotius himself received the best education that could be provided, where his genius became apparent. At the young age of eight he was composing substantial Latin poetry, and at the age of eleven he enrolled at Leiden University, where he would study the classical languages, philosophy, and law. Grotius received his doctorate of law at age fifteen from the University of Orléans, at which time a Bohemian nobleman wrote of him that “he is a master of Greek and Latin and knows a good deal of Hebrew” and that “he improvises Latin and Greek verses and is also at home in law and mathematics” (Nellen 2015, 51). Cox (1926, 153–55, 699–702) places Grotius third highest in a ranking of three hundred geniuses born between 1450 and 1850, ranking him a full ten points above Issac Newton, twenty points above Erasmus, and twenty-five points above Baruch Spinoza, all geniuses in their own right. Regardless of the accuracy of IQ tests performed posthumously, Grotius was clearly a genius, publishing 123 written works during his lifetime.

Grotius's publishing career began while he was still pursuing his studies. He gained attention in the public eye with early volumes of poetry in the vein of the classical authors and philological studies. But soon it came time for him to get a job, and he began his legal career as an advocate in The Hague, noting proudly in his own autobiography that he did so before he had reached the legally permitted age (Nellen 2015, 74). Grotius then had to teach himself the laws of the Dutch Republic, as the university merely taught Roman law. In fact, “there was no good handbook of the province's law until Grotius himself published his ... in 1631” (Nellen 2015, 78). Little is known of the individual cases which he fought in this early part of his career.

Grotius's professional relationship with the Dutch East India Company (referred to henceforth as the VOC, for Vereenigde Oost-Indische Compagnie), which would define much of his career, began in 1603 with the Dutch capture of the Portuguese carack *Santa*

*Catarina*. Grotius wrote up the admiralty's claim statement and gave legal advice to the company. From this time until 1606, he was busy writing *De jure praedae* (On the Law of Prize and Booty). The VOC commissioned him at only twenty years old to draft this work. In this work, Grotius employed his own natural law philosophies in a revolutionary new argument defending the company's right to seize at sea the property of those nations with which the Dutch Republic was at war. These ideas he would later expand in his work *Mare liberum* (*The Free Sea*) in 1609, and further in his flagship work, *De jure belli ac pacis* (*On the Law of War and Peace*) in 1625.

At the age of twenty-four Grotius was appointed to the post of advocate-fiscal of Holland, who "was a high law officer who acted as public prosecutor and legal adviser of the provinces of Holland and Zeeland" (Van Ittersum 2006, 189). While in this position, he fought many mundane court cases and he was once again hired by the VOC, this time to draft a memorandum advising them and their board of shareholders on what the options for the company were depending on each possible outcome of the peace negotiations between the Dutch States General and Phillip III of Spain (Van Ittersum 2006, 189). Although he played an indirect role, as the advocate-fiscal had no political place in the peace negotiations, Grotius's work was crucial in the formation of the Twelve Years' Truce.

Grotius then accepted a role in a more political office in 1613, this time as the pensionary of Rotterdam, in which he doubled his salary. However, scholars widely consider Grotius's talents to have been better suited to scholarly work and law than to politics. It was in this office that he became embroiled in the remonstrant and counter-remonstrant debate. He spent much of his time defending himself, his contemporaries, and some of his mentors from accusations of unorthodoxy. The young pensionary had many political duties in the role, including more work for the VOC. He wrote in defense of their trade empire once again, advising them and playing a critical role in securing the future of their operations (Van Ittersum 2006). However, all along, Grotius had been a devotee of statesman Johan van Oldenbarnevelt, especially during the discussions around the Twelve Years' Truce, and became increasingly partisan during his stint as pensionary of Rotterdam. This association would lead to his eventual downfall.

When the political situation reversed, and Oldenbarnevelt's party fell from power, Grotius and Oldenbarnevelt were arrested

together and imprisoned. They were tried and convicted, with Oldenbarnevelt being sentenced to execution and Grotius to life imprisonment. Hugo Grotius is best known in the Netherlands today for his escape from Loevestein Castle in a book chest, aided by his wife and her maidservant. After his escape, he lived in exile in Paris, where he finished his philosophical works, namely *De jure belli ac pacis*. Late in life he would serve as Sweden's ambassador to France, and he would die in service to the Swedish crown.

## GROTIUS'S WORKS

Hugo Grotius's first major work with significance to political philosophy and the Dutch Golden Age was *De jure praedae* (On the Law of Prize and Booty), which was written for the VOC's admiralty board in 1606 and of which *Mare liberum* is a part (chapter 12, which was published as a stand-alone pamphlet in 1609). As previously mentioned, the work was commissioned by the VOC to defend their plunder of a Portuguese trading vessel. Although it might seem that this text is an apologetic for state-run enterprise, perpetuation of piracy, empire building, and exploitation, the purpose of the text is of less concern than the content and quality of its arguments, because the philosophical underpinnings of Grotius's arguments would prove to have much further reaching influence than their immediate historical and legal context.

Grotius (2006) begins by setting out the conditions in which it would be just for Christians to seize booty from other Christians, namely war, and then those circumstances which justified war between Christians. These he called "the universal law of war," which he treated very uniquely (Van Ittersum 2006, xx). In the next section of the text he gives a long historical account of the conflict between the Dutch on the one side and the Spanish and Portuguese on the other, complete with a thorough record of early Dutch voyages to the East Indies and Portuguese wrongdoings against Dutch merchants.

Grotius defended the seizure of *Santa Catarina* using a set of natural laws:

The two primary laws of nature were self-defense and self-preservation. [Grotius] defined self-preservation as acquiring and retaining anything useful for life, a process which assumed that God had bestowed the gifts of his creation upon all human beings collectively but on none particularly: Only through physical seizure (*possessio*) leading to use (*usus*) could

ownership (*dominium*) be derived. Two further laws, of inoffensiveness (harm no one) and abstinence (do not seize the possessions of others), set limits to these primary laws; from these followed two further laws of justice: that evil deeds should be punished and that good deeds should be rewarded. (Armitage 2004, xiii)

Thus he would establish that because the Portuguese had committed evils against the Dutch and their indigenous trading partners, private war against them was legitimate, and the VOC captain's plunder of a Portuguese vessel constituted the punishment of evil deeds and was logically and morally defensible. All of this constituted a radical redefinition of natural rights and natural law.

The main thrust of Grotius's logical arguments in *De jure praedae*, however, is found in chapter 12, which would later be published as a stand-alone volume, *Mare liberum*, divorced from its context in the larger arguments of *De jure praedae*. In the chapter, he leans heavily on citations of Thomas Aquinas, and especially Francisco de Vitoria, the great Scholastics, to prove his point. He begins with the assertion that the indigenous trading partners of the Dutch in the East Indies were fully human and civilized, saying that "although they were partly idolaters, partly Mahometans, and entangled in grievous sins, yet had they both publicly and privately authority over their own substance and possessions which without just cause could not be taken from them" (Grotius 2004, 14). And claiming even further that the Indians were not "out of their wits and unsensible but ingenious and sharp-witted, so that no pretence of subjecting them may be taken from hence" (Grotius 2004, 15). This acknowledgment of the humanity of the natives, viewing them as humans with God-given natural rights, contrasts sharply with that of the English East India Company and the Portuguese traders. Both of these other foreign state-backed corporate entities justified exploitation due to the natives' pagan status, citing the likes of Hostiensis and John Wycliffe, who argued that grace conferred dominion on the believer and that thus their plunder of infidels was right (Armitage 2004, xv).

Once establishing the natives of the East Indies as humans, capable of reason and possessing natural rights to property, for according to Aquinas, whom Grotius (2004, 15) cites as saying, "it is a point of heresy to believe that infidels are not lords of their own goods," Grotius logically proceeds to assert that they are capable of giving consent. They are human, said Grotius, "hence they had the right to enter into commercial contracts with whomsoever

they wished" (Van Ittersum 2006, 98). Additionally they had experienced good faith from the Dutch in the VOC's defense of freedom of trade and navigation, and after all, "good faith was the basis of trade agreements and military alliances everywhere" (Van Ittersum 2006, 98). He argues that the indigenous trading partners of the Dutch had entered into contractual agreements through an act of will which they, as sovereign native princes, were fully capable of giving, offering their spices and other traded goods for certain compensation. Most importantly, through his contract theory, Grotius points out exclusivity clauses in these treaties or contracts which state that the natives' goods can only be traded with the VOC, and not with the Portuguese.

He also appeals to two of the natural laws which he laid out in his previous work *De jure praedae* (Grotius 2006, 6): "that all surely might use common things without the damage of all and, for the rest, every man contended with his portion shall abstain from another's." Grotius's logic disputed the Portuguese claims to exclusive trading rights with the East Indies, because in his view

neither the Portuguese nor anyone else could claim exclusive possession of the ocean around and leading to the East Indies. Because the sea is fluid and ever changing, it cannot be possessed; because it (and its resources, such as fish) is apparently inexhaustible, it cannot be used: "[t]he sea therefore is in the number of things which are not in merchandise and trading, that is to say, cannot remain proper." The land, by contrast, can be physically circumscribed, human labor does transform it, and its products are rendered private by their use (Armitage 2004, xvi).

However, the Portuguese, by attacking Dutch shipping and Dutch trading outposts, and by attempting to enter the market and trade with the same indigenous princes with whom the Dutch had arrangements, according to Grotius, were violating private property which had been contractually agreed upon to be transferred from the natives exclusively to the Dutch. He would further argue that VOC private military activity against the Portuguese constituted just war between Christians in the defense of the natural law, which was being violated. He justified the war and privateering by demonstrating that it took the form of enforcement of contracts voluntarily entered, and punishment for violation of said contracts.

The last of Grotius's major philosophical works of interest here is *De jure belli ac pacis*, written from exile in Paris in 1625, late in his life. Its primary topic is just war theory, and its enduring influence has

been in the field of international law. Thus, it unjustly receives little treatment here, since much of its subject it falls beyond the scope of this article. However, it expanded upon Grotius's previous works, particularly the sections of *De jure praedae* pertaining to the universal law of war. The book lays out a system of natural laws which governs all people at all times, regardless of race, religion, or custom, and claims that both parties fighting in a war must abide by these laws regardless of the justice or lack thereof inherent in their cause.

## GROTIUS AS A PROTO-AUSTRIAN

A direct line can be traced, nearly unbroken, from the invention of natural law philosophy with Aquinas all the way to Carl Menger and the formation of the Austrian school proper. This chain of thinkers, the Austrian line, is united in a conception of natural laws as both general and universal and of the individual as sovereign and free. Each built on the theories of the last, and some of them even made striking advancements which would not be systematized until the second or third generation of Austrian economists proper. Excluding Grotius's critical place in this chain would create an insurmountable missing link and would be to deny the progress of generations on which Austrian theories are built.

A brief overview, then, is necessary to demonstrate this unbroken line. The origins of Austrian theory are often traced back to Aquinas and the inception of natural law philosophy with the Scholastics. The nexus of this thought then shifts geographically in the fifteenth century to the Spanish School of Salamanca, with Bernardino of Sienna, Francisco de Vitoria, Domingo de Soto, Martin Azpilcueta Navarro, Juan de Mariana, and Luis de Molina. With Grotius, the Dutch became the inheritors of this tradition as the School of Salamanca was eclipsed. Grotius perfected the School of Salamanca's theories, especially Vitoria's theory of international law. The Swede Samuel von Pufendorf followed and expanded on the Grotian doctrine. Gershom Carmichael, a Scot, would then translate Pufendorf's Grotian texts into English. In England, the text would be picked up by Francis Hutcheson, the teacher of Adam Smith. Unfortunately, due to Protestant bias against the Catholic Scholastics, Pufendorf dropped all of the citations of the Salamanca school thinkers from his Grotius-inspired texts, so that by the time it reached Smith, it was divorced from its "pre-Austrian Scholastic influence" (Rothbard 1976). Thus, "utility began to be



weakened by labor and cost-of-production theories of value,” and “Smith and later [David] Ricardo shunted economics onto a wrong track, which the later marginalists (including the Austrians) had to correct” (Rothbard 1976).

But to effect this change, Smith had to intentionally disregard and reject significant advances which had been made and would not be made again until the era of the marginalists and their successors. As early as the fifteenth century, Bernardino had developed his own price theory along Austrian lines, solving the diamond-water paradox. Smith would later repropose the paradox as an open question after seemingly solving it himself in some of his early lectures. Navarro had created a supply and demand theory of money. Soto had applied the law of one price to money and developed the theory of purchasing power and exchange rates. Azpilcueta had invented the theory of time preference and used it to explain how interest and lending were mutually beneficial, striking a blow at the idea of usury. Mariana had invented price theory based on diffused societal knowledge, which would not be done again until F. A. Hayek and his Nobel Prize, and Molina created a robust theory of competition. The School of Salamanca, even before Grotius, had explained shortages as a result of state price controls and was on the cusp of a marginalist revolution. Joseph A. Schumpeter (1954) famously claimed that Smith’s derailing of economic theory set back the progress of thought by two hundred years.

Even though Smith’s theories came out of reading Grotian works, Grotius does not belong to the Smithian camp, but was clearly in line with the Scholastics. Rothbard himself (1976) locates Grotius in this chain of thinkers, referring to Grotius’s “emphasis on want and utility as the major determinant of value, and the importance of the common estimation of the market in determining price.” According to Armitage (2004, xv), Grotius read and explicitly cited many of these Salamanca school thinkers in his own work, including “de Vitoria and his fellow Salamancan, the jurist Fernando Vázquez de Menchaca” in *Mare liberum*. Elsewhere he directly refers to and “in fact, explicitly cited the Spanish Scholastics Azpilcueta, Navarro, and Covarrubias” (Rothbard 1976).

In addition to the broad concepts of natural law philosophy, natural rights for everyone, and a view of the individual as sovereign and free which undergird his texts, as well as the obvious



Salamanca influence, the precursors of specific modern Austrian ideas can also be found all throughout Hugo Grotius's writings. For example, Grotius draws an explicit distinction between means and general conditions (although that terminology did not yet exist), grounded in the understanding that ownership constitutes more than mere possession, that one must also control the use of a good in order to own it. These concepts inform his idea of property. As evidenced in *De jure praedae*,

[t]his distinction between territorial and maritime possession rested on a yet more fundamental difference between those things that could be appropriated and those that remained common by nature. If (as Grotius had argued in the body of *De Jure Praedae*) dominium could be derived only from use based on physical apprehension (*possessio*), only those things capable both of possession and of use could be appropriated from their pristine state of natural community, subject to the proviso that no other person should be harmed by the act of appropriation (an important limiting factor that permitted the private appropriation of the seashore but not at the expense of common access or use) (Armitage 2004, xvi).

Thus it becomes clear that Grotius's conception of the sea is synonymous with what modern Austrians term general conditions, precisely because Grotius recognized that the sea was distinct from other forms of property since it could not be appropriated or used. As previously quoted, "only through physical seizure (*possessio*) leading to use (*usus*) could ownership (*dominium*) be derived" (Armitage 2004, xiii). These Latin terms used by Grotius illustrate nicely the distinction in his mind between possession and ownership, and the fact that both possession and use are necessary for ownership, a principle consistent with modern theory. These ideas, expressed in writing by a twenty-one-year-old Grotius, would do more than refute Portuguese claims of exclusivity in the East Indies. They would, according to Armitage (2004, xvii), inform and "would remain central to later conceptions of property within the natural-law tradition up to and beyond John Locke."

Besides the Austrian ideas of general conditions and property, Grotius also provides a defense for unilateral free trade, consistent with later Austrian thought. He argues that the Portuguese have no exclusive claim to trade with the Indians, neither through "title of possession" nor by "title of the Pope's donation," nor by "right of prescription or custom" (Armitage 2004, 51–53). This denial of the pope's authority over the natural right of nations to trade resulted in the almost immediate banning of the book by the Catholic

Church. However, Grotius (2004, 57) goes beyond this in his conclusion to *Mare liberum*, claiming that “wherefore seeing both law and equity required that the trade of India should be free for us as for any other, it remaineth that we wholly maintain that liberty which we have by nature, whether we have peace, truce, or war with the Spaniard.” Thus, he argues for free trade to continue even under the circumstances of war. Furthermore, Grotius believed all people have an obligation to fight for the right to exchange and transport goods freely on the water, as the water was to be held in common, and that any restriction of this constituted a violation of the natural law and thus a just cause for war, both public and private. And so, he issues his twin calls to action: if the right to trade freely is impeded through any interdiction, “boldly fight not only for thine own liberty, but for the freedom and liberty of all mankind!” (using the word “fight” herein to mean both kinds of striving that Cicero identifies: debating and violence) and, later, “wherefore he that shall stop the passage and hinder the carrying out of merchandise may be resisted by way of fact, as they say, even without expecting any public authority” (Grotius 2004, 58, 60). So “Grotius’s *Mare liberum* [is] one of the first early-modern manifestos to advocate free trade” (Thumfart 2009, 67). And it does so regardless of circumstance, in peace, truce, and war.

Although not an exclusively Austrian concept, Grotius seems on some level to hold the capitalist peace hypothesis, which states that war harms trade and that free trade discourages war. Although at points it is difficult to reconcile Grotius’s lifelong struggle for peace with his advocacy of and apologetic work in relation to the VOC’s military actions in the East Indies, Grotius does seem to understand that war is not beneficial for trade. After all, in his advice to the East India Company during the negotiations of the Twelve Years’ Truce he advocated a peace treaty as the best outcome for the company and war as only the second best, albeit the most likely, outcome. According to Van Ittersum (2006, 191–92), he was well aware that “peaceful trade in the East Indies might well yield a higher return on capital than war and privateering,” and he “preferred [a peace deal guaranteeing] freedom of trade and navigation to all other options.” In fact, she states further that “Oldenbarnevelt immediately adopted Grotius’ recommendations as the official Dutch negotiating position” and proposed “a nine-year armistice in the East Indies,” a proposal which was actually sent to Spain (Van Ittersum 2006, 192). These and other positions taken by Grotius

seem to indicate at least an awareness of truths which would later be expressed by another fellow traveler of the Austrians, Frédéric Bastiat (2011, 220), who would remark, “If commerce were free, what use would you have for your great standing armies and powerful navies?”

Although utility and value were extinguished by the classical school, Rothbard (1976) contends that the heart of proto-Austrian thought, complete with the Salamanca school’s writings, persisted on the Continent, especially in Catholic countries. It is difficult to connect Grotius’s writing specifically with the Continental school thinkers, such as Ferdinando Galiani, Étienne Bonnot de Condillac, Anne-Robert-Jacques Turgot, Jean-Baptiste Say, and Richard Cantillon, through whom the Scholastics would eventually be intellectually connected to Menger, but some influence is possible, since Grotius lived and worked in Paris until 1645. However, the spirit of similarity persists; even if the French classical economists were not reading Grotius *per se*, their writings are united with his by the commonality of Salamancan influence, which Smith rejected.

## GROTIUS’S TIMES

The Dutch Golden Age was a period of sudden and unprecedented prosperity. Its earliest years were 1581 to 1600, and its primary phase lasted throughout the seventeenth century. During this time, the Dutch Republic became the leading economic and maritime power in Europe. Art and commerce flourished, and much has been made of the artwork of Johannes Vermeer and others in analyzing the culture of the period. It is no accident that still life paintings depicting ordinary objects became popular in this time and place, as standards of living skyrocketed, the Dutch rejoiced in materialism, and there was what Simon Schama (1987) termed an “embarrassment of riches.” A recent study by Timothy Brook (2007) demonstrates that the subjects of Vermeer’s paintings in particular reveal the role of trade and globalism in both the attitudes during and causes of the golden age. Paintings detailing tables spread lavishly with imported goods from the New World and the Orient, as well as seascapes providing glimpses of VOC harbors and merchant vessels, characterize the art of this period.

The golden age began with the States General’s break from Spain in 1581, which would be followed by the emergence of the Dutch Republic as a new sovereign and Protestant state in 1588.

What followed has been famously termed the Dutch miracle by some historians. Explosive leaps in population, growth of cities, development of technology, and expansion of commerce, accompanied by the growth of a middle class and rising standards of living, make the period worthy of this title. “This impact of this on a small country was overwhelming, even unparalleled [*sic*] in history, in terms of the pace, and scope, of the socio-economic transformation, the galvanization of an urban civilization which followed in its wake” (Israel 1995, 307). The golden age saw the young country create a global trade network spanning the East and West, and in fact achieving trade primacy. However, the wealth acquired through this transformation was not merely income for the state, as so often was the case when mercantilist powers and their colonial empires were at their peak. Rather, the golden age touched all levels of Dutch society. If golden age paintings and Simon Schama’s thorough analysis of the culture reveal anything, it is the fact that standards of living rose dramatically not merely for the nobility, as would have been the case in medieval times, but broadly, though often with the unfortunate result of gross excesses among the newly rich.

Some historians attempt to explain the Dutch Golden Age through geographic positioning and access to good harbors, or through supplies of cheap energy due to wind power, but these natural advantages of the Netherlands are not sufficient causes for such widespread economic growth, although they likely played a role. Here several of the more significant traditionally identified causes will be treated, along with several new ones, and an attempt will be made to fit them into an economic framework.

A central factor in any analysis of the golden age is the immigration cause. During the 1580s especially and onward a massive influx of population entered the Dutch Republic, or the northern Netherlands, many hailing from the southern Netherlands, which was still under Spanish, Catholic, Habsburg control. Israel (1995, 308) claims that “[o]f the four great west European migrations of early modern times ... the Protestant exodus from the Habsburg Netherlands in the 1560s ... at its peak in 1585–7, may well have been the largest of these, amounting to over 100,000 refugees and, possibly, as many as 150,000.” The Protestants, persecuted by the Catholic monarchies, fled, finding the Dutch Republic to be a safe haven. Many of these included merchants and skilled laborers.

This massive influx of people, many of whom brought particular skills with them, is often given as a causal factor for the Dutch Golden Age. However, residents of the southern Netherlands were not alone in immigrating to the Dutch Republic. A longer process of migration had been occurring, as the republic had been the ultimate destination of many displaced Jews from Spain and Huguenots from France. As a Protestant, specifically Calvinist republic, the Dutch tolerated these displaced groups, who are remarkable for the “speed and comparative ease with which [they] were integrated into Dutch society and economic life” (Israel 1995, 309). Israel and other historians attribute the immigrants’ integration into the preexisting division of labor to their skills. This process was part of a long-term trend in the medieval economy in which merchants operated in city-states, where their business practices were protected from both war and persecution by the church, and migrated when those protections ceased, taking their skills and wealth with them.

Another oft-cited causal factor is the Dutch Republic’s primacy due to its charter of the VOC and control of the so-called rich trades, a term referring to the merchandise equivalent of cash crops. As Johnathan Israel points out (1995, 307), “Dutch dominance of the ‘rich trades’ made possible not only a rapid increase in prosperity and resources but a massive, sustained expansion of the cities and proliferation of new skills and industries.” Although the VOC and its trade with the East Indies may be responsible for some of the economic growth of the Dutch Republic, the state squandered much of the company’s massive profits on war and privateering against Portugal. Most of the trade that the VOC would ultimately engage in was already occurring via multiple merchants<sup>1</sup> before the chartering of the company, which forced the preexisting merchants together. In addition, the British East India Company (EIC), with a similar corporate structure and carrying out the same trade in the same region around the same time, did not cause a golden age in Britain, although this may be due to internal differences in the

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<sup>1</sup> Before the VOC was chartered, competing Dutch merchant groups sent out many fleets. Most of these companies were funded for a single venture and liquidated immediately after, resulting in high risk for investors. For example, in 1595 Frederick de Houtman sent an expedition to Banten, the main port of the spice trade, in West Java, and in 1598 Jacob van Neck led eight ships to the Spice (or Maluku) Islands, in competition with many other merchant groups who sent fleets out the same year.

structure of the companies, which will be examined. Thus, the VOC seems an insufficient cause, not to mention that overstating its effect on the Dutch economy would be to ignore all of the Continental trade which the Dutch Republic engaged in. In fact Israel (1995, 316) speaks to this important trade, saying:

Bulk-carrying especially of Baltic grain and timber, was undoubtedly of fundamental importance in laying the foundations of the Golden Age. Holland's resilience, and resourcefulness, during the Revolt owed much to the widely diffused profits, as well as the ships and seamen, of the Baltic trade. The high level of urbanization, and urban vitality, of Holland and Zeeland on the eve of the Golden Age stemmed largely from the carrying traffic. Also, after 1600, bulk-carrying nourished Holland and Zeeland with a more abundant stock of ships, seaman, and naval stores than could be found anywhere else.

It was this trade with the Baltic states, Poland, and the Turkish Levant, the "mothertrade," termed by Schama (1987, 340) "the gold mine of Baltic staples," which was the primary source of wealth for the young republic. Trade with Spain during periods of peace and in the latter portions of the golden age and trade with the American colonies would also play a large part. The formation of the VOC cannot be the only causal factor for the Golden Age.

A third main causal factor frequently supplied by historians is the Protestant work ethic theory of Max Weber. Economists Ronald Findlay and Kevin H. O'Rourke applied Weber's theory that Protestants, especially Calvinists, with their natural inclination toward the glorification of labor and their propensity toward thrift to the rise of the Dutch Golden Age. Such an explanation would seem to have some explanatory power given that the beginning of the golden age coincides with the revolt against Catholic Spain and the formation of a Calvinist republic, along with the mass migration of Protestant laborers into the Dutch Republic. However, rather than a general "work ethic" unique to Protestants, a more compelling feature of their uniqueness is their lack of aversion to usury. It is this fact that made the Protestant Netherlands a haven for Jews expelled from Spain and in turn enabled the rise of banking within the Dutch Republic, setting it apart from many of its neighbors. The lack of medieval Catholic prohibitions on usury in the Calvinist Dutch Republic quickly led to the emergence of a banking sector. Stephen Quinn and William Roberds (2005, 1) point out that "in 1609, Amsterdam opened the first exchange bank in northern Europe." This meant the presence of stable financial institutions

and availability of credit, as well as the convenience of currency exchange for international trade.

Moreover, the banks of Amsterdam were 100 percent reserve banks all throughout the 1600s. These banks, in contrast with a fractional reserve system, had a much more sound money, were immune to failure via bank runs, and were significantly less prone to illiquidity and insolvency than other banking systems. It is no wonder then that Adam Smith ([1776] 2000) praised the Bank of Amsterdam's money for "its intrinsic superiority to currency." At this time Amsterdam attempted to outlaw private banks, such as the branch banks that the medieval merchants of the Italian city-states had established as far north as Holland but was unsuccessful (Kohn 1999). And it was the Bank of Amsterdam, founded early in the golden age, which inspired similar institutions all across northern Europe, including other key cities of the Dutch Republic, namely Delft and Rotterdam (Quinn and Roberds 2005). Thus, although Protestantism did bring its so-called work ethic to the Dutch Golden Age, more importantly, it enabled or even caused some of the earliest and most successful examples of banking in the early modern world. The existence of sound financial institutions and the availability of credit provide an explanation of the Dutch Golden Age more consistent with Austrian theories of economic growth than other reasons that are typically supplied.

Additionally, Johan van Oldenbarnevelt, whose protégé was Grotius himself, founded the VOC in 1602, which was financed by shares the selling of which created the first modern stock exchange. Thus in 1602, Amsterdam gained a stock market. The significance of this financial institution is undeniable; after all, it was Mises himself that claimed, in response to Rothbard, that a stock market was the dividing line between socialism and capitalism: "A stock market is crucial to the existence of capitalism and private property. For it means that there is a functioning market in the exchange of private titles to the means of production. There can be no genuine private ownership of capital without a stock market: there can be no true socialism if such a market is allowed to exist" (quoted in Cwik 1999).

Herein lies the key distinction between the British East India Company and the VOC which allows for the Dutch East India Company to be considered a relevant factor in the Dutch Golden Age. Although the EIC was founded first, and the VOC was created in reaction to the British company by a government act that forced



independent Dutch merchants together, from its inception the VOC was publicly traded on the stock market which its shares created. This made it the first ever modern publicly traded company, which contrasted with the EIC, which was merely a joint stock company. A joint stock company does not operate through continuous public investment, and in the case of the EIC, only the founders bore the risk of investment and each individual venture or voyage was sponsored separately. The Amsterdam Stock Exchange allowed stock in the VOC to be bought and sold publicly, giving the company constant capital, and the widespread prosperity of the period allowed middle-class Dutchmen to invest in this company's stock who had never invested before. In the case of the EIC, it was only the British government, which had granted its charter, and the investors in the joint stock company that profited from the company's gains (at least until its eventual restructuring after the Dutch model in 1657, which was too little too late to prevent its many bankruptcies). But when the VOC brought in profit and its stock prices rose, everyone who invested experienced gains. This led to one of the defining traits of the golden age, the creation of a Dutch investor class, as well as the expansion of the merchant class and the merchant elite. In 1602, at its founding, as Israel (1995, 345) demonstrates, the VOC already had 1,143 investors in its Amsterdam chamber and another 264 in the Zeeland chamber.

This number would only grow as the public bought stocks, spreading out the risk of financing such long-distance trade, making global exchange sustainable. This growth also spread out the profits, disseminating them throughout society to many common merchants turned investors, which explains the rapid socioeconomic change of the golden age. These initial investors were regular merchants, including "Gerrit Bicker, son of a Brewer, .... Geurt Dircksz van Beuningen, a great merchant who was the son of a cheese dealer, ... Gerrit Reynst ... , son of a soap boiler," all merchants "of modest origins," together with many "elite immigrant merchants" who brought their capital when displaced from Spain, France, and the Southern Netherlands by persecution (Israel 1995, 346). The dramatic increase in standards of living, which escalated modest merchant types to wealthy investors by the tens of thousands in mere generations, occurred because of the development of one financial institution: a stock market. This process has been termed economic growth, and it explains much of the Dutch Golden Age phenomena.

Lastly, another plausible causal factor is the expansion of the capital structure toward the production of higher-order goods with longer and more capital-heavy production processes. This phenomenon, central to Austrian theories of economic growth, was occurring before the Dutch Golden Age and especially in its early stages. For example, Rotterdam, one of the most important cities in the golden age,

had grown by leaps and bounds during the Revolt, from about 7000 inhabitants in 1550 to 13,000 in 1600, many of the immigrants from the south; and by 1622 it had a population of 20,000. In these years the balance of the city's economy shifted from trading in and processing bulk foods such as herring, timber and grain, to more valuable products including textiles, silver, dairy produce, spices, oil and wine. (Nellen 2015, 168)

This transition, from lower-order good production and raw material exportation to higher-order good production and exportation, is central to economic growth. At the beginning of the golden age, Rotterdam, and many other cities of the Dutch Republic, began to shift toward production of more capital-intensive goods such as manufactured goods (textiles, wine, etc.).

By the latter half of the Dutch Golden Age, this transition would be so complete that it was the Netherlands, not England, which supplied most of the American colonies' manufactured goods. According to Bailyn (1955, 127), the Puritans maintained a regular exportation of tobacco to Holland and importation of manufactured goods "from Dutch markets," despite the fact that "most of the traffic with those places was illegal" in the seventeenth century. After the golden age, the transition of the Dutch economy from raw material production to a developed economy producing capital-intensive manufactured goods was so complete that "Boston's principal source for illegally imported manufactures was Holland" during the revolutionary era (Tyler 1986, 13). Much of this trade came from Amsterdam specifically. Israel (1995, 307) makes much of this transition, saying in reference to the Golden Age that "at the heart of this process, one of the most crucial shifts in Dutch history, was the rise of the 'rich trades' *and the processing industries which accompanied them*" (emphasis added). These processing industries are a prime example of economic development and growth, because the new industries which grew produced goods with longer production structures.

## GROTIUS'S ROLE IN THE DUTCH GOLDEN AGE

But the question of what role, if any, Hugo Grotius himself played in the Dutch Golden Age remains. Can a causal connection of some sort be established between his ideas (which have a deserved place in the Austrian canon) and the economic growth of the Dutch Republic during the golden age? If such a causal connection can be demonstrated, it will lend significant weight to Austrian theories by demonstrating that the application of loosely Austrian ideas, namely those of Hugo Grotius—natural law philosophy, free trade, contract theory, and peace—have caused significant economic growth and widespread prosperity in the past.

To begin, let us examine Grotius's direct contributions to the VOC's success and profitability, since, as has been demonstrated, its trade primacy and dissemination of wealth through its stock prices constitute significant causal factors in the golden age. Grotius served not only as the primary legal advocate for the VOC, but as one of its key advisors on policy, particularly in the face of government impositions. It was Grotius whom the VOC's board of shareholders consulted on what would be the best and most profitable entrepreneurial decisions in the case of a peace treaty with Spain, a truce with Spain, or continued war with Spain. He frequently advised the States General and the *Heeren XVII* (the lords seventeen), the group of shareholders who controlled VOC policy, who were chosen from among the seventy-six managing directors, themselves also shareholders. During Grotius's life, the VOC was given significant autonomy from the States General, although investors had to swear an oath of allegiance to the state, and the state could intervene in matters of empire building and private war.

Throughout the Dutch Golden Age, the VOC enjoyed considerably higher profits than the EIC, and its trade strategy was consistently more successful, despite the fact that the EIC imported on average twice as many textiles, such as silk, into Europe during the seventeenth century. The VOC's stock prices varied surprisingly little, while the EIC faced multiple bankruptcies throughout its history. The VOC was the wealthiest commercial operation in the world, and its shareholders felt this in their annual dividends. Even in the 1670s, when the VOC's trade was stalling and the EIC took over portions of the Dutch monopoly on spices, the VOC's financial resources were so much larger than their competitor's that they could afford to wait out the English for a whole decade

while the price of spices was low. In the end, according to the insightful study of De Vries and Van der Woude (2011), the EIC faced bankruptcy in 1683 and its stock shares fell by two-thirds of their previous price. It would not be unreasonable to attribute this consistent superiority of the VOC at least in part to Grotius's advice, which informed their strategy, which was grounded in contracts with the native princes, as well as his clever legal defense of the company's actions in *Mare liberum*, *De jure praedae*, and other pamphlets, which kept the company in business. Grotius ensured that the company's interests were heard, represented, and defended in the Twelve Years' Truce negotiations and "at the Anglo-Dutch colonial conferences of 1613 and 1615," and thus, he is at least partially responsible for the VOC's success (Van Ittersum 2006, liv). In addition, Van Ittersum (2006, lvii) claims that

Grotius' services were indispensable to the VOC directors on this as well as other occasions. At their request, he wrote two petitions that were submitted to the Dutch Estates General in the spring of 1606. He argued that the Dutch Admiralty Board should relinquish its twenty percent share of all VOC booty, which could be better used to a) finance the war in Asia and b) pay dividends to VOC shareholders.

It is hard to deny the positive economic effect this action on Grotius's part had for the VOC, since he temporarily eliminated a significant government imposition on the merchants, namely a tax on their profits, which if eliminated would increase the income of shareholders significantly.

Grotius's role in the negotiations of the Twelve Years' Truce itself has often been downplayed by historians, but Van Ittersum (2006, lvii) rightly amends this account, disproving "the wide-spread assumption that Grotius was just a marginal player in these talks." Rather, his advice to the admiralty board of the VOC, that peace with Spain was the best outcome for the company's interests, was submitted directly to the States General and became the official Dutch negotiating position. Naturally, it was denied outright by Philip III, but neither side intended to continue the war to the same degree, and peace talks continued on Grotian principles the next year. Although his involvement became less direct since he was not in a political position to negotiate, "the Truce treaty did safeguard the VOC's commercial and political interests along the lines envisioned by Grotius" (Van Ittersum 2006, lix). Indeed, Grotius's struggle for free trade finally paid off in a real way, going

beyond a theoretical principle confined to the pages of scholars' texts. From 1609 to 1621, as a direct result of his influence in the Twelve Years' Truce, the Dutch experience

was characterized by ... even greater success than before in European waters. The lifting of the Spanish and Flemish embargoes in 1609, combined with the suspension of Spanish and Flemish privateering against Dutch shipping reduced Dutch freight and marine insurance charges, enhancing further the competitive edge the Dutch enjoyed over the English and Hanseatics through their lower freight rates. This, together with improved access to the Mediterranean as well as Spain and Portugal, greatly strengthened Dutch Mediterranean trade (for the time being), temporarily enabled the Dutch to eclipse the English in the direct seaborne trade to the Levant, and also brought the Dutch to the peak of their ascendancy in Baltic commerce. (Israel 1995, 313)

Thus, Grotius himself, through his role in making free trade and the cessation of privateering a key point of the truce, was directly responsible for ushering in what historians call the second phase of Dutch world trade primacy, during which some of the greatest gains of the golden age occurred. Grotius deserves credit not only for the aforementioned increased access to Iberian, Mediterranean, and Baltic markets, but for the decrease of Dutch war expenditures during the truce.

Grotius is also responsible, albeit indirectly, for the fourth phase of Dutch primacy (1647–72). Despite the fact that he died in 1645, his ideas were still being applied on the national and, for perhaps the first time, the international stage after his death. In his last major philosophical work, *De jure belli ac pacis*, Grotius laid out the foundations of international law theory and the idea of an international society. These ideas would be put into practice by political leaders in the 1648 cessation of the Thirty Years' War at the Treaty of Westphalia and the termination of the Eighty Years' War. "The idea of international society which Grotius propounded was given concrete expression in the Peace of Westphalia, and Grotius may be considered the intellectual father of this first general peace settlement of modern times" (Bull, Kingsbury, and Roberts 2003). In fact, this causal relationship cannot be stressed enough. "Legal historians and IR [international relations] specialists would project the European states-system backwards in time and attribute its invention to the alleged architect of the Peace of Westphalia, Hugo Grotius," and they still do today (Van Ittersum 2006, xxx). The Peace of Westphalia is built on specifically Grotian ideas and could not have occurred without him.

More importantly, the Peace of Westphalia ushered the Dutch Republic into phase four of its golden age. Once again, according to Israel (1995, 610–11),

the principle determinants of the general restructuring were the lifting of Spanish embargoes (1647), the end of the Flemish privateering campaign against Dutch shipping (1646), the cessation of Dutch-Spanish hostilities in the New World (1647), a sustained and steep drop in Dutch freight charges and marine insurance rates, the lifting of the Dutch naval blockade of the Flemish coast (1647), and the conclusion of fighting, and disbanding of armies, in Germany and the north Netherlands.... Amsterdam resumed her former direct commerce with Spain.

The peace this time was not as short lived as it had been in 1609, and not only with Spain, but across Europe. This meant that Dutch trade with Italy and the Levant was restored, regained ascendancy in the Mediterranean and Caribbean, and “translated into a deeper Dutch penetration of other major European markets such as France and Russia” (Israel 1995, 611). The expansion and restoration of trade networks for the Netherlands further developed its economy, supporting the “rich trades” and their long structures of production. This transition ushered in by the Grotian peace in Europe

is indeed fundamental to any proper understanding of the Dutch Golden Age. For practically every single Dutch export industry of importance in the seventeenth and eighteenth centuries ... was at its height from the late 1640s down to the early — or in some cases the middle of the — eighteenth century, industrial performance being directly, and integrally, linked to the “rich trade” framework. (Israel 1995, 611)

Thus, this latter phase of the golden age, while near the end, is quite possibly the most important, for it caused expansion of the capital structure, taking the Dutch Republic in just a few decades from a raw materials exporter to a producer of manufactured goods.

As so often happens in the phenomenon of industrialization, the process began with the textile industry. After all, the Industrial Revolution had its inception in the textile mills of England, and America’s transition from a raw material exporter to an industrialized economy also began with the textile mills of New England. And the Dutch Republic was no different. The Grotian Peace of Westphalia allowed the Netherlands access to the Iberian wool markets, which had previously been impossible due to war with Spain. Thus, the Netherlands began a sort of protoindustrial revolution as they transformed their economy from one of raw materials,

deriving most of its wealth from the bulk trades in the Baltic during the first three phases of the golden age, to one of consumer goods, which require more capital to produce. This process occurred across many industries in this period because of the peace treaty of Westphalia: turning raw Iberian wool into textiles, turning raw Caribbean sugar into refined sugar, and becoming a major producer of cheeses and wines. The economic growth in this phase of the golden age occurred in specific industries which correspond to more substantial economic growth because they require more capital accumulation, namely capital-intensive processing and refining industries. This transition allowed Holland to become the chief source of manufactured goods for the American colonies in the seventeenth and eighteenth centuries, even and especially under the Navigation Acts. It saw the rise of complex structures of production, such as those of fine cloth, silks, cotton, linen, whale oil processing, papermaking, tobacco spinning, sail canvas weaving, Gouda pipes, sugar refining, and the tile industry, which did not begin to truly flourish until the latter half of the seventeenth century and would carry the republic through the rest of the golden age and beyond (Israel 1995, 612). It is this transition, toward industrialization, that constitutes real economic growth and separates developed economies from underdeveloped ones. And it is this transition for which Hugo Grotius is in part indirectly responsible. Although he was no longer alive, his role is undeniable. The Peace of Westphalia, and the accompanying prosperity could not have occurred without the application of his ideas.

Most scholars have ignored the role Hugo Grotius played in causing and perpetuating the Dutch Golden Age. Scholars of Grotius himself seem to focus solely on his ideas and their importance in the scholarly arena, their impact in the study of rights and international relations, ignoring their application, while scholars of the Dutch Golden Age ignore him altogether, since his peace proposal was initially rejected. Additionally, scholars of the Dutch Golden Age and of Grotius himself fail to ascribe to him the full credit he is due, since his political party lost power so early in the golden age with the execution of Johan van Oldenbarnevelt and the exile of Hugo Grotius before his political ideas could be fully applied. None of the scholars whom this article consults appear to explicitly connect Grotius with any of the causal factors of the Golden Age, as this article has attempted in the preceding pages.



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