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# WARFARE AT SEA AND PROFIT: CORSAIRS, INSTITUTIONS AND PARTNERSHIP COMPANIES

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**Abstract:** In the present paper we propose that in states with relatively weak central authorities, decision makers had to develop market oriented organisation solutions to successfully face a grave external threat, and these solutions proved to be efficient. Using an interdisciplinary approach that combines institutional theory, history and strategy, we analyse a case study, the use of corsairs (privateers) by England and the United Provinces (Dutch Republic) in the late 16<sup>th</sup> and early 17<sup>th</sup> centuries. We have found that the development of partnership companies went hand in hand for commercial and military purposes. English and Dutch privateers proved to be economically efficient and superior to the centrally planned war operations of the Spanish empire.

*Keywords:* Institutions, partnership companies, corsairs, strategy, coordination and cooperation mechanisms, 16<sup>th</sup>-17<sup>th</sup> century England and United Provinces (Dutch Republic).

*JEL Codes:* H7, N23, N40, N43, P16.

## INTRODUCTION

At the beginning of the 16<sup>th</sup> century, Spain started developing into the strongest European state, and establishing the world's biggest overseas and maritime

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empire, including many parts of today's Central and Latin America (by subduing the Indian Aztec, Inca and Maya empires and additionally islands such as Cuba and Puerto Rico and parts of Chile) and areas such as Florida, California, and today's Philippines and Benelux countries.

By the beginning of the next century, the Spanish empire was in decline, having faced four bankruptcies during the long reign of Philip II, (died in 1598) the loss of its naval supremacy, loss of today's Netherlands which became de facto independent during the Dutch revolt 1568-1648 and de jure in 1648 with the treaties of Westphalia and Muenster, and having been humiliated in a series of naval defeats at the hands of the then new, poor and "upstart" countries of England and the United Provinces (Dutch Republic). It was a historical case of two Davids beating a Goliath. How did this happen?

Many explanations for the decline of Spain have been offered, as for example by North (1981) and Kennedy (1988). Kennedy proposed that the Spanish empire during Philip's reign undertook too many wars at the same time: fighting the Turks in the Mediterranean, supporting their Habsburg cousins, the emperors of the "Holy Roman Empire of the German nation" against revolted (mainly protestant) princes and regions, the revolted Dutch and furthermore campaigning against England in 1588 with the so-called "Armada"), leading thus to overextension and military and financial exhaustion.

North points out the wrong and short-sighted economic measures that were adopted by Philip in order to face urgent short-term financial problems, which led to a "wrong" institutional set up in Spain, which inhibited long-term economic growth. One such example is the "mesta", the union of Spanish owners flocks of sheep that produced wool. Philip taxed them in a per head (of animals) tax, which was easy to levy, and gave them, in exchange, permission to graze their flocks freely, e.g. prohibited enclosure. But non-enclosure meant that agriculture suffered in general, because it made investment in land improvisation non profitable.

Following an institutional approach, we develop the thesis, that in countries with relatively weak central government, such as the United Provinces (Dutch Republic) and England in the 16<sup>th</sup> century (as opposed to Spain which had a relatively strong central government), market solutions were introduced, tried and adapted to face various problems, and these solutions proved in the long-run superior to centrally

imposed solutions. Market solutions brought about an efficient institutional set up that was favorable to growth.

In previous papers, we have analysed this in explaining the emergence of market institutions for long term trade, especially, the spices trade. Central to this, we have analysed the emergence of joint-stock companies and stock exchanges (Halkos and Kyriazis 2005; Kyriazis 2006; Kyriazis and Metaxas 2010, 2011).

In the present paper, we analyse a related institutional issue, war for profit, e.g. how England and the UP, countries with weaker central governments, developed market solutions, e.g. corsairs (privateers) and their associated strategy and institutional set up, to wage war successfully against Spain and, after Spain took over Portugal in 1580, against Portugal too. The two newer naval and maritime nations challenged successfully the two older maritime empires.

Related to the institutional developments, we analyse the new set of values that were linked to them, as efficient cooperation and coordination mechanisms. More specifically, these particular values and norms that emerged in the maritime sector were trust and self-reliance (both among the cooperating merchants, their officers and crews, who in the case of privateering enterprises had a share in profit and thus a common purpose), self-confidence (achieved through repeated successful enterprises), but also a first sense of cohesion, common mind, fairness and equality, even strong religious beliefs (perhaps a protestant ethic according to Weber) , and even, in many cases, friendship and a sense of responsibility.

These values were essential for attracting and retaining crews for the privateering enterprises because they were mostly dangerous voyages, too risky to undertake. Thus, these new norms and values especially trust, reduced transaction costs, and in this way helped also promote economic development.

Such a set of norms and values promotes also a community of interests. People in maritime states throughout history, beginning from ancient Athens (see Kyriazis and Economou 2013), seem to have understood that their direct or indirect participation in this effort brought advantages (although of course in different degrees) to everyone involved, and thus they were willing to support this effort.

The paper is organised as follows: In the next section, we present the case of England and the UP having relatively weaker central governments. Then, we go on to examine the institutional and organisational framework for privateering. This is followed by the analysis of war against Spain-Portugal in the late 16<sup>th</sup> - beginning of

the 17<sup>th</sup> centuries and its economic effects on the belligerents, followed by our conclusions.

## **WEAK CENTRAL GOVERNANCE: ENGLAND AND THE UNITED PROVINCES**

By the end of the 15<sup>th</sup> century, England had lost the Hundred Years War against France, and had gone through the Civil War of the Roses that culminated in the establishment of a new dynasty, the Tudors after the victory of Henry VII at Bosworth in 1485. Henry VII and his heirs, Henry VIII, and his daughters Mary and Elisabeth, were thus a new dynasty and had to take into account the interests of the survivors of the old nobility, but also the commercial interests of cities, new “low” nobility of the country etc.

They had to do so even more due to threats to their dynastic claims by other contestants (like queen Mary of Scotland) and religious cleavages. Also, England had a long tradition of insurrection that limited central power, most notably the insurrection of the nobles against King John that forced him to grant the Magna Carta in 1215 which can be seen as the first constitution of a modern European state (if we accept that some ancient states like Athens and Rome had some kind of constitution, called “politeia”).

Also, the gradual rise of parliament since at least 1215, was another pivotal element to counterbalance the English kings absolutism in imposing their will in issues such as arbitrary taxation (see North and Weingast 1989) raising war campaigns without the nation’s consent, or offering special privileges in a specific groups of the nobility (see, Weir 2001; O’Brien 2012). A series of manifestos such as the Magna Carta and the simultaneous rise of the English parliament could be seen as a way of a relative monitoring against royal absolutism, or as the gradual rise of a “checks and balances” system, if we interpret those events through the Buchanan and Tullock (1962) spectacles.

We have to acknowledge however, that some scholars like Wallerstein (1974) argue that the UP were a state with “strong” central governance, extensive bureaucracy and large mercenary army, with England being the second and France the third In such a classification. He nominates these three cases as a “core”.

What we actually want to show is that if Wallenstein’s argument is correct, it may lead to some misunderstanding. We will be arguing that England and the UP

started from a relatively weaker economic condition, and certainly without the means and resources of world empires such as Spain and Portugal, (which benefited from silver and gold inflows from the New World, the monopoly of the spices trade etc.) combined with weaker central governments.

Far from denying his methodology or not which it may be based on the eye of the beholder, one primary reason that this argumentation is might be scanty is the fact that Wallerstein dines Spain and Portugal as parts of what he calls core, although there is an extended bibliography arguing that Spain and Portugal were far more centralized states than the three cases mentioned above.

For example, in contrast to the English policymakers who at least since the Elisabethan era promoted a decentralized way of promoting overseas commerce by the private sector, (see among others Stone 1972; Davis 1973a, 41; De Vries and van der Woude 1997) Cameron (1993 127) argues that any kind of the Spanish and Portuguese commercial activity was a part of a monopoly planning being undertaken by the state.

Wallerstein's argumentation concerning England is questioned also by Mooers (1991), while Warwick (1990, 83) argues that England had not a strong central government but a strong navy, while Weingast (1995) by analyzing English political institutions before and after the English civil war (1642-51) argues that England could be characterized even as a "commonwealth" mainly because i) there was a distinctive relationship of governance between regional and national level ii) because the state had a limited capability and will to impose its policies to the periphery. Weingast calls this regional autonomy in local-regional level of English regions as "limited government", which it appears to be regarded as one of today's main prerequisites to proclaim a state as of a federal type.

Another indication of the relative weakness of the central state in England, is the fact that according to contemporary claims (Palliser 1983, 12) England was the least heavily imposed and least indebted country in Europe, where according to one estimate total revenue of the public sector reached less than 5% of GDP (Goldsmith 1987 19). For example, queen Elisabeth had two important sources of revenue within her power, crown lands and customs, while she depended on Parliament for the "tenth" and "fifteenth" assessed every three years on laity and clergy and "subsidies", granted under extraordinary conditions, mainly war.

Even more, no strong central authority existed in the United Provinces (Dutch Republic), which, up to 1568 were geographically part of the Spanish Netherlands and had revolted against them from a mix of political, national, commercial and religious causes. Although the UP were formally recognized as an independent nation only at the treaties of Westphalia and Muenster of 1648, the majority of the land was already independent of Spanish rule by the end of the 16<sup>th</sup> century.

The Dutch Republic was formed by seven United Provinces, in which again 58 cities predominated, with Amsterdam being the most important one. The main centralised coordinating body was the “States General” with representatives of the seven provinces, where each province had one vote and where unanimity was required for taking a decision binding on each of them (Davids and t’ Hart 2012). There was also the office of the “stadholder”, more or less a head of government of each province, who had again a representative and coordinating function, an office that was left vacant for substantial periods of time, for example during 1650-1672.

Another federal institution was the Council of State, a committee of 25 persons in which the provinces and the stadholder were represented and which were entrusted with military, financial and other business, eg. an executive power. The fleet lay under the control of the States General and the “admiral-general”, but the daily direction of naval affairs was referred to the five Admiralty Colleges.

The political system of the UP can be thus called “a democratic head on an oligarchic body”, the head being the States General (where each province had a veto right due to the unanimity rule) that were elected and the body the 58 semi-independent cities, which were ruled by the regents (“Regenten”) commercial oligarchy. It was a decentralised system where the provinces and the cities and in them the commercial interests, had the stronger position.<sup>1</sup>

Having shown the relatively weaker position of the central authority in England and the UP, we turn to the challenge faced by the two states and their market-oriented solutions. Due to an “external shock”, the spanish invasion, both countries had to develop market solutions, both for trade (the private joint-stock companies that

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<sup>1</sup> For a detailed analysis of the UP political and economic system, see (de Vries and van der Woude 1997; t’ Hart 1996; Halkos and Kyriazis 2005; Kyriazis 2006; Davids and t’ Hart 2012) and the additional references provided there. For the Dutch War of Independence, see Parker (1977). For the “War of the Roses” history, see Kendall (1973) and Gillingham (1981).

developed into the state granted monopolies of the East India Companies, such as the East Indian Company [EIC] and the Dutch East Indian Company [VOC] and war (the joint-stock companies for privateering). Because these solutions were proved to be superior, England and the UP developed by the beginning of the 17<sup>th</sup> century into economically strong states.

Our main thesis is thus, that a state may be strong due to its market oriented economy and institutions, even if (or, as a stronger argument, because of) it has a relatively weak central government. Relatively weaker governments leave a greater space for market oriented solutions, and this fosters economic strength and growth. In opposition to relatively weak central governments, in states with strong central powers like Spain and Portugal and the great contemporary eastern empires, the Ottoman, Mughal India and the Ming China, the central power decides, coordinates and retains most of the profits or rents (in the form of taxes, custom duties etc.).

In Spain for example, the state itself organised most expeditions to the New World (like Columbus' expeditions to whom news and ships were provided by Queen Isabella and King Ferdinand) and exploited the new lands discovered. The same was true for Portugal half a century earlier, where prince Henrique (Henry) the Navigator organised the voyages of exploration and discoveries on behalf of the state. (Verge-Franceschi 1998). This is of course not to deny that commercial interests existed both in Spain and Portugal, but they were subordinated to the government. An indication of this is that no joint-stock companies such as the EIC and VOC emerged in Spain and Portugal.

Further, commercial interests played a minor (or almost non-existent) role in shaping policy. If they had a saying, Spanish traders would probably argue that Spain's involvement in the Habsburg family German war was a pure waste of resources and would probably further argue, that the costly wars against the Ottoman's and their North African tributary Barbary states should take a secondary position vis-a'-vis their New World and Asian trade interests.

Further, public private partnerships, to use a modern term, such as those being created in England and the UP, as we will analyse further on, did not happen in Philip's Spain.

## THE EMERGENCE OF MARKET ORIENTED SOLUTIONS FOR WAR

By the second half of the 16<sup>th</sup> century, the Spanish Habsburg Empire of Phillip II extended from its American New World colonies, to the Philippines in Asia, and included in Europe Spain itself, Portugal (annexed in 1580), the Low Countries, Sardinia, Sicily and the Kingdom of Naples, and Franche-Compté in today's France. Phillip II was an ardent Catholic like his father Charles V, and saw himself as the protector of the true faith against heretic Protestants, German, Dutch and English alike.

Religious, economic and political considerations thus made the Spanish empire to fight against both England of Elisabeth I and the Dutch rebels of the United Provinces under William and then his son Maurice of Nassau-Orange who coordinated the Dutch military effort. Phillip sent armies against the rebels in the Netherlands and prepared fleets for invading England, which culminated with the defeat of the Spanish Armada in 1588. The Dutch adopted a defensive strategy on land, since their own land forces would not be a match in a pitched battle against the Spanish "tercio" regiments, the best infantry of the time. Their defence consisted of fortresses, coupled with extensive flooding of land areas by opening dams. England did not have a land frontier with any Spanish territory and at the time, like the Dutch, did not yet possess any overseas colonies.

The Dutch, being encircled on land by Spanish territories had only one open way to the rest of the world, the sea. They used it to expand commercially by the end of the century making their first attempt to capture the spices trade, which they did successfully complete during the next century. Parallel to this, they attacked the most vulnerable points of the Spanish empire, their maritime commerce with their colonies. The English tried also during the same time to actively participate, as newcomers, in international maritime trade, at first peacefully, but they encountered the hostility of Spain in her own territories, which sometimes expelled British traders by the use of force, as at San Juan de Ulua in 1568.<sup>2</sup> The Spanish, wanted to keep a monopoly of

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<sup>2</sup> John Hawkins and Francis Drake were at the time merchants who tried to break into the Spanish trade monopoly. In September 1568 Hawkins and his five ships was forced to run for shelter into the Spanish harbour of San Juan de Ulua. A few days later the Spanish treasure fleet arrived and the Spanish assaulted the English ships, and after a six hour battle only two English ships, Hawkins and Drake's escaped (Konstam 2000).

trade with their colonies, which was one of the causes (the main economic one) for hostilities with England.

Both the English and the Dutch thus went to war against the Spanish trade and colonies. For this, they resorted to privateering, using market organisation forms to finance their expeditions. Queen Elizabeth had started a programme of building dedicated warships (sailing galleons) of which she had 34 in 1588 to face Armada campaign, 13 of which were over 500 tons. This represented 18% of the total English fleet of 197 ships. Of them, 18 were build after 1581 and only three before 1570 (Tincey 1988). To these must be added 14 ships build before 1564 (Rodger 1997). This meant that when undeclared hostilities started in earnest by the beginning of the 1570's, there were practically no dedicated warships to carry the war against the Spanish.

During the same period, the Dutch revolt had just started and there were none as yet dedicated Dutch warships. On the other hand, the distinction between dedicated warships and armed merchantmen had just started to emerge. Most navies, the Spanish-Portuguese included (which also comprised some dedicated warships) made up their numbers by using merchantmen. Almost all merchantmen were armed, and by being up-gunned (with the addition of more guns) and up-crewed (with the addition of more crew members to serve the guns and in the Spanish navy with soldiers to serve as boarders) the merchantmen became relatively efficient men of war.<sup>3</sup>

Thus, the English and the Dutch could solve relatively easy the first part of the challenge, the availability of ships. The solution to the second part was less obvious: Who and how would organise and finance the war operations against the Spanish? In the UP, were the revolt had just started, these were as yet not even a rudimentary central federal authority to do it. England, as stated above, had some royal ships, but retained them for home defence, as a fleet in being. Even more serious, the English crown did not have adequate finances for overseas expeditions.

Queen Mary, Elizabeth's sister and predecessor, inherited from her father

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<sup>3</sup> The Dutch were so successful against the Spanish with this practice that they discovered quite late and to their detriment the necessity of dedicated warships. This happened after their defeat during the first Anglo-Dutch war of 1652-1654 by the English dedicated warships, which forced them to build their own (see Tincey 1988; Rodger 2004 and Davids and t' Hart 2012).

Henry VIII an empty treasury and a heavy foreign debt (owed to foreign bankers). She managed her affairs with great prudence, a pattern followed by Elizabeth after she became Queen in 1558. During 1565-1574 she spent on average just £16.000 per year on her Navy (6,5% of total income). But she had spent £ 246.380 on the fruitless Havre expedition (or about a year's total revenue) and she also had a considerable foreign debt (Rodger 1997). Elizabeth out of prudence (learning of the risks and costs of overseas expeditions like Havre's) and necessity could not finance herself costly overseas expeditions against Spanish commerce and New World colonies, out of state revenues. In both the English and the Dutch case, market solutions were found: the use of privateers-corsairs for a war for a private at first and public as a second way of making profit.

During the 16<sup>th</sup> century merchants in the UP and England started developing a new form of organisation, joint-stock companies, which in the UP were called "partenrederij" (partnerships) for maritime trade. Similar forms of organisations were created already in prototype forms in ancient and medieval maritime societies, like Athens, Rhodes, Rome, Venice, Pisa and Genova, leading us to assert that similar problems lead to similar solutions over the ages. The Italian experience may have influenced England and the UP, as did Venetian banking influence to the UP banking, the Bank of Amsterdam being modelled for example on the Venetian bank de la Piazza di Rialto. In England, the oldest joint-stock company were the Guinea Adventures, established in 1553 for trade with West Africa, followed in 1555 by the Muscovy company for trade with the then Duchy of Moscow.

Joint-stock companies were the best solutions to solve the cooperation and coordination problem involved in long distance trade and fishing, as for example the firms, timber and cereal trade with Muscovy, the hearing trade in the Atlantic and above all, the spices trade. In the absence of a government imposed solution, merchants had to discover, probably through a process of trial and error, market solutions.

Joint-stock companies emerged as the best one to solve the problem of acquiring sufficient capital and making clear the leadership and distribution of profits (or losses) issues. Overseas trade required substantial capital and joint-stock companies permitted the pooling of resources and at the same time, reduction of risk to individuals, who would loose only the capital of their shares in joint-stock companies. Overseas trade required intensive coordination and cooperation by participants, and

joint-stock companies were the best suited coordination and cooperation mechanism for this task.

There exists substantial and growing literature on coordination and cooperation mechanisms, mainly in the fields of organisation and game theory. (Malone and Crowson 1994; Adler 2001; Kale, Dyer and Singh 2002; Xu and Beamon 2006 and Fink and Kessler 2010).

As far as we know, we apply for the first time an analysis of joint stock companies both for trade and privateering, as coordination and cooperation mechanisms. Coordination and cooperation mechanisms create a particular way to find solutions to specific problems based on shared information and a set of behavioural rules in the form of organisations by acting according to specified and normalised rules. Joint-stock companies evolved through contracts between the stockholders of the company, and the company and the ships, officers and crews (officers and even sailors were sometimes at the same time, stockholders).

The most important consequence of cooperation and coordination mechanisms is that they diminish transaction costs and enhance efficiency. In situations of risk, as the long range trading enterprises, and even more, privateering, cues are evolved and take sometimes even the form of a specific language, that helps lower transaction costs in situations in which the risk that someone takes depends on the performance of another actor (Coleman 1990, 91).

Privateering was a highly risky (but also highly lucrative type of enterprise. Ships have always been, as analysed by Kyriazis (2012) for the ancient Athenian triremes and Rodger (1997) and O' Brien (2012) for the Elisabethan England English galleons, the supreme type of coordination and cooperation mechanism, requiring the cooperation of many types of specialist groups, officers and sailors having to undertake different tasks like navigation (position finding), logistics, hygiene, sailing and gunnery in order to maximize the probability of surviving in battle and attaining victory. With each successful enterprise, the cooperation and coordination was fine-tuned, and the values created and associated with them, like trust, cohesion, self-reliance, self-consciousness, obedience to commands and teamwork, were enhanced.

But we would go a step further, suggesting that cooperation and coordination mechanisms and joint-stock companies for long distance trade and privateering were “proto-democratic” institutions. First, because joint-stock companies had meetings of stockholders where voting (according to the number of stock owned by each

stockholder) was done, as was the case in ancient and direct democracies, eg, ancient Greek city-states as well as the post-medieval Swiss cities and cantons.

During the late 16<sup>th</sup>–beginning of the 17<sup>th</sup> century, democratic voting, even if not on political issues, was a novelty and it helped introduce a new culture in the decentralised maritime states. On board privateering ships, another democratic idea may have become latent, though not yet explicit the idea of common purpose or “common good”, in the sense that all members of the ship’s crew stood to profit from the successful achievement of the privateering enterprise.

This common purpose or good was both personal profit and patriotism, even religious fervor against a catholic enemy. This “common good” was near to the ideal of “homonioia”, the supreme democratic ideal as advanced already by ancient Greek philosophers like Aristotle (“Politics” 1264 a 36-37).

We even suggest that the creation of this specific set of values and norms as the outcome of the particular type of cooperation and coordination mechanism represented by joint-stock companies and their ships, helped into the creation of the preconditions that made England and the UP the most democratic states (together with Switzerland) in the 17<sup>th</sup> century, an inquiry we pursue to answer concerning also the cases of both the Achaean Greek proto-federation of the fourth century BC and the United Provinces, through an interactive comparative analysis (Kyriazis and Economou, under review).

The joint-stock organisation form was adapted from the trade sector to the military one, when the necessity arose to combat the Spanish and Portuguese. Instead of searching for a new solution, the adaptation of a proven one was preferred, because these led to a reduction of transaction costs. A totally new solution would require higher transaction costs, for information gathering, drafting of new types of contracts etc.<sup>4</sup> Thus, when the necessity arose, both English and Dutch created joint-stock

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<sup>4</sup> The interpretation we offer here concerning both English and Dutch privateering activities is an extension of Simon's (1982, 1991) “bounded rationality”, which states that the human mind has limitations, for example in its capacity to absorb and use new information. In real life, instead of searching for an “absolute ideal” (as for example, utility maximisation according to microeconomic theory) we try to reach a solution that satisfies us, even if it is not the best possible one. Simon calls this behaviour “satisficing”. This enables us to find acceptable solutions with minimal expenditure of time and effort, thus reducing transaction costs. Satisficing behaviour diffuses known solutions and problem-solving rules to new problems, since this reduces again time and effort. Thus, a tried

companies for privateering, where participants (in England from queen Elisabeth herself, to merchants and down to even simple sailors and “citizens”) took specific shares of stock in the company according to their capital invested which entitled them to a similar percentage of prospective profits.

A strong element on which joint-stock companies were based, apart from their founding charts, was trust. The relevant modern literature emphasizes trust as being important for the smooth functioning of an transaction cost reducing mechanism. Trust has been recognised as a lubricant enabling organisations and societies to achieve Pareto superior outcomes (Arrow 1974; Fukuyama 1995; Kramer 1999). Trust among members who formed partnerships for trade, was a basic element for them to form partnerships (in the form mainly of joint-stock companies) for war. This was made easier since in many cases the merchants participating in privateering enterprises were the same with those participating in peaceful trade.

But even before the establishment of the companies, an amount of trust must have existed (through personal ties of knowledge and information sharing) between the original members of the joint-stock companies to be created. This trust is the most important element that evolves, it is strengthened and permits the smooth functioning of organisations as efficient cooperation and coordination mechanisms. For example, the Englishmen John Hawkins, Martin Frobisher, Francis Drake and many others, started as traders, then, becoming successful corsairs and then some were knighted and served as captains in the war against Spain in 1588 and after.

Trust between captains, officers and men was a very important element for running a ship efficiently, both in trade and war. Ships, either merchantmen or warships, are another example of cooperation and coordination mechanism. It requires intensive cooperation and coordination among the captain, the officers, the sailors doing different tasks, like setting the sails, controlling steering, making the guns etc. Building experience through repeated voyages aboard the ships both enhances coordination and cooperation, builds trust and thus, increases efficiency. This again is a validation of the well-known dictum that it took a few years to build a ship, but

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organisational solution, the joint-stock company, is transferred to a new problem, that of organising privateering expeditions.

decades to build and upkeep a naval tradition (Palliser 1983).<sup>5</sup>

Privateers and corsairs<sup>6</sup> were distinguished from outlaw pirates, since they were empowered by their governments to wage war against their enemies, but not against neutral states and their own ships. They received a “letter of marque” or “reprisal” stating this, and thus acted in a general sense on behalf of their government (see Rodger 1997). What distinguished them from the official government and state owned ships was the organisation and financing of their expeditions and their latitude in pursuing their aims.

As to the second, individual captains, or leaders of expeditions in cases where more than one ship participated (more and more common by the end of the 16<sup>th</sup> and beginning of the 17<sup>th</sup> century) were totally free to choose the region of their operations and the way they would operate, as well as the time they would devote to their operations. They waged an individual, decentralised type of war, which as we will show later on, proved to be extremely efficient.

## **THE ECONOMIC EFFECT OF PRIVATEERING**

### *The Dutch Sea Beggars*

In the early days of the Dutch Revolt warfare was dominated by the actions of a bunch of unruly privateers, called “beggars” in contempt by the Spanish, a name which they proudly took over as “Watergeuzen” (Sea Beggars). Indeed the Sea Beggars liberated the first Netherlands territory from the Spanish, capturing in a surprise attack the port of Brill in 1572. This was followed rapidly by a number of other ports, Flushing and Veere (in Zeeland), Enkhuizen (in North Holland) and later by major cities like Amsterdam. Thus, the UP acquired the necessary ports for their trade expansion, which served also as privateering bases (Parker 1977; Israel 1995).

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<sup>5</sup> Kyriazis (2012, 30-39) analyses the ancient Greek warship, the “trireme” and fleets, as cooperation and coordination mechanisms, the values that arose out of these, and its political repercussions.

<sup>6</sup> Privateers and corsairs are synonymous, the first term coming from “private” denoting ownership of the ship by the captain or the company (as against English royal ships owned by the state-queen). Corsair comes from the French “course” meaning booty. As we show, in some cases piracy and privateering was indistinguishable. Corsairs could cross over the “red line of legality” and become pirates.

During the first two decades of the revolt, the port-cities authorities were somewhat reluctant to grant corsairs licences, because some privateers attacked and plundered neutral ships, thus endangering the diplomatic efforts of the States General that worked for the recognition of Dutch independence by other states. But in 1598 King Philip of Spain issued an official embargo against the Dutch, forcing the States General to react: All goods and possessions of Spain were legitimate prizes of privateers. In order to limit “outlaw behaviour” by privateers the States General demanded a caution of money of 6.000 guilders, later raised to 20.000, which was forfeited in case of misbehaviour of the captain, eg. if he attacked neutral ships (van Loo 1998).

Showing remarkable flexibility and a very early case of investment cross border mobility according to the institutional advantages and disadvantages offered by each location, many Dutch privateers turned their back on Holland after 1604, when the States General raised the bail and made conditions for obtaining privateer licences more difficult, some becoming pirates, but more often, the merchants joint-stock companies financing (mainly from Zeeland) and contracting French captains (some from Dunkirk) like the famous ones, Nicholas Jarry and Pierre le Turcq. Amsterdam merchants soon followed the example of the Zeeland merchants, financing Dunkirk privateers. Well-to-do merchants from Middleburg (in Zeeland) engaged in the privateering business right up to the end of the 18<sup>th</sup> century. Another Zeeland port Flushing (Vlissingen) grew into one of the most feared privateering ports of the time (Davids and t’ Hart 2012).

We have within the various cities of the early UP an early manifestation of intercity competition that led in the course of time to some maritime specialisation: Amsterdam developed into the most important trading and entrepôt city and thus was less interested over time into privateering business. Some Zeeland ports, like Flushing and Middleburg, which were economically hit by the downfall of neighbouring Antwerp (due to a large part to Dutch sea blockade) specialised into the alternative maritime business form of privateering. But even Amsterdam invested heavily into privateering in an indirect form through the prototype joint-stock companies, the Dutch East India Company (VOC) established in 1602 and the West Indian one. Amsterdam financial interests were predominant in both (Kyriazis and Metaxas 2011).

The VOC played an important role by undertaking large-scale privateering

activities against Spanish and Portuguese ships and colonies in Asia (Gaastra 2003). The West Indian Company (WIC) was even more successful in its privateering expeditions, its biggest success coming in 1628, when a company fleet commanded by Piet Heyn managed to capture one Spanish “plata” (silver) fleet off Matanzas in Cuba. It was the only time in history that an entire Spanish treasure fleet was captured.

This not only financed the WIC’s successful conquests in Brazil, but also destroyed in one blow about a third of the ships employed in Seville’s (Spain’s main port with the New World) Atlantic trade. Between 1623 and 1626 the WIC took or destroyed 547 ships worth about 5,5 Mio guilders (Cooper 1970 226-238). This sum was greater than the WIC’s total, own capital. The WIC capital was 7 mio guilders, and the value of the silver captured in 1628 was more than 10 mio guilders (Goldsmith 1983 214, 305).

Within the Dutch-Spanish conflict, the Dutch were also fighting against the Portuguese, since Portugal had been incorporated since 1580 in the Spanish empire, and remained part of it till 1640 (the Portuguese squadron of the Spanish Armada of 1588 was one of the best and of 12 galleons with 387 guns and 3649 crew, see Konstam 2001). Portuguese ships and colonies suffered substantially from Dutch attacks, both in American waters, (outside Brazil) Africa (outside Angola) and Asia. In particular, the Dutch thought that these Portuguese colonies were weak links in the Spanish–Portuguese empire and, using seapower, they extended their operations ashore, attacking Portuguese strongholds. In 1624-25 they took and then lost Bahia, in 1630 they began the conquest of Pernambuco (NE. Brazil) which was completed by John Maurice in 1637, in 1638 they captured Elucina in Guinea (Africa) and started the conquest of coastal Ceylon, in 1640 they defeated a Portuguese armada of Pernambuco and in 1641 they captured Malacca (in SE. Asia, today’s Malacca Straits), the Mercahao and Luanda.

They concluded a Ten Year Truce with the Portuguese in June 1641. Hostilities resumed nevertheless in 1644-5 with a rebellion against the Dutch in NE Brazil, while the Portuguese recaptured Luanda and Benguela in 1648, and by 1654 the Portuguese expelled definitely the Dutch from Brazil. On the other hand, the Dutch completed during 1654-1658 the conquest of Coastal Ceylon and Malabar from the Portuguese. Peace was signed with the now independent (since 1640) Portugal, which left the

Dutch dominant in Indian Ocean waters and Asia where the Portuguese retained only a few bases like in the Indian peninsula and Macao in the Chinese coast (Boxer 1965).

The Dutch–Portuguese conflict was costly for both sides and most of capital of the Dutch West India Company was lost in the Brazilian war, which explains in part why the WIC was less durable and successful than the VOC. On the other hand, the war was even more costly for Portugal, which although it did regain Brazil, it lost most of its Asian colonies, and even more important, the lucrative spices trade. Portugal was definitely in decline by the 17<sup>th</sup> century.

### *The English Sea Dogs*

Already by 1563 Elizabeth granted the first “letters of reprisal”. The corsairs’ enterprises linked trade, war and privateering and in some cases like with the Dutch, piracy, with the religious feeling of “holy” war of the Protestants against the Catholic League of Phillip II linking patriotism and economic gains. Similarly with the Dutch, and more or less for the same reason, the organisation form of joint-stock companies, called “syndicate of investors” were chosen. These syndicates were open for participation to merchant-bankers, nobles, the captains and the sailors of the ships, but even members of government. In the financing of Drake’s expedition of 1577 participated along the usual merchant and banking circles, Sir Francis Walsingham, the Secretary of State, and Queen Elizabeth herself (Bradford 1965).

The gains were distributed according to everyone’s share in the enterprise, with the Lords of the Admiralty (e.g. the “Ministry of the Navy” of the time) receiving 10% of the sales at auctions of the seized enemy property. This can be interpreted in modern terms as a kind of sales tax, linked to the fact that the Admiralty granted the licences to the privateers (Andrews 1964; Rodger 1997; Konstam 2000; Kyriazis and Zouboulakis 2003).

As suggested in Kyriazis and Metaxas (2011), the first successful expeditions initiated a continuous game, along which the enterprises became more elaborate, ambitious and bigger. Along each further step of the game, the decision makers gained every kind of new knowledge, financial, organisational, operational and technical.

After the successful repulse of the Spanish Armada in 1588, Elizabeth and the Lords of the Admiralty felt that since the danger of invasion was less acute, they could also use royal warships in privateering expeditions (Konstan 2001). So, in some

of the expeditions of the 1590s, Elizabeth contributed both funds and “means in kind”, e.g. royal warships. For the 1596 expedition against Puerto Rico, she contributed 33.266 pounds and some royal ships to the total of the 26 ships. Commonly, guns from royal ships, as well as cords, ropes etc. were used to furnish the “private” privateering ships. We can interpret, in modern terms, this organisational development as one of the first historical cases of Public-Private Partnerships (PPP), which was a case of acquiring and deepening new organisational and institutional knowledge.

Technical knowledge went also hand in hand with organisational one. Since the privateering enterprises were driven by market and profitability considerations, we should expect that cost and efficiency aspects were given particular attention. When “businessmen” undertook the privateering operations under the profit motive, they made their ex-ante calculations with this aim, much more so than say Spanish “bureaucrats” who were administering and appropriating state funds. This actually happened in England. We analyse two technical aspects to illustrate this.

Till the middle of the 16<sup>th</sup> century, most guns were made of bronze, which offered many advantages compared to iron guns.<sup>7</sup> But for the English, and for privateering in particular, iron guns offered a decisive advantage, that of cost. Iron abounded in the country and iron guns cost one tenth of the price of bronze guns. During the period under consideration, a period of increasing inflation in Europe and in England, the price of cast iron guns actually fell from 10-12 pounds per ton in 1565-1570 to 8-9 pounds in 1600 (Davies 1963). As expected, privateering ships (and royal ships as well) were increasingly supplied by iron guns. This again led to a great impetus to the iron industry in England. Thus, cost considerations linked with the profitability motive of the privateering expeditions led to long lasting economic effects (Kyriazis and Zouboulakis 2003).

Privateering ships were, also due to cost considerations, relatively small, compared to their prey, the Spanish and Portuguese Atlantic and Asian galleons. Drake’s “Golden Hind” for example had a displacement of 120 tons and was armed with 18 iron guns (Bradford 1965) compared to 700 and up to 1.200 tons of the

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<sup>7</sup> Iron melts at a much higher level of temperature than bronze, making it thus much more difficult to achieve high quality without shortcomings. It weighs about 20% more than bronze and becomes corrugated by gun-powder. A bronze gun that received an overdose of powder discharge dilates and cracks, but an iron gun under the same circumstances just explodes without further warning. Thus, iron guns were more dangerous to their crews (see Rodger, 1997).

enemies galleons and “naos”.<sup>8</sup> In order to be able to defeat their enemies in battle, the small English privateering ships had to develop a technical advantage: They were better sailing ships, but also, they achieved a much higher rate of fire.

This again was due to their development of a new gun carriage (four short wheels against two big ones as in land guns in most Spanish ships) and tackle system, which permitted a faster reloading of guns. According to some estimates, the English could fire a shot every two minutes, while the Spanish needed usually double that time. The new gun carriage-tackle system was first introduced in the “Mary Rose” of 1545 but it was generalised by the 1560s in all privateering ships and parallel to them, in the royal ships. It is clear, that the new innovation was efficiency enhancing.

We now turn to a brief summary of privateers operations and their economic effects. Most famous amongst them was Drake’s expedition of 1577 which would result in the second, after Magellan’s, circumnavigation of the world. Drake started the expedition with five ships and 164 men, but finished only with his own “Golden Hind” (Bradford 1965 101). In the Pacific Ocean, off the coast of Peru he captured the Spanish galleon “Nuestra Señora de la Concepción” loaded with 26 tons of silver from the silver mines of Potosi. At the Molucas islands in the Pacific he added a second ship carrying spice before returning to Plymouth in 1580. The value of his plunder was the astronomical sum of 600.000 pounds, double the annual English crown revenue. His investors had a rate of return of 4.700%, which makes it probably the best single investment in history.

During the last two decades of the 16<sup>th</sup> century, the cargoes of Spanish ships seized by privateers were valued at 100-200.000 pounds per year, representing about 15% of total English imports. During the period 1588, they seized over 1.000 ships and organised a total of 150 expeditions against the Spanish towns and settlements in the New World, leading to the conquest and plunder of many of them, such as Puerto de Caballos in Mexico (plundered 6 times) Porto Bello in Panama, even the strategic bay of Cadiz in Spain in 1587 and 1596. Their success was such that the prices of

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<sup>8</sup> The “nao” was a Portuguese big merchant sailing ship (the word originating probably from the Greek “ναυς” meaning ship). Konstam (2001) gives a list of the Spanish-Portuguese Armada ships, many of which were armed merchantmen. Among them the naos “Santa Anna” and the “La Regazona” both displaced 1200 tons, while among the typical merchantmen supply ships, we find “El Gran Grifon” and “San Salvador” of 650 tons and “El Castilo Negro” of 750.

colonial goods of the Spanish empire were often lower in the London than in the Seville market! (Andrews 1984; Rodger 1997)

The importance of privateering for England is illustrated also by the fact that the amount of coinage during Elizabeth's reign is given as £ 5,4 mio, out of which £ 4,6 mio were silver coinage. According to Goldsmith (1983 180) "*Most apparently came from Spanish America, partly as the result of naval privateering operations*". Craig (1953 127) estimated the amount of silver captured from Spain at £ 1,25 mio, or 27% of total silver circulation within English economy.

The treaty of Muenster of 1648 brought peace and formal recognition of the UP by the Spanish crown. Spain managed to retain most of its colonies in America, with the loss of only some of them in the Caribbean. But Spain was in decline, and did not regain its leading position as the greatest European power during the 16<sup>th</sup> century. During the period from 1557 to 1647 there were six consecutive bankruptcies, which brought down with them great financial houses, ruining its financial credibility and destroyed in the long-run the development of a stable financial and banking system as well as stock exchange in Spain (Cooper 1970; North and Thomas 1973; Kennedy 1988; North 1990; Rodger 1997).

In general, both historians and economists agree on the decline of Spain as a result of the war with England and the UP. Rodger (1997, chapters 18, 20 and 24) describes the results for Spain's commerce and gives a vivid description of the ruin of Spanish shipyards. Older historians already had described this, as Trevor-Roper (1970, chapter IX, 263) writing: "*The war had now proved long, meaningless and disastrous*", Cooper (1970, chapter VIII) writing on a change in the balance of sea-power and the rise of the Dutch and English naval supremacy, and Spooner (1970, chapter II) writing on Spain's decline and the Northern states rise. Even the title of vol. IV of the New Cambridge Modern History is characteristic: "*The decline of Spain and the Thirty Years War*". Kennedy (1988, chapter II, 41) writes on the conclusion of the war "*...they revealed that the age of Holsburg ....in Europe was over*".

As Rodger (1997, 296) remarks: *Twenty years of war changed England's perspective. While before the Queen possessed an imposing but almost isolated fleet now naval strength had become a national matter. It was clear that England's future laid in the open seas... The English had learned that the sea was more than a defence*

*against a hostile world: it had become the means to discover new worlds for gold, fame and glory.*<sup>9</sup>

## CONCLUSION

Due to the particular historical circumstances pertaining in the second half of the 16<sup>th</sup> century, two relatively poor newcomer states in the international arena, England and the UP, both having relatively weaker central authorities than contemporary empires (the Spanish, Ottoman, Mughal and Ming) had to find new means to face the Spanish challenge.

They adopted market oriented solutions, to wage war for profit using partnership joint-stock companies as an organisation form to mount privateering expeditions. It was a decentralised form of war-making, since privateers followed their own aims and tactics, not according to a central plan. They could expect maximization of profits if they attacked the enemy's commerce, both ships and settlements. In due time this strategy of commerce raiding proved to be the Achilles heel of the enemy. As we have sketched above, the privateering-commerce raiding activity brought wealth and profits to England and the UP and ruined Spain.

Although a more or less privateering strategy implemented by the Late Medieval era Italian city-states, such as Venice and Genoa, with the cases of England and the UP it was the first time in history that privateering was used in such scale and to such effect, (although of course privateering and piracy is almost as old as maritime history itself). Thus, it comes as no surprise that this commerce raiding strategy has been adopted during the following years as a strategy of the weaker naval opponent against the stronger one, with varying successes, as for example by the French against the Anglo Dutch during the War of Spanish succession 1702-1713, the Napoleonic Wars, and the German submarine warfare against the Allies during the two World Wars.

Economists of course have very often argued about the superiority of market regimes as against state planed ones in terms of economic efficiency and growth. The main point of our analysis here is that market solutions can prove to be superior in war strategy, even though they came about, as in the cases of England and the UP, by

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<sup>9</sup> The last phrase has been attributed to Sir Walter Raleigh, a famous corsair, admiral and poet.

chance or by trial and error. It seems that pursuing personal profit, as the privateers did, they operated under an “Invisible Hand of the market of war” (to paraphrase the well known dictum of Adam Smith) which in the end maximized operational efficiency and economic benefits.

On the other hand, the more centralised Spanish empire had an elaborate policy driven by non or mainly non economic motives. Kennedy (1988, 51), for example gives as the main policy aims of the Habsburgs religion “protector of Catholic Christendom” and “reputation”. The relative strength of the central authority in Spain, coupled to centrally laid policy aims led to “acts of economic folly” (*ibid*, 52) and institutional solutions that in the long run were growth inhibiting. North (1981) and Kennedy (1988) give many examples of bad institutional choices taken by the Spanish empire, as for example the taxation of the “mesta” guild (wool producer of Spain) that inhibited the enclosure movement in Spain and thus long run efficiency in agriculture.

Phillip II of Spain for example used his considerable wealth to wage war at the same time against the Ottomans in the Mediterranean, the revolted Dutch, the English and the German Protestants. His resources were not sufficient for all these operations. Further, he neglected one of his empires crucial regions, the New World possessions and his lines of communications. Were he to operate under more market oriented considerations, his policy priorities would have been to strengthen the defences of his New World territories and of his sea communications, instead of wasting money fighting the Protestant German princes and the Dutch.

Moreover, the privateering war against Spain fostered new norms and values, which were market oriented and not imposed by a central authority, like self-confidence, self-reliance, trust, a “sense of destiny” and the profit motive. This was the basis for searching and finding new institutional solutions to a new formidable challenge, that of Spain’s threat to the independence and the economic interests of England and the UP. The answer were market based institutions and organisations, like partnerships and joint-stock companies both for trade and for war, and later a whole interdependent complex of financial institutions, banks, insurance and stock exchanges.

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