Hiding in a Twilight Zone

Credible Commitment in the Dutch Republic and Groningen's 1680s Default

Tirer profit de l'équivoque. L'engagement crédible des Provinces-Unies et le défaut de paiement de la province de Groningue en 1680

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Hiding in a Twilight Zone: Credible Commitment in the Dutch Republic and Groningen's 1680s Default

Alberto FEENSTRA*

Abstract. The Dutch Republic is frequently depicted as an early example of a state's credible commitment to debt. Yet these studies tend to overlook the implications of the Republic's federal structure. This paper analyses the default by the province of Groningen during the 1680's, at the expense of its creditors in the province of Holland. It argues that Groningen's unique position within the federation prevented the market to punish the province for its misbehaviour. This was the coincidental historical outcome of the interaction between creditors and provincial and federal authorities. Ultimately, the creditors resorted to essentially medieval sanctions to enforce a solution.

Keywords. Public debt, Dutch history, Default, Political economy, Economic history

Résumé. Tirer profit de l'équivoque. L'engagement crédible des Provinces-Unies et le défaut de paiement de la province de Groningue en 1680. Les Provinces-Unies sont souvent envisagées comme l'exemple d'une garantie donnée à la soutenabilité de la dette souveraine. Cette approche a tendance à négliger les implications de la structure fédérale des Provinces-Unies. Cet article analyse le défaut de paiement de la province de Groningue dans les années 1680, au détriment de ses créanciers dans la province de Hollande. Il fait valoir que, par sa position unique au sein de la fédération, Groningue a empêché le marché de punir toute la province pour sa mauvaise conduite. Cette situation était le fruit d'une coïncidence historique relevant de l'interaction entre les créanciers, d'une part, et les autorités provinciales et fédérales, de l'autre. De fait, les créanciers ont eu recours à des sanctions de type essentiellement médiéval pour trouver une solution.

Mots-clés. Dette publique, Provinces-Unies, défaut de paiement, économie politique, histoire économique

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A state's credible commitment to debt is supposedly a key factor for various financial revolutions throughout history that formed a basis for modern financial systems and economic growth, due to the protection of property rights.¹ Although a positive link between finance and growth appears to exist, the causal relation between early-modern public finance, financial markets and economic growth continues to be debated.² Similarly, the widespread notion that institutions that protect property rights fostered growth has been both criticised and elaborated on.³ This paper contributes to the debate by analysing the default of the Dutch province of Groningen in the 1680s in relation to the Dutch political institutions and the capital market.

The Dutch Republic is a noteworthy object of study in this respect in several regards. Firstly, the Republic has been portrayed as the first modern economy, not in the least because of its advanced financial sector.⁴ Secondly, the Dutch Republic's institutional organisation consisted of representative units 'between medieval communes and modern nation-states', which supposedly simultaneously created agency and improved fiscal morale.⁵ Thirdly, the Dutch maintained a large public debt with low interest rates, which can be seen as indicator for a modern political economy.⁶ Finally, the Dutch late sixteenth-century financial and tax revolutions financed its struggle for independence and coincided with its rise as major European power.⁷ Considering these features in the light of the 'credible commitment' thesis, sovereign default would seem unlikely in the Dutch Republic.

1. P. L. ROUSSEAU & R. SYLLA, 2006, p. 4; D. C. NORTH & B. R. WEINGAST, 1989, p. 803; P. G. M. DICKSON, 1967; J. D. TRACY, 1985; D. ACEMOGLU & J. A. ROBINSON, 2012; D. ACEMOGLU, S. JOHNSON & J. A. ROBINSON, 2005.

2. W. FRITSCHY, 2003; O. C. GELDERBLOM & J. JONKER, 2011; D'M. COFFMAN & L. NEAL, 2013; S. R. EPSTEIN, 2000; D. CHILOSI, 2014; M. DINCECCO, 2009a, 2009b; P. L. ROUSSEAU & R. SYLLA, 2006; A. L. MURPHY, 2013; N. SUSSMAN & Y. YAFEH, 2006; M. BUCHINSKY & B. POLAK, 1993.

3. D. ACEMOGLU & J. A. ROBINSON, 2012; N. SUSSMAN & Y. YAFEH, 2006; D'M. COFFMAN, A. LEONARD & L. NEAL, 2013.

4. J. DE VRIES & A. VAN DER WOUDE, 1997; L. O. PETRAM, 2011; J. D. TRACY, 1985; J. L. VAN ZANDEN & B. VAN LEEUWEN, 2012.

5. J. L. VAN ZANDEN & M. R. PRAK, 2006; M. R. PRAK & J. L. VAN ZANDEN, 2014; O. C. GELDERBLOM, 2009, p. 3-4; M. R. PRAK & J. L. VAN ZANDEN, 2009.

6. J. L. VAN ZANDEN & M. R. PRAK, 2006, p. 140; E. H. M. DORMANS, 1991; W. FRITSCHY, 1988; M. C. 'T HART, 1993; D. STASAVAGE, 2011.

7. J. I. ISRAEL, 1995; W. FRITSCHY, 2003; J. D. TRACY, 1985; O. C. GELDERBLOM, 2009; M. C. 'T HART, 2014; S. R. EPSTEIN, 2000, p. 12.

Yet during the 1680s the province of Groningen defaulted on its creditors in Holland and did not solve the problem until 1761. In the 1660s and early 1670s, the province of Groningen borrowed extensively from creditors in the province of Holland, in the form of redeemable and life annuities. The province had, however, trouble servicing the debt and began running into arrears from 1672. Gradually, an increasing number of annuities remained unpaid. During the 1670s and 1680s, the States of Groningen made irregular payments to creditors in Holland. In an attempt to restructure the debt, the province of Groningen reached an agreement with the possessors of redeemable annuities, in 1686. This was not, however, the case for life annuity holders. The majority of the life annuity holders received no interest payments after 1685, which made the default complete. In spite of requests from creditors and the provincial States of Holland, Groningen refused to pay. Until the Holland creditors invoked the Law of Reprisal in 1759, the States of Groningen were able to get away with it. A final agreement to solve the issue was only reached in 1761; the Groningers promised to pay 60% of the unpaid sum of 1.1 million guilders.⁸

To understand how Groningen's temporary deficits evolved into a persistent default, we need to understand the Dutch Republic's institutional organisation and the province's position within the federation. This is a vital element of the analysis, because defaulting risk differs for domestic and foreign creditors. By defaulting on the creditors in Holland, Groningen singled out a specific and easy to identify group, which was a common practice in early-modern Europe.⁹ Moreover, creditors living in Holland were not represented in Groningen's assembly, which consisted of people living in Groningen. This deprived them of the credible commitment check on public finance.¹⁰ Therefore, external commitment mechanisms were necessary to credibly commit the province. To mitigate sovereign default risk, the literature emphasises four mechanisms to increase commitment to external debt (re)payments: the role of reputation for future borrowing,¹¹ economic

8. Regionaal Historisch Centrum Groninger Archieven (hereafter: RHC-GA), Archief van de Staten van Stad En Lande, 1594-1798 (hereafter: SvSL), inv.nr. 2276: for an impression of the purchasing power of the guilder, please consult: <http://www.iisg.nl/hpw/calculate.php>.

9. F. VELDE & D. WEIR, 1992, p. 5; M. DRELICHMAN & H.-J. VOTH, 2011; C. ÁLVAREZ-NOGAL & C. CHAMLEY, 2014.

10. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 10-11.

11. M. TOMZ, 2007; C. M. REINHART & K. S. ROGOFF, 2009; J. EATON & M. GERSOVITZ, 1981.

spillover effects,¹² contingent debts,¹³ and sanctions or supersanctions.¹⁴ The use of sanctions had been frequent in the Low Countries during the late middle ages, when the Law of Reprisal provided external creditors with the right to seize or imprison citizens of a defaulting public body – with very disruptive consequences for the economy of the towns involved.¹⁵ Yet, Van der Heijden argued that this form of contract enforcement became extinct during the late 16th century.¹⁶ Perhaps the disruptive consequences fostered its extinction, while the incorporation of the various provinces into the Dutch federal state might have offered alternatives to overcome the fundamental problem of exchange.¹⁷

This paper maintains that Groningen's credit relation with its creditors in Holland was neither internal nor external, but a mix of both, due to the federal structure. As a result, neither type of commitment mechanism worked. In this institutional twilight zone, the federal government and Groningen's provincial government – States of Groningen – discovered a common ground that marginalised the Holland creditors. Their interest was subordinated to the interest of Groningen's provincial state and the common cause of the Republic's security. Consequently, this paper adds to the debate about the alleged institutional incompetence of the Dutch Republic as cause of its decline and to the debate about the relation between credible commitment to debt and state formation in general.¹⁸

The paper proceeds as follows. The first section highlights Groningen's position within the institutional structure of the Dutch Republic. Section two discusses the main features of Groningen's public finance. Then, the provincial borrowing behaviour is examined in relation to the capital market before the default. Sections four and five consider the default itself. The former section analyses the character of the default, as piecemeal and unstructured. The latter section scrutinizes Groningen's failed negotiations with Holland life annuity holders. The sixth section summarizes the persistence and eventual resolution of the default in 1761, while emphasising the role of the Dutch

12. R. ESTEVES & J. T. JALLES, 2013; G. SANDLERIS, 2014.

13. M. DRELICHMAN & H.-J. VOTH, 2013; H. I. GROSSMAN & J. B. VAN HUYCK, 1988.

14. K. S. MITCHENER & M. D. WEIDENMIER, 2010; K. OOSTERLINCK, L. URECHE-RANGAU & J.-M. VASLIN, 2013; J. BULOW & K. S. ROGOFF, 1989.

15. C. J. ZUIJDERDIJN, 2007, p. 63; A. GREIF, 2006, calls this collective liability for debt the Community Responsibility System (CRS).

16. M. VAN DER HEIJDEN, 2006, p. 20.

17. A. GREIF, 2000.

18. W. FRITSCHY, 1988, p. 70-73; J. DE VRIES, 1968; S. R. EPSTEIN, 2000, p. 31.

Republic's central level – the Generality – in circumventing punishment by the market. Section seven concludes.

1. Groningen within the Dutch Republic

The Dutch Republic emerged from the Dutch Revolt or Eighty Years' War (1568-1648). The treaty of the Union of Utrecht (1579) laid down the provinces' common mutual defence obligations. Hence, this document was not designed as a constitution for the Dutch Republic, although it was the only formal document binding the provinces together. The States-General became an assembly of delegates from sovereign provinces, with the sole prerogative to decide about foreign affairs and about warfare.¹⁹ These decisions had to be taken unanimously, so each province possessed a veto.²⁰ Even though this form of government had disadvantages, including laboriousness, provincial autonomy formed the essence of the Dutch political system. Within this institutional context Groningen occupied a unique position.

Groningen only formally became a province of the Dutch Republic in 1594 with the Treaty of Reduction (*Tractaat van Reductie*). This document was drawn-up after the Dutch States Army captured the city of Groningen that year. Whereas the countryside of the province (*Ommelanden*) had remained loyal to the Revolt, the city had returned to the Spanish side. The Treaty of Reduction arranged the conditions under which Groningen became a member of the Union. For defensive reasons, the States-General did not want alienate the city. Therefore, the city and countryside were joint as equals into one province, each member holding one vote in the provincial States. This equal power sharing often paralysed the political process because votes became easily equally divided.²¹ To overcome deadlocks, the Treaty of Reduction granted the States-General the power of settling disputes.²² These far-reaching powers of the Generality circumscribed Groningen's provincial autonomy, a unique situation within the Dutch Republic.²³

19. R. J. FRUIN, 1901, p. 175, 184-185.

20. *Ibidem*, 182.

21. W. J. FORMSMA, 1967, p. 235; M. SCHROOR, 2008a, p. 153-158.

22. W. J. FORMSMA, 1967, p. 235, 368; M. SCHROOR, 2008a, p. 153-154.

23. E. H. WATERBOLK, 1967, p. 235.

Moreover, the States-General already possessed the right to enforce payments for the common defence of the Dutch Republic, in case of serious arrears. Any defaulting province could even be forced to pay by military means, although this was rare.²⁴ This might seem draconic, but the Generality depended heavily on the provincial contributions to finance army and navy; over 80 per cent of the income came from the provincial coffers and more than 80 per cent of the expenses were intended for the military.²⁵ To remedy the constant quarrels about the contribution to the Generality, the provincial shares in the annual central budget became fixed in 1616, an arrangement which lasted for almost two centuries.²⁶ Nonetheless, securing income for the Union's defences remained the Generality's major concern throughout the existence of the Dutch Republic.²⁷

In order to ensure the regular payment of troops, the States-General could issue loans in expectation of future provincial contributions. During the Eighty Years' War, most of the sums that the Generality borrowed covered provincial contribution arrears.²⁸ Yet, as the Generality's own income was but meagre, its credit depended on factors beyond its direct control: 'military solicitors' who advance payments to the troops, the personal credit of the Union's Receiver and provincial contributions.²⁹ The Generality's credit greatly improved during the early seventeenth century, as Holland's credit backed these loans and stood surety for the interest payments.³⁰ The Generality depended, nonetheless, much on the provinces' willingness to meet their financial obligations. The Generality's credit would have benefited from more control over its income, yet the provinces' fiscal autonomy prohibited this.

Eventually, this system of borrowing under the guarantee of the Generality was pushed beyond its limits between 1691 and 1715. The more than twofold increase of the Generality debt – from 28.8 million guilders in 1691 to 61.2 million in 1715 – was almost entirely caused by the provinces' inability to provide sufficient funds to pay for the military. Understandably, the provinces also had trouble in finding the means to pay interest over the Generality's debt and arrears built swiftly. In 1715, the system collapsed as

24. R. J. FRUIN, 1901, p. 196, 204, 334, 379, 391.

25. M. C. 'T HART, 2014, p. 154-155; L. VAN DER ENT & V. ENTHOVEN, 2001, p. 6-7.

26. M. C. 'T HART, 1993, p. 79; H. L. ZWITZER, 1982.

27. E. H. M. DORMANS, 1991; W. FRITSCHY & R. VAN DER VOORT, 1997; P. BRANDON, 2013.

28. M. C. 'T HART, 1993, p. 170.

29. *Ibidem*, p. 165-172.

30. *Ibidem*, p. 167-171; E. H. M. DORMANS, 1991, p. 145.

the provinces' belated payments led to the closure of the Union's Exchequer office for nine months.³¹ For the remainder of the eighteenth century, the Council of State – as executive committee of the States-General – scarcely issued loans anymore.³² The 1715 default once more demonstrated the Generality's dependence on the provincial contributions to the central budget. The lack of control over the means to pay the interest to creditors put the Generality at the mercy of the provincial governments. Groningen's exceptionalism in this regard, seems to have had a positive influence on the public finance of both province and the Generality.

Getting Groningen to pay proved difficult from the moment it joined the Union in 1594. The city of Groningen resisted the introduction of new taxes, most notably the 'common means' (*gemene middelen*) or farmed excises on consumption. The city complained that it would be overburdened compared to the countryside. The arrears rose to 490,000 guilders so the States-General, afraid that the Spanish might again establish a foothold in the north, sent over a delegation of officials in 1600 together with troops to enforce payments. The Generality even built a stronghold (*dwangburcht*) at the city's east gate to keep popular unrest in check, force the provincial States to agree, and secure payment of the arrears.³³ Having raised tax rates and obtained promises of better behaviour, the States-General withdrew its troops and dismantled the stronghold in 1607.³⁴

This episode was merely a first intervention in Groningen's provincial politics and public finance. Between 1622 and 1628 the Generality enforced another tax reform, to increase the province's tax revenue.³⁵ Consequently, Groningen's need for the Generality guaranteed loans decreased after the 1620s, and troops allocated to Groningen's pay role were regularly paid.³⁶ Between 1650 and 1749 the province received no less than thirty-six embassies from the States-General, either to solve internal conflicts or to obtain payment of arrears.³⁷ For instance, in 1726, one such delegation arrived to solve the disputes that had risen about the question how to pay

31. E. H. M. DORMANS, 1991, p. 145-147.

32. *Ibidem*, p. 152.

33. M. SCHROOR, 2008a, 159-160; L. VAN DER ENT & V. ENTHOVEN, 2001, p. 14-15.

34. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 18.

35. J. DE BRUIJN, 1983, p. 76, 86; M. SCHROOR, 2008a, p. 161-163; L. VAN DER ENT & V. ENTHOVEN, 2001, p. 15-16, 235-237; L. S. MEIUIZEN, 1976, p. 303, 325.

36. M. C. 'T HART, 1993, p. 170.

37. H. BOELS & H. FEENSTRA, 2008, p. 267.

for the arrears on loans the Generality had issued on behalf of Groningen.³⁸ This delegation repeated the opinion of a Groningen States committee, six years earlier, to sell-off provincial domains.³⁹ The provincial government rejected this proposal in favour of other solutions that improved the provincial finances.⁴⁰ The 1726 delegation was more than justified, since Groningen had paid nothing to service its Generality debt between 1715 and 1725.⁴¹ Hence, the province's default on Holland debt during the 1680s was not the first problem Groningen had in managing its public finance – and certainly not the last.

Overall the States-General's interventions proved very effective. They reduced the risk of unpaid soldiers running amok and the need for loans, and improved the chances on repayment. However, other provinces succeeded in jealously guarding their fiscal autonomy until the Dutch Republic's demise in 1795.

2. Warfare and Public Finance

Warfare formed the single main expense of early-modern states, including the Dutch Republic, for which a mixture of loans and taxes was employed.⁴² This section outlines the major developments of Groningen's provincial finances throughout the time of the Dutch Republic. It maps the overall development of primary income and expenses, to assess the sustainability of Groningen's debts. From the calculated primary government budget balances, periods of primary deficits and surpluses indicate the province's liquidity shortage, subsequent need for borrowing and its ability to pay its creditors. Probing these figures allows for a deeper understanding of the ultimate causes of Groningen's default: whether long-term solvency or a short-term liquidity crisis were the real problem for the unpaid creditors in Holland.⁴³ Early-modern states often resorted to default soon after a war had ended, when the debts incurred could not be serviced by tax revenue.⁴⁴

38. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 16, 271-272.

39. Nationaal Archief, The Hague (hereafter: NA), Archief van Anthonie van der Heim (1710) 1737-1746, Inv.nr. 524, 17 June 1720.

40. L. VAN DER ENT & V. ENTHOVEN, 2001, 272-273.

41. M. R. PRAK, 2005, p. 267.

42. J. GLETE, 2002; M. C. 'T HART, 2014; C. TILLY, 1992; J. BREWER, 1989; F. VELDE & D. WEIR, 1992, p. 6.

43. This approach roughly follows the one pursued by M. DRELICHMAN & H.-J. VOTH, 2010.

44. F. VELDE & D. WEIR, 1992, p. 5; M. DRELICHMAN & H.-J. VOTH, 2010.

The section begins by framing Groningen's public finance in the context of the Dutch Republic's political history in the years preceding the default.

Figure 1. *Map of the Dutch Republic around 1650*

Source. M. 't HART, 2014, p. XIV (reproduced with author's permission).

Despite the Generality's formal responsibility, the costs of warfare affected the provincial finances directly, due to a peculiar system of repartition of military costs. The 1616 apportioning of the provincial contributions merely allocated the distribution of the total annual budget administratively. After approving the annual budget, each province individually made the actual payments up to the amount agreed. Consequently, most of that money did not reach the Generality's coffers, but was spent by the provinces on behalf of the States-General, preferably within their own province. Yet, as Holland paid the lion's share of the budget, it also paid for the upkeep of garrisons

in other provinces and tried to exert control there.⁴⁵ Garrisons in fortress and cities' fortifications in the more peripheral provinces had to protect the Republic's core region – Holland, Zeeland and Utrecht.⁴⁶ Groningen formed a vital link in the defence of the northern part the Republic – a position it never failed to mention in disputes within the States-General.⁴⁷ Therefore, the increased tax revenues after 1600 were also employed to improve the city's fortifications.⁴⁸

The strength of Groningen's defences was severely tested in the two wars with Münster in 1665-1666 and 1672. During the Second Anglo-Dutch War (1665-1667), Bernhard von Galen, prince-bishop of Münster, attacked the Dutch Republic. His troops invaded Drenthe, Overijssel, Gelderland and Groningen in 1665. Although the city of Groningen remained untouched, the Republic's northern defences proved no match for Von Galen's army. External aid was necessary to withstand the bishopric troops; Amsterdam and Zeeland sent troops and ammunition, and a French intervention force eventually caused the bishop to withdraw, only to return seven years later.⁴⁹ In 1672, the Year of Disaster in Dutch historiography, the Republic was attacked by England, France and the bishops of Cologne and Münster.⁵⁰ This time Von Galen's army actually besieged the city of Groningen for more than a month, without taking it.⁵¹ Again troops came from Holland to aid Groningen's defence, while large parts of the countryside were flooded to impede the invading army's progress.⁵² Both invasions and especially the attack on the city in 1672 burdened the provincial finances heavily, since the normal tax revenue could not procure the required money, while military expenses rose vastly.

Raising sufficient income was a recurrent problem for Groningen's government and, consequently, for the Generality. The Generality-imposed tax reforms during the 1620s doubled Groningen's tax revenue to

45. M.C. 'T HART, 1993, p. 78-86; H. L. ZWITZER, 1982; P. BRANDON, 2013, p. 43.

46. M.C. 'T HART, 1993, p. 38-39, 81; M. SCHROOR, 2008b, p. 255; G. VERMEESCH, 2006.

47. M. SCHROOR, 2008a, p. 157, 172; M. SCHROOR, 2008b, p. 255.

48. M. SCHROOR, 2014, p. 214.

49. J. I. ISRAEL, 1995, p. 770-772; E. H. WATERBOLK, 1967, p. 256-257; M. SCHROOR, 2008b, p. 256-257.

50. J. I. ISRAEL, 1995, p. 796. The wars against England and France are better known by their separate names: the Third Anglo-Dutch War (1672-1674), and the Franco-Dutch War (1672-1678).

51. A. T. SCHUITEMA MEIJER, 1972.

52. *Ibidem*, p. 257-259; M. SCHROOR, 2008b, p. 257-260.

approximately 1 million guilders annually. Despite that increase between 1628 and 1664 a deficit remained of 17,750 guilders per year. This can be attributed to the Dutch involvement in the Eighty Years' War until 1648, the First Anglo-Dutch War (1652-1654) and assistance to the Danish in their war against Sweden in 1659 and 1660.⁵³ Deficits soared massively, however, with the two Münster invasions; from 1665 until the end of the Franco-Dutch War (1672-1678), Groningen's shortfall rose to an annual 117,750 guilders. These exceptional deficits incited the province to borrow money on an unprecedented scale, as will be discussed below.

Figure 2. *Siege of Groningen in 1672*

Source. By Jacobus Harrewijn (23th September 1684), Rijksmuseum Amsterdam, object: RP-P-OB-55.449.

To honour its debt, Groningen needed a primary surplus in the period that followed the loan issues. During the final two decades of the seventeenth century, the province did have a surplus of 154,000 per year, which dropped to some 70,000 per year for most of the eighteenth century.⁵⁴ So Groningen

53. J. I. ISRAEL, 1995, p. 736-738.

54. Because the Dutch Republic managed to remain out of most wars during the eighteenth century, Groningen obtained a primary surplus. After the War of Spanish Succession only the War of Austrian Succession (1740-1748) and Fourth Anglo-Dutch War (1780-1784) followed.

did have money for its creditors, with the major exception of the War of the Spanish Succession (1702-1713). During that war the province again ran into huge deficits.⁵⁵

Figure 3. *Groningen's primary incomes and expenses*

Source. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 91-95, 110-119.

This suggests that the debt was sustainable in the long-run. The two bishopric invasions and the War of Spanish Succession caused temporary liquidity problems. Whether Groningen's debt was indeed sustainable can also be deduced from the presence or absence of additional borrowing in periods in which it had a primary surplus, which will be analysed in the next section.

3. Issuing debt

Capital markets play a vital part in facilitating payments by covering liquidity short-falls. Amsterdam was the West-European centre for sovereign borrowing.⁵⁶ Groningen did not use that market up to 1665. In fact, the province hardly borrowed at all. Borrowing was limited to a few ten thousands per year, as shown in Figure 4. In total it hardly exceeded

55. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 91-95, 110-119, 189-193, 294-298, 328, 359-362.

56. J. C. RILEY, 1982; L. NEAL, 1990; L. NEAL, 2000; P. DEHING, 2012, p. 265-271.

one million. This was for two reasons. Firstly, until the 1620s, Groningen's own creditworthiness was limited and it relied on the Generality's credit. Secondly, the increased tax income from the 1620s diminished the need for extensive borrowing. From the 1630s, Groningen probably smoothed payments by running arrears on its contribution to the Generality budget, because it relied decreasingly on the Union's formal credit.⁵⁷ During 26 years between 1620 and 1664, the province borrowed nothing at all. Until 1665, this policy worked because of the relatively small deficits and alternating surpluses and deficits. So, when Groningen entered the Amsterdam capital market in 1665, it was a newcomer there.⁵⁸ This section argues that Groningen's entry turned out to be disastrous.

Figure 4. *Groningen's loans in amounts in Dutch guilders per year 1594-1795*

Source. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 110-119.

The inroad into Groningen's budget following the Münster invasion can be best illustrated than by the amount borrowed in these years. In 1665, Groningen's provincial government borrowed 578,050 guilders, twice the amount the following year and an additional 558,774 guilders in 1667.⁵⁹

57. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 291, p. 404. These unpaid/residual sums (*restanten*) were common, and were probably mere slow payments as the province prioritised other expenses.

58. *Ibidem*, 2001, p. 128.

59. *Ibidem*, p. 110-119.

Whereas the total amount of loans obtained prior to 1665 was limited to one million guilders, twice this amount was borrowed in these three years alone.

The States of Groningen issued two types of annuities in the 1660s: redeemable annuities (*losrenten*) and life annuities (*lijfrenten*). The former paid a fixed annual amount until the issuer reimbursed the principal; the latter paid a fixed sum during the lifetime of the nominee, but the principal was not repaid. Therefore, life annuities did not technically result in a consolidated debt, but only an obligation to pay the annual sum agreed. Because of this difference and the inherent mortality risk, the coupons of the life annuities typically yielded 1.5 to 2 times higher interest rates than redeemable annuities. When Groningen issued redeemable annuities, they nominally yielded 4% to 5%, whereas life annuities had a nominal interest rate of 8% to 10%.⁶⁰ Life annuities were consequently considered expensive.⁶¹

However, the nominal coupons for life annuities declined for Groningen during the 1660s and early 1670s. This suggests its reputation improved on the Holland capital market. Remarkably, when the States of Groningen offered 9% to investors in Holland in 1669, it simultaneously offered investors in Groningen 10%.⁶² This could either indicate a lack of trust in Groningen vis-à-vis Holland or a lack of funds. As table 1 shows, compared to the province of Overijssel, which also was attacked by Münster troops, Groningen's credit stood higher.⁶³ Zeeland paid initially lower coupons on life annuities in 1666, but increased these rates to 9% in 1671.⁶⁴ Only the wealthy province of Holland persistently issued life annuities at lower rates in this period.⁶⁵

Although the original resolution approving the issue of the life annuities in Holland is lost, some original life annuities have been preserved.⁶⁶ On 30 March 1666, the States of Groningen decided to issue a life annuity in Amsterdam. It declared the motive for its reliance on lending money as the

60. *Ibidem*, p. 285; P. G. M. DICKSON, 1967.

61. F. VELDE & D. WEIR, 1992.

62. RHC-GA, SvSL, inv.nr. 96, f. 28v, 14 May 1669.

63. W. FRITSCHY, 1996, p. 216; J. I. ISRAEL, 1995, p. 770.

64. Zeeuws Archief (hereafter: Z.A.), Staten van Zeeland Rekenkamer C (hereafter: RkC), inv.nr. 4510, f.393- 414 and Z.A., 87 Verzameling Verheye v Citters, inv.nr. 125b.

65. R. LIESKER & W. FRITSCHY, 2004, p. 382.

66. The resolution books show a hiatus: inv.nr. 13 ends on March 3rd 1666, while inv. nr. 14 continues on February 15th 1667.

immediate need for ready cash during this troublesome period (*beswaerlijke tijden*) it experienced.⁶⁷ Although such statements would not necessarily have built trust, the regents in Groningen probably tried to signal that the lack of funds was a temporary problem. It simultaneously implied that the funds would be spent on the common cause of the Republic. Moreover, Groningen promised that semi-annual interest payments would be paid in Amsterdam. To this end it pledged all provincial revenue streams, present and future ones, together with all provincial possessions, either within Groningen or beyond its borders. All provincial legal institutions would support this pledge.⁶⁸ Yet this pledge posed a serious risk, since the States of Groningen committed the whole community to the debt, as was the custom under the Law of Reprisal.⁶⁹ Clearly, all provisions were intended to build trust and increase the convenience for the Holland creditors. This increased the chances of a successful issue.

Table 1. *Nominal yields on life annuities issued in Groningen, Holland and Overijssel 1666-1671*

%	Groningen	Overijssel	Holland	Zeeland
1666	10.0	10.0	8.3	8.3
1667	10.0	10.0	8.3	
1668	10.0		8.3	
1669	9.0		7.1	
1671	8.0	12.0	7.1	9.0

Sources. Groningen: RHC-GA, SvSL, inv.nrs. 1888-1894; Holland: GF DI 4 Holland, p. 382; GF DI 1 Overijssel: p. 216; Zeeland: Zeeuws Archief (hereafter: Z.A.), Staten Staten van Zeeland Rekenkamer C (hereafter: RkC), inv.nr. 4510, f.393-414 and Z.A., 87 Verzameling Verheye v Citters, inv.nr. 125b).

In spite of the deficits following the second Münster invasion, the States of Groningen borrowed less than during the first Münster war. The provincial deficit cannot explain the modest provincial borrowing. The province borrowed a mere 465,000 guilders throughout the Franco-Dutch War, while the provincial deficit in 1675 alone was larger than that.⁷⁰

67. RHC-GA, SvSL, inv.nr. 2698. This refers to the Second Anglo-Dutch War and the first invasion by Von Galen's army.

68. RHC-GA, SvSL, inv.nr. 2698.

69. C. J. ZUIJDERDIJN, 2007, p. 83.

70. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 91-95, 110-119, 190, 287, 328, 329-362. This included the 1672-forced loan, levied over 1 per cent of the inhabitants wealth.

Probably there was a supply side problem. The conflict with Britain, France and the German prince-bishops created a scarcity of cash in the Dutch Republic.⁷¹ Furthermore, the provincial credit began to falter, which might have made creditors reluctant to provide additional funds.⁷²

Figure 5. *Original contract life annuity 1666*

Source. RHC-GA, SvSL, inv.nr. 2698.

The province's urgent need for money emerges from the extraordinary measures taken in 1672. Groningen resorted to a 5%-forced loan, levied over 1 per cent of the inhabitant's wealth. Furthermore, the coupon on newly issued life annuities increased from 9 to 10 per cent at the beginning of the year and more later.⁷³ The provincial executives (*Gedeputeerde Staten*) also forbade the conversion of redeemable annuities into life annuities in 1675.⁷⁴ These measures indicate that the province had considerable trouble in finding sufficient cash until the war ended in 1678.

71. O. C. GELDERBLOM & J. JONKER, 2011, p. 18.

72. Groningen merely paid 1.5 years of interest to Holland creditors between 1672 and 1680. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 7/17th August 1680.

73. RHC-GA, SvSL, inv.nr. 1896, f. 682r.

74. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 284, 287.

Peace brought little improvement for the provincial finance. Interest payments were still overdue in 1680.⁷⁵ After Groningen's arrears evolved into a default in the 1680s – as will be analysed in the next section – the Provincial States had only two options left for borrowing. Firstly, it could rely on the credit of the Generality. It exercised this option especially during the War of Spanish Succession. Secondly, the Provincial States could borrow money within the province borders, although the domestic resources to tap into were limited.⁷⁶ After the War of Spanish Succession the borrowed annual amounts of the 1660s only exceeded 500,000 guilders in 1744, 1752, 1753 and 1795. Not until the Fourth Anglo-Dutch War (1780-1784) Groningen did borrow outside the provincial borders.⁷⁷ By that time, the conflict over the unpaid interest to the creditors in Holland was resolved.⁷⁸ For most of the eighteenth century Groningen refrained from entering the capital markets. Additional loans to service its debt were thus unnecessary. This indicates that Groningen's debt was sustainable in the long-run, and the 1660s deficits created exceptional but temporary liquidity needs.

4. Quantitative analysis of Groningen's default

This section analyses how Groningen's 1680s arrears turned into a default, based on quantitative materials. It is based on archival research into the records of the final settlement of the dispute in 1760-1761. These records contain dates and amounts of the last instalments paid, before payments were withheld in the 1680s.

Default was a common phenomenon in early-modern Europe. Although the magnitude of these other cases differs, they offer valuable theoretical insights for this case. Early-modern sovereign defaults are often explained as the excesses of absolutist regimes. Unbound by representative assemblies monarchs overspent the budget and consequently defaulted.⁷⁹ Yet the Dutch Republic was no absolutist state and possessed representatives assemblies.

75. Groningen merely paid 1.5 years of interest to Holland creditors between 1672 and 1680. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 7/17th August 1680.

76. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 128.

77. *Ibidem*.

78. J. E. HEERES, 1890; P. A. LOOSJES & J. WAGENAAR, 1789, Vol. 23, p. 140-141; J. KOK, 1785, Vol. XVIII, p. 667.

79. D. ACEMOGLU & J. A. ROBINSON, 2012; D. STASAVAGE, 2011; D. C. NORTH & B. R. WEINGAST, 1989.

Recent research offers a more nuanced alternative interpretation for early-modern sovereign defaults. Velde and Weir argued for eighteenth century France that the defaults were part of a system to manage the debt. Persistent interest payments would ruin the state's public finance.⁸⁰ More recently, Drelichman and Voth argued that Philip II of Spain 'priced-in' the defaulting risk. The Spanish king paid creditors in advance to compensate for a future default.⁸¹ This made the defaults expected, partial and specific; only a specific asset was targeted.⁸² The creditors anticipated to that by requesting a higher coupon for only a specific part of the debt. Consequently, assets with the highest yields formed the most likely target for a default, mostly higher coupons that had been paid for a longer period of time. Thereafter, creditors and debtor entered into renegotiations to reach an agreement quickly. This guaranteed future lending and borrowing. In this alternative interpretation, sovereign default was the consequence of a deliberate policy.⁸³ There was thus neither sheer inability to manage their public finance nor a deliberate violation of the creditors' property rights by absolutist kings.

Superficially, Groningen's default on creditors in Holland resembled those by early-modern Spain and France in several respects. The default was neither total nor random and a specific high coupon asset was targeted. A more thorough scrutiny shows that Groningen's case differed significantly. A clear strategy behind the default seems absent. The argument of excessive coupons as justification for the default was not invoked before the 1750s. On the contrary, the picture that emerges is that of a troubled government whose control over its finances crumbled in its hands. Arrears then gradually slid into a default. Attempts to restructure failed, when arrears increased, for the creditors were unprepared to accept significant 'haircuts'.

The quantitative analysis shows three characteristics of Groningen's defaults. Firstly, the default was gradual and piecemeal, which suggests that arrears slowly evolved into a default. Secondly, until 1716 at least one life annuity was paid, implying that there was no total moratorium on these assets. Thirdly, the default was randomly distributed within the group of Holland life annuity holders. This seemingly unstructured default sequence indicates defaulting risk was not priced-in. Before turning to the analysis, a few remarks must be made about the nature and limitations of the source.

80. F. VELDE & D. WEIR, 1992.

81. M. DREICHMAN & H.-J. VOTH, 2011.

82. F. VELDE & D. WEIR, 1992, p. 5.

83. F. VELDE & D. WEIR, 1992; M. DREICHMAN & H.-J. VOTH, 2011.

When in 1761 the default was finally settled, a list was drawn up of the old life annuities. A first remark is that only those who possessed the asset for at least 15 years were eligible to the settlement.⁸⁴ Hence, not all life annuities that still circulated are taken into account. This 1761-record of claims lists a total of 338 annuities, equalling about half of the annuities sold between 1666 and 1672.⁸⁵ It contains the names of the buyers and nominees, the original purchase date, the date of death of each nominee, the last instalment paid, the amounts of annual interest and the total sum of unpaid interest between the last instalment paid and the nominees' death.⁸⁶ This information forms the basis for the following analysis of the development of the default in the 1680s. Even though the list only contains half of the life annuities issued, it is probably representative for the handling of all the unpaid life annuities. The 1761-list is a random sample on which the States of Groningen could not exercise any influence.

The last complete instalment was paid in 1681. In that year and the following two, a small number of life annuities remained unpaid. This might have been caused by missed collection dates or other common irregularities in payments. There was a clear concentration of last payments in 1684 and 1685. Almost 50% of the creditors received interest for the last time in 1684 and another 26% in 1685. Between 1683 and 1688, 95% of the creditors had received their last instalment. Yet some creditors received money for a longer period and one even as late as 1716. This pattern shows that the halt of interest payments was no universal default on all Holland's life annuities at once. Rather, the province withheld payments bit by bit, until gradually all arrears turned into a default. This interpretation is consistent with the picture emerging from the analysis of Groningen's public finances discussed in the previous section: a pitiable financial situation with insufficient money temporarily to pay all expenses.

The unequal distribution of the final payments also suggests that Groningen was able to play the creditors off against each other. Or from the creditors' perspective, it appears that they were unable to coordinate action against the province of Groningen. Moreover, Groningen could always rely on the credit of the States-General to avoid punishment by the market. Furthermore, as the next section will demonstrate, Groningen negotiated

84. NA, Provinciale Resoluties, inv.nr. 715, p. 1279-1285, provincial resolution of the States of Holland and West-Friesland 1761.

85. RHC-GrA, SvSL, inv.nrs. 1890, 1891, 1892, 1894, 1896, 2276. Between 1666 and 1672, 750 life annuities were sold in Holland.

86. The arrears or default, thus, began after half a year after the last paid instalment. It still provides a fair indication of the progress of the default.

a solution with the redeemable annuity holders in Holland, which also worsened the bargaining power of the life annuity holders.

Table 2. Defaults in proportion per year of purchase

<i>Year of last paid instalment</i>	<i>Year of purchase (%)</i>						<i>Grand Total</i>
	1666	1667	1668	1669	1671	1672	
1681						5.0	0.3
1682			2.8	0.6			0.6
1683		6.1		3.1			2.7
1684	59.6	51.5	50.0	47.8	50.0	35.0	49.7
1685	17.0	21.2	25.0	32.5	16.7	25.0	26.6
1686	4.3	10.6	8.3	4.9		15.0	6.8
1687	2.1	6.1	2.8	4.3		5.0	4.1
1688	10.6	3.0	8.3	3.1	16.7		4.7
1689				1.2			0.6
1690						5.0	0.3
1692		1.5		1.2	16.7	5.0	1.5
1693	4.3						0.6
1695				0.6			0.3
1696				0.6			0.3
1701			2.8				0.3
1704						5.0	0.3
1716	2.1						0.3
Grand Total	100%	100%	100%	100%	100%	100%	100%

Source. RHC-GrA, SvSL, inv.nr. 2276.

The second characteristic of Groningen's default is the random distribution of defaults within the group of life annuity holders. The default followed the same pattern for each of the years of purchase: about half in 1684, another quarter in 1685 and the rest scattered. If Groningen followed the rationale of first repudiating its most expensive loans, we would expect the life annuities issued in 1666, 1667 and 1668 to be defaulted upon first. These annuities yielded 10% annually, whereas those issued in 1669 returned 9%, 8% for the ones from 1671 and those issued in 1672 between 9% and 10%. Hence, the 1666 annuities would have been the first logical target for a default, since these had had the highest yields: these were paid the longest and had the highest coupons. However, such a deliberate policy

in the default does not show, when we plot the default years against the purchasing years. This indicates that a clear policy in targeting specific life annuities among those issued in Holland was absent.

Finally, the apparently unstructured nature of the default implies that Groningen did not use the excuse that risk was priced-in to differentiate among the creditors; those with higher coupons were not structurally earlier defaulted upon than others. This was also clear from the brief comparison with other provinces issuing life annuities in the Dutch Republic, as shown in table 1. Groningen's offered coupon of 8% to 10% appears not excessive. Indeed, the States of Groningen only began to invoke the argument of excessive coupons when the creditors from Holland increase pressure to compensate the default in the 1750s. In 1759 the States of Groningen claimed that the creditors had received their interest for 20 years, which allegedly had yielded the creditors a profit on top of recouping the original investment.⁸⁷

Figure 6. *Annualized returns on investment in Groningen life annuities*

Source. RHC-GA, SvSL, inv.nr. 2276.

Archival data from 1761 allows us to test this claim. Life annuities returned a net loss in the first years after they were purchased, because the purchase amount was not be returned for life annuities. Hence, the net cumulative return of a life annuity is equal to the number of years the instalment is paid times the annual coupon minus the original purchasing

87. J. E. HEERES, 1890, p. 189.

sum. For instance, the break-even point of a 10%-life annuity was 10 years.⁸⁸ Only a minority of the investors received the claimed 20 years of interest payments: only 16 out of 338 annuities equalled or exceeded 20 years. The remaining 95% of the life annuities received payments for 11 to 20 years. On average Groningen did not live up to the contractual obligations for more than 16 years and 10 months. This was considerably less than the 20 years claimed by the Groningers in 1759.

The returns, indeed, provide little support for this claim. Assessing the possible excessive compensation requires both the returns on these life annuities and alternative risk-free assets, as a measure of opportunity costs. To begin with the latter, a loan collateralized by a VOC-share might be considered one of the safest assets. This risk-free asset yielded 3.5 per cent in 1677 to 2.5 per cent in 1683.⁸⁹ The defaults by Philip II of Spain provide an indication of the additional profitability in case of sovereign default. After a default short-term assets yielded an additional 3.16 percentage points on top the opportunity costs of 7.14 per cent, making a total of 10.3 per cent.⁹⁰ Similarly, alternative expensive debt instruments in eighteenth-century France yielded up to 3.5 percentage points more than life annuities that returned 5.24 to 10 per cent.⁹¹ For Groningen, the average annual return on investment was a mere 3.4%, after deducting the purchasing sum of the life annuities that was not to be returned. Within the group there are large differences per year of purchase. Annuities issued in the three years that offered an annual interest rate of 10% nominally, eventually yielded 4.9% to 4.2%. Yet those issued at 9% in 1669 and 8% in 1671 returned 2.7% and 1.25% respectively. Buyers of annuities in 1672, who were offered 9% to 10% nominal interest rate, yielded 2.2% eventually. If Groningen had offered a reasonable compensation in advance, the effective yield had to have been at least 3 per cent more than the 2.5 per cent opportunity costs: a 5.5 per cent yield. If the buyers of life annuities also factored death risk, the coupon should have been even higher. Clearly, Groningen offered the investors too little to compensate a future default.

Groningen's default on the life annuity holders in Holland seems no premeditated strategy. The default risk in the Groningen case was not priced-in to the nominal coupon of the asset. More importantly, the piecemeal character suggests the absence of an announced moratorium.

88. $10 \text{ years} * 10\% = 100\%$

89. O. C. GELDERBLOM & J. JONKER, 2011, p. 20.

90. M. DRELICHMAN & H.-J. VOTH, 2011, p. 14.

91. F. VELDE & D. WEIR, 1992, p. 33.

Instead, it shows the evolution from interest payments overdue to an outright default. Groningen appears to have fiddled its financial affairs, rather than managed them.

5. Failed negotiations with life annuity holders

This section examines the process of Groningen's gradual default from the provincial correspondence in the 1670s to 1680s. The first signs of financial difficulties already appeared during the late 1660s and early 1670s. In September 1668, the Generality was the first victim of Groningen's financial misbehaviour. The States of Groningen repudiated all payments on Generality debts incurred prior to 1665.⁹² The Council of State reacted as before by sending an embassy over. Its reaction could be easily coordinated, as the Generality was the sole creditor that fell victim.⁹³ Although this could be interpreted as fitting the pattern of a notoriously complicated relation with the States-General, creditors might have observed this with suspicion.

Meanwhile, Groningen's provincial government tried to maintain trust by stipulating the prompt payment of redeemable and life annuities in Amsterdam in 1671.⁹⁴ Payment seems already to have become problematic. Four months after this stipulation, the States of Groningen allowed the auditing committee to dispose of the interest the former provincial receiver had left unpaid in Holland.⁹⁵ Hence, when Groningen issued another loan in 1672, the creditors had already witnessed inaccurate interest payments. This might have incited them to demand a higher risk premium.

The difficulties with the sale of the life annuities in 1672 might indicate that the market must have begun to doubt Groningen's ability or willingness to pay debts to others as well. Because the market did not absorb 8%-coupon life annuities, in January 1672, Groningen raised the offer.⁹⁶ Consequently, the province decided to issue life annuities at 9 or 10 per cent at most, in Holland and in Groningen.⁹⁷ It was, however, stipulated that this offer was to be kept secret; probably because it would reveal the province's desperation for funds. Such an instruction is consistent with the

92. RHC-GA, SvSL, inv.nr. 96, f. 21r, 16th September 1668.

93. NA, Raad van State: Extra Aanwinsten 1904 XII, inv.nr. 23c.

94. RHC-GA, SvSL, inv.nr. 96, f. 41v, 15th April 1671.

95. RHC-GA, SvSL, inv.nr. 96, f. 41v, 26th August 1671.

96. RHC-GA, SvSL, inv.nr. 96, f. 41v, 9/19th January 1672.

97. RHC-GA, SvSL, inv.nr. 96, f. 41v, 18th January 1672.

findings of Gelderblom and Jonker, who argued that the local tax receivers in Holland had considerable bargaining power vis-à-vis the investors and played one against the other by rationing information.⁹⁸ From February to April, the States of Groningen managed to issue 48,000 guilders worth of 10% life annuities in Holland.⁹⁹

The actual semi-annual interest payments were conducted by a local agent, called Christoffel Indisraven. He was a merchant, who also performed other services, for instance, the purchase of fuses from a fuse maker in Utrecht.¹⁰⁰ Since he was later authorised to reclaim expenses, he probably advanced sums on Groningen's behalf.¹⁰¹ Presumably, he advanced interest payments as well, although the total amounts would have exceeded his purse. In any case he did not advance the total arrears that began to arise from 1672. Between April 1672 and 1680 the creditors in Holland merely received one and a half years' of interest.¹⁰²

The irregularity in interest payments was probably war related. The province suffered from the siege of July and August of 1672.¹⁰³ After Von Galen retreated, the States of Groningen turned once again to the Amsterdam capital market. In September the Groningers offered life annuities, differentiated by age of the nominees, ranging from 10% to 33.3% per year.¹⁰⁴ This overly generous offer did yield Groningen another 93,000 guilders.¹⁰⁵ The absurdly high coupons probably reflects the combination of increased demand for capital due to the war and the high defaulting risk for Groningen. The infrequent payments between 1672 and 1680 were probably also the result of payments to the military being prioritised. In 1673, the

98. O. C. GELDERBLOM & J. JONKER, 2011, p. 9.

99. RHC-GA, SvSL, inv.nr. 1896, f. 672r-681r.

100. Het Utrechts Archief (hereafter: HUA), Notarissen in de stad Utrecht 1560-1905, inv.nr. U083b009, notarial deed nr. 10, 20th February 1684.

101. RHC-GA, SvSL, inv.nr. 96, f. 121r, 2nd June 1681.

102. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 7/17th August 1680.

103. A. T. SCHUITEMA MEIJER, 1972.

104. RHC-GA, SvSL, inv.nr. 1896, f. 682r.

1-20 years	10.0%	55-60 years	14.8%
20-30 years	10.5%	60-65 years	16.7%
30-40 years	11.1%	65-70 years	20.0%
40-45 years	11.8%	70-75 years	25.0%
45-50 years	12.5%	75 years and older	33.3%
50-55 years	13.3%		

105. RHC-GA, SvSL, inv.nr. 1896, f. 682r-685r.

States of Groningen stipulated that interest payments came second after the troops were paid, favouring those that had matured the longest time ago.¹⁰⁶ The meagre payments suggest that there was little left for the creditors.

In 1677, the States-General mediated in a conflict between the city and the Ommelanden. In exchange for more autonomy over legal, administrative and financial matters, the Generality demanded at least two months of payment to the soldiers. The States-General simultaneously urged the States of Groningen to pay at least one year of interest to the creditors in Holland.¹⁰⁷ This diplomatic pressure had an effect. In March 1678, the States of Groningen accepted the States-General's advice; it agreed to resume the payments of the redeemable and life annuities in Holland.¹⁰⁸ It still took over a month to sign the order to pay the troops and the Holland creditors.¹⁰⁹

In 1680, the States of Groningen took a more active attitude towards its Holland debt. In March, it established a committee to explore the possibilities of converting arrears into new debt and reducing the interest on redeemable annuities from 5% to 4%.¹¹⁰ On the same day, it established another committee that had to take care for Holland debt that was purchased on the secondary market.¹¹¹ On 25 June that same year, the States decided to pay one semi-annual instalment on the first of July and another three months later – a proposal that we will detail below.¹¹² On the 21st of August, it took a series of decisions concerning the life and redeemable annuities. First, it designated certain taxes to fund the debt to pay the interest payments on life and redeemable annuities. This was the result of negotiations between the States of Groningen and “gentlemen from Holland” (*Hollandsche Heeren*).¹¹³ Second, to reassert its seriousness on this matter, the States ordered the tax receiver to use these taxes for these payments, on penalty of losing his office, even if other provincial public bodies urged him to spend the money differently.¹¹⁴ Third, copies of these decisions were to be sent to the provincial government of Holland, together with the instruction to

106. RHC-GA, SvSL, inv.nr. 96, f. 55r, 7th March 1673

107. NA, Raad van State: Extra Aanwinsten 1904 XII, inv.nr. 23c, p. 17-18, 1st June 1677.

108. RHC-GA, SvSL, inv.nr. 96, f. 75v, 2nd March 1678.

109. RHC-GA, SvSL, inv.nr. 96, f. 76r, 27th April 1678.

110. RHC-GA, SvSL, inv.nr. 96, f. 110r, 20th March 1680.

111. RHC-GA, SvSL, inv.nr. 96, f. 110r, 20th March 1680. Purchasing debt on the secondary market was presumably cheaper than reimbursing creditors at face value.

112. RHC-GA, SvSL, inv.nr. 96, f. 112r, 25th June 1680.

113. RHC-GA, SvSL, inv.nr. 96, f. 114v, 21st August 1680.

114. RHC-GA, SvSL, inv.nr. 96, f. 114v, 21st August 1680.

Indisraven. Finally, the States summoned Indisraven to Groningen to collect the money to pay the first instalment in Amsterdam.¹¹⁵

In September 1680, Indisraven wrote an address to the States of Groningen, where he stated that the majority and most important creditors were willing to accept the restructuring proposal of 25 June. This proposal was to convert the arrears into new debt and reduce the interest on redeemable annuities from 5 per cent to 4 per cent on condition that a semi-annual instalment was paid immediately and all future ones would be promptly paid.¹¹⁶ He argued that if the States would not pay the creditors, no one in Holland would lend a penny to Groningen anymore.¹¹⁷ This was the consequence of Groningen's irregular payments in the previous years: it had merely paid one and a half years' of interest to creditors in Holland since 1672.¹¹⁸ The proposed conversion of arrears into new debt, seems to have applied to all annuities, redeemable and life annuities alike.

The following spring, the States stipulated that Indisraven should receive an additional sum to pay the creditors. This should not exceed 10,000 guilders.¹¹⁹ In June 1681, the States of Groningen offered a conversion of redeemable annuities that were in arrears into 8 per cent life annuities.¹²⁰ Together with the aforementioned attempts to convert arrears into new debt, the provincial government seems to have tried to restructure the debt in various ways. This was probably ineffective as negotiations with Holland creditors continued while arrears accrued.

In early 1683, matters began to turn for the worse. From that moment the States received complaints, transmitted by Indisraven, that creditors in Holland received unequal payments.¹²¹ A certain Gerhardt Block acted as a representative of creditors in Holland and would write a report to Indisraven.¹²² In June, two delegates, Bothenius and Piccard, hastened to Amsterdam to pay another semi-annual instalment on life and redeemable

115. RHC-GA, SvSL, inv.nr. 96, f. 114v, 21st August 1680; f. 115r, 21 August 1680.

116. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 27th September 1680, f. 615v-616r.

117. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 27th September 1680, f. 618v-619r.

118. RHC-GA, SvSL, inv.nr. 1457, f. 605r-605v, 7/17th August 1680.

119. RHC-GA, SvSL, inv.nr. 96, f. 114v, 21st August 1680; f. 115r, 22th April 1681.

120. RHC-GA, SvSL, inv.nr. 96, f. 120r, 1st June 1681; f. 120v, 2 June 1681.

121. RHC-GA, SvSL, inv.nr. 96, f. 156v, 6th January 1683; f. 157v, 28th February 1683; f. 158r, 1st March 1683; f. 159r, 3rd March 1683.

122. RHC-GA, SvSL, inv.nr. 96, f. 158r, 1st March 1683; f. 159r, 3rd March 1683.

annuities.¹²³ These defective payments and the ad hoc committee sent to Holland seem temporary makeshifts, rather than a policy to tighten the screws on the creditors.

In the two following years, 1684 and 1685, most of the life annuity holders received their last instalments. These partial and irregular payments might be interpreted as part of the ongoing renegotiations with the Holland creditors. Following the advice of the Generality, a number of creditors agreed in February 1686 to a reduction of 25 per cent of its redeemable annuities.¹²⁴ The States also continued to try to buy up annuities, both redeemable and life annuities, in Holland.¹²⁵ These securities probably sold below par, due to Groningen's bad payment behaviour. Buying these annuities through the secondary market was consequently cheaper than reimbursing the creditors at face value. The dismissal of Indisraven as broker for Groningen in the same month is presumably best explained from the perspective of these renegotiations. The States of Groningen dismissed him because of continued payments to creditors in Holland.¹²⁶ By withholding interest payments, the States of Groningen increased pressure on the creditors. If Indisraven then still paid these creditors, that strategy would have had little effect. In spite of his dismissal, Indisraven, reappeared twice to receive instalments, in 1688 and 1689, destined for interest payments on both life and redeemable annuities.¹²⁷ This reaffirms the impression of increasing arrears that gradually evolved into a default that was seemingly random within the group of life annuity holders, whereas the redeemable annuity holders struck a bargain with Groningen's government.

Unable to reach a collective agreement, the States of Groningen continued to work around the life annuity holders, using the secondary market for this purpose. Besides these direct purchases, mentioned in 1680 and 1686, it explicitly allowed – encouraged – inhabitants of Groningen to buy up Groningen public securities in Holland. The inhabitants could then reinvest this in return for 6 per cent life annuities, to a nominee that

123. RHC-GA, SvSL, inv.nr. 96, f. 164v, 22nd June 1683.

124. RHC-GA, SvSL, inv.nr. 96, f. 196v, 25th February 1686; f. 199r, 26th February 1686.

125. RHC-GA, SvSL, inv.nr. 96, f. 110r, 20th March 1680; f. 196v, 25th February 1686.

126. RHC-GA, SvSL, inv.nr. 96, f. 196v, 25th February 1686; f. 200v, 27th February 1686.

127. RHC-GA, SvSL, inv.nr. 96, f. 238v, 3rd March 1688; f. 259r, 20th October 1689.

was an inhabitant of Groningen.¹²⁸ The practice of re-trading public bonds in the domestic market has previously been described as an instrument for creditors to mitigate the effects of a default.¹²⁹ This case demonstrates that the defaulter could use the secondary market as well to help solving its problems. It moreover shows that the secondary market for public debt within the Dutch Republic was already well-developed.

The States of Groningen's preparedness to renegotiate was still not limited to the redeemable annuity holders. In 1689, the province negotiated a contract with Christoff count of Rantzow concerning his four life annuities. A lump sum of 20,000 guilders was paid to compensate for the unpaid interest of 16,000 guilders that had accumulated between 1678 and 1689. The payments of this redemption money were to be made in three equal instalments: one immediately, the other two through the office of Hendrik Staats and sons in Amsterdam. It was stipulated that if the remaining two payments were too late, the entire arrangement would be void. In that case the previous payment should be considered as partial redemption on the arrears, whereas the interest was to be paid according to the original conditions of the life annuities contract with priority in Amsterdam. The case is even more interesting because king-stadtholder William III of Orange, was one of the nominees of the life annuities.¹³⁰ The question remains whether this count of Rantzow bought this asset as agent of William, or whether it was allowed to nominate third parties as happened in late eighteenth-century France.¹³¹ Nonetheless, individual renegotiating was possible, but did not lead to an agreement between Holland's life annuity holders and the States of Groningen. Perhaps the problem was that the conditions and prospects within this group of creditors varied more than for the redeemable annuity holders. This larger variation was the result of the design of the asset, since the expected returns depended on the life expectancy of each individual nominee. Hence, it might have been the case that the nature of the life annuity caused too much heterogeneity to reach a solution that would satisfy all life annuity holders equally.

It was not preordained that the life annuity holders eventually fell victim to an outright repudiation of payments. For a while, both life annuity holders and possessors of redeemable annuities suffered from the postponed payments that resulted from liquidity problems. Whereas the latter managed

128. RHC-GA, SvSL, inv.nr. 96, f. 237r, 2nd March 1688; f. 239r, 3rd March 1688.

129. F. BRONER, A. MARTIN & J. VENTURA, 2010.

130. RHC-GA, SvSL, inv.nr. 2700.

131. F. VELDE & D. WEIR, 1992, p. 31.

to negotiate a deal, the former did not. Although the creditors in Holland as a group were targeted, the differentiation between redeemable annuity holders and life annuity holders was the outcome of a renegotiation process and not a premeditated plan. The redeemable annuity holders accepted an interest reduction in return for a resumption of payment, the large majority of the life annuity holders did not receive a penny for the next 75 years to come. Consequently, this case demonstrates why coordinating punishment proves so difficult for bondholders.¹³² Moreover, a remarkable result of this partial default was a regression in the functioning of free financial markets for public debt; prior to the default capital freely flowed to Groningen, thereafter Groningen depended on the Generality's credit.

6. Ending a remarkably persistent default

Compared to other public defaults, Groningen's default persisted for a remarkable long period. Usually a state in default could not issue new loans. Creditors barred defaulting states from new loans until the old debts were restructured. Consequently, credit rationing confined the duration of the default to the moment the defaulter needed to borrow money again, mostly within a few years.¹³³ So, why did it take so long before the creditors in Holland reached an understanding?

This section summarizes the process and attempts to solve the issue before 1761. Part of the persistence of the default can be attributed to the changing attitude of the Generality. Whereas the Generality stood for the rights of the unpaid creditors in Holland during the 1670s, it shielded Groningen from the unpaid life annuity holders in the eighteenth century. This was caused by Groningen's importance for the Dutch common defence system.

The States of Groningen used their strategic position in negotiations with the Union. In November 1687, the States of Groningen informed the Generality that the maintenance of its fortifications required the import of money from outside the province. As a lever, it withheld its payments to the Generality, until the other provinces had paid their contributions.¹³⁴ In exchange for Groningen's approval to the building of 36 new warships,

132. M. TOMZ, 2007, p. 196-219.

133. *Ibidem*, p. 53-54; C. M. REINHART & K. S. ROGOFF, 2009, p. 80-81; M. DRELICHMAN & H.-J. VOTH, 2011.

134. RHC-GA, SvSL, inv.nr. 96, f. 233v, 18th November 1687.

it required a loan for the maintenance of the fortress, seven months later.¹³⁵ In turn, the Council of State sent over an embassy to discuss this matter.¹³⁶ Without Groningen, the Dutch defences in the north would have been severely weakened. Hence, it was in the clear mutual interest of the Generality and the Groningen provincial administration to maintain the border fortresses in good condition.

On the other hand, the States-General protected Groningen against harsh measures by the life annuity holders. However, whereas fully sovereign borrowers had to come to terms with the market in order to issue new debt, Groningen was offered an escape route by borrowing under guarantee of the States-General. Groningen did not need the free market to obtain the loan. This made credit rationing an ineffective means for contract enforcement. This also made the States-General Groningen's main creditor that assured that it received prioritized payments. This becomes clear from the report by the aforementioned generality-commission in 1726. It declared that Groningen was already burdened enough by paying the Generality's debts and interest and could not pay others.¹³⁷ The States of Holland, nonetheless, repeatedly and fruitlessly admonished the States of Groningen to come to terms with the creditors, during the 1730s.¹³⁸ In 1739, it delivered an ultimatum to its Groningen counterparts that was to expire in May the following year.¹³⁹ However, the outbreak of the War of Austrian Succession in 1740 halted Holland's pressure, since internal harmony was required during this international conflict.¹⁴⁰ Negotiations and mediation by stadtholder William IV after the war also remained without effect.¹⁴¹

The default was only ended when the creditors in Holland invoked the 'medieval' Law of Reprisal. In October of 1759, the States of Holland allowed the creditors to seize ships and goods of Groningen's inhabitants in Holland.¹⁴² The creditors argued that if Groningen could pay other bills, it also could pay them. Adding that all that all Groningen's inhabitants

135. RHC-GA, SvSL, inv.nr. 96, f. 242v, 26th June 1688.

136. RHC-GA, SvSL, inv.nr. 96, f. 243v, 27th July 1688.

137. P. A. LOOSJES & J. WAGENAAR, 1789, Vol. 23, p. 139-140; J. E. HEERES, 1890, p. 188.

138. P. A. LOOSJES & J. WAGENAAR, 1789, Vol. 23, p. 139-140; J. E. HEERES, 1890, p. 175-176, 183, 192.

139. Nationaal Archief, The Hague (N.A.), Raad van State: Extra Aanwinsten 1904 XII, inv.nr. 23c.

140. P. A. LOOSJES & J. WAGENAAR, 1789, Vol. 23, p. 140.

141. J. E. HEERES, 1890, p. 183, 192.

142. *Ibidem*, p. 184-185.

were liable for their provincial debt was a clear invocation of the Law of Reprisal.¹⁴³ Remarkably, in the middle of the conflict the Generality granted a safeguard against the seizing by Holland's creditors of money designated for the payment of the Generality's debts and interest.¹⁴⁴ Again, the protection of the Generality's interest prevailed over those of the private creditors. Eventually, the States-General mediated an agreement that granted compensation to the heirs of the annuity holders of 10% cash, 50% in 2.5% bonds, in October 1760.¹⁴⁵ Hence, both the persistence and solution of the default depended on the Generality's mediating position between creditors and defaulter.

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The case of Groningen's default casts doubt on the widespread notion that credible commitment to debt was an essential part of the Dutch Republic's state finance. It demonstrates that credible commitment to debt would be pushed aside if one could come away relatively unharmed. In the process of renegotiation of its arrears, the States of Groningen discovered that the Generality offered an escape route. This escape was the trade-off of diminished fiscal autonomy in return for access to the capital market via the States-General. This allowed the Groningers to circumvent the capital markets punishment for a default, such as credit rationing or higher interest rates charged.

However, Groningen's default was no premeditated plan. It was rather the outcome of the interaction between the creditors, the States of Groningen and the Generality. This explains the evolution from arrears that turned into a gradual and piecemeal default and eventually an outright repudiation of the debt. When so urged by the States-General in the late 1670s, the States of Groningen attempted to pay the interest in arrears. The temporary make-shifts and ad hoc money transfers in the 1680s indicate attempts to restructure the debt. In accordance with the Generality's advice, the States of Groningen reached an agreement with the redeemable annuity holders. This left the life annuity holders to their own devices. Consequently, they fell victim to increasing arrears that gradually evolved into a default. The outright repudiation of that share of the debt, only followed from the protection the Generality offered to the States of Groningen.

143. *Ibidem*, p. 182-183.

144. P. A. LOOSJES & J. WAGENAAR, 1789, Vol. 23, p. 142-143.

145. J. E. HEERES, 1890, p. 190-197.

The States-General allowed Groningen's default to persist for two reasons. Firstly, it needed to secure its own income. It depended heavily on the provincial contributions to foot the bill. A failure to pay the military was dangerous and its own revenue stream but small. Issuing debt on behalf of the provinces helped to smooth its liquidity shortages. Therefore, it granted Groningen the possibility of borrowing under its guarantee. Moreover, it exercised wider control over Groningen's public finances and prioritized its own income, over all other expenses. This was the result of the far-reaching powers assigned by the 1594 Treaty of Reduction. This solution was mutually beneficial for the province and the Generality, but detrimental to the creditors in Holland. Secondly, Groningen formed an important link in the Republic's defences. Upkeep of the fortresses on the Republic's border was important, as became clear from the two invasions by the bishop of Münster in 1665 and 1672. Groningen's military victory in 1672 came at the price of an extraordinary financial burden, including a forced loan and arrears to its creditors. The States of Holland acknowledged Groningen's military importance and also subordinated the creditors' interests to the greater good of internal harmony in time of warfare. But when the Republic could stay away from the Seven Years' War (1756-1763), Groningen's military position proved a less important argument.

To force Groningen to pay its old debts, the Holland creditors resorted to the 'medieval' Law of Reprisal. This was the result of the absence of centralized juridical institutions. It shows that the Dutch Republic remained a fragmented federal state that made internal contract enforcement problematic. Yet, this was apparently not necessary for its survival as independent state. Private interests were subordinated to the Greater Good of common security, while sufficient money could be raised to finance this.

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Data Appendix

Table 3. *Groningen’s Income and expenditures per decade*

	<i>Primary Income</i>	<i>Primary Expenditure</i>	<i>Subtotal: Primary Govt. balance</i>	<i>Interest & Redemptions</i>	<i>Loans</i>	<i>Total Balance</i>
1594-1600	306.750	-265.750	41.000	0	0	41.000
1601-1610	539.750	-535.000	4.750	0	13.000	17.750
1611-1620	508.000	-544.250	-36.250	-3.000	17.000	-22.250
1621-1630	996.500	-997.000	-500	-38.000	73.000	34.500
1631-1640	1.128.250	-1.145.500	-17.250	-28.000	7.000	-38.250
1641-1650	1.073.000	-1.057.750	15.250	-19.000	4.000	250
1651-1660	852.000	-926.250	-74.250	-26.000	76.000	-24.250
1661-1670	954.250	-993.500	-39.250	-175.000	514.000	299.750
1671-1680	1.167.500	-1.240.500	-73.000	-180.000	74.000	-179.000
1681-1690	1.030.250	-851.500	178.750	-207.000	31.000	2.750
1691-1700	1.276.750	-1.156.750	120.000	-221.000	64.000	-37.000
1701-1710	1.433.250	-1.734.000	-300.750	-220.000	486.000	-34.750
1711-1720	1.370.250	-1.263.500	106.750	-297.000	188.000	-2.250
1721-1730	1.496.000	-1.258.500	237.500	-260.000	18.000	-4.500
1731-1740	1.283.750	-1.067.500	216.250	-237.000	7.000	-13.750
1741-1750	1.297.750	-1.190.750	107.000	-200.000	156.000	63.000
1751-1760	1.479.000	-1.532.750	-53.750	-204.000	642.000	384.250
1761-1770	1.546.250	-1.341.000	205.250	-217.000	0	-11.750
1771-1780	1.591.250	-1.446.250	145.000	-132.000	0	13.000
1781-1790	1.475.500	-1.493.500	-18.000	-125.000	111.000	-32.000
1791-1795	1.665.750	-1.675.000	-9.250	-167.000	435.000	258.750

Source. L. VAN DER ENT & V. ENTHOVEN, 2001, p. 91-95, 128, 110-119, 189-193, 294-298, 328, 359-362.