

**A Stakeholder Empire:
The political economy of Spanish imperial rule in America¹**

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Once upon a time early modern Spain was used as the picture postcard case of a predatory colonial state that extracted revenue from plentiful natural resources and populations in the Spanish Indies; an empire that centralised governance and suppressed colonial desires for political participation, claiming absolutist control for the Crown in Madrid.² This description has long been attacked by historians, and the critique has more recently been taken up by some economic historians.³ The predictions of the model of Spanish imperial rule as a strong, absolutist, centralist, predatory, extractive and wasteful political beast clash strongly with the evidence derived from the fiscal system, which linked rulers and subjects.⁴ The

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² See e.g. Douglass C. North and Robert P. Thomas, *The Rise of the Western World: A New Economic History* (Cambridge: Cambridge University Press, 1973).; Douglass C. North, "Institutions and Economic Growth: An Historical Introduction," *World Development* 17, no. 9 (1989).. Douglass C. North, Barry R. Weingast, and W. Summerhill, "Order, Disorder and Economic Change. Latin America Versus North America," in *Governing for Prosperity*, ed. B. Bueno de Mesquita and H.L. Root (New Haven: 2000). Daron Acemoglu, Simon Johnson, and James Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *American Economic Review* 91 (2001), Daron Acemoglu, Simon Johnson, and James Robinson, "Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution," *Quarterly Journal of Economics* (2002), James Mahoney, "Long-Run Development and the Legacy of Colonialism in Spanish America," *American Journal of Sociology* 109, no. 1 (2003).

³ John H. Coatsworth, "Political Economy and Economic Organization," in *The Cambridge History of Latin America. Vol1: The Colonial Era and the Short Nineteenth Century*, ed. Victor Bulmer-Thomas, John H. Coatsworth, and Roberto Cortés-Conde (Cambridge: Cambridge University Press, 2006), Maria Alejandra Irigoín and Regina Grafe, "Bargaining for Absolutism. A Spanish Path to Empire and Nation Building," *Hispanic American Historical Review*, no. 2 (2008).

⁴ Regina Grafe and Maria Alejandra Irigoín, "The Spanish Empire and Its Legacy: Fiscal Redistribution and Political Conflict in Colonial and Post-Colonial Spanish America," *Journal of Global History* 1, no. 2 (2006).

Empire operated in its dealings with the constituent parts of its *monarquía* into the 19th century in a way that resembled a conglomerate of relatively independent territorial units not a ‘modern’ nation state.

In a recent impressive comparative portrait of Colonial Spanish America, Elliott stresses the distinct nature of colonial government in British as opposed to Spanish America. The former “allowed more scope for the independent exercise of political power. This was a society whose political and administrative institutions were more likely to evolve from below than to be imposed from above. It was also a society that operated in a political culture more effectively grounded in notions of representations than the political culture transferred to America from Castile”.⁵ According to Elliott this representation took its institutional shape in form of territorial assemblies. He claims that this pattern of representation emerged in the Anglo-colonies “partly because voting was an established feature of joint stock companies and was therefore likely to be transferred with relative ease to colonial settlements operating under company charters”.⁶ One can push the argument a little further: Rooted as it was in a particular kind of commercial expansion, the British American political economic scheme of representation and governance came to resemble something that we might call a ‘shareholder society and empire’.

In this paper we propose to use Elliott’s characterization of the British Empire in North America to conceptualize the rule of imperial Spain in the New World by framing the political economic nature of the Spanish empire as a ‘stakeholder empire’ in contrast to the British American shareholder empire. We propose to outline the nature of such a stakeholder empire by studying **how** and **on what** the royal treasuries in Spanish America spent their revenues, or in other words, how subjects became stakeholders and how stakeholders interacted and were represented in the management / governance of the empire. We analyse the size and composition of expenditure as well as the institutional arrangements that were employed to decide over and affect spending. For the former we employ data on the expenditure of Spanish American treasuries, so-called *cajas*, collected by

⁵ John H. Elliott, *Empires of the Atlantic World. Britain and Spain in America, 1492-1930* (New Haven and London: Yale University Press, 2006), p.134. See also William R. Summerhill, "Fiscal Bargains, Political Institutions and Economic Performance," *Hispanic American Historical Review* 88, no. 2 (2008).

⁶ Elliott, *Empires*, p.135. Thus, a “governor, as a chief colonial executive” introduced by Elliott resembles the CEO of a shareholder company of today. Elliott, *Empires*, p. 136.

the seminal work by TePaske and Klein, which we reclassified entirely for three selected five-year periods, 1729-1733, 1785-89 and 1796-1800.⁷ (See Appendix).

To our knowledge this is the first systematic exploration of the actual ends and purposes of the monies defrayed by the royal treasuries, so section I makes the case for the main point of this paper: a revision of the political economic nature of the Spanish empire. Section II considers the size of the state, approximated by the share of GDP appropriated as taxes. GDP figures for the region are not very robust, but we can provide upper and lower bounds based on the best available estimates and offer a comparison with peninsular Spain, France and England. Section III explores the structure of the royal expenditure in the colonies and emphasises the role of intra-colonial transfers (ICTs), one of the main features of Spanish rule in the new world.⁸ Section IV scrutinizes the composition and sectoral distribution of colonial spending. It highlights the channels through which the bulk of revenues collected in the empire remained within the region, and how they were ploughed back into the colonial economy. Section V explores some features of Spanish imperial spending in more detail and revises the weight and characteristics of the main fiscal branches of the early modern empires: defence and financial expenditure. Finally some conclusions are offered.

I

Up to now, the core arguments for discarding the traditional model of Spanish imperial rule have come from a careful examination of crown revenues in the colonies as an indicator of the performance of the imperial state.⁹ Contrary to the traditional narrative, Spanish imperial revenue collection was de-centralised and jurisdictionally fragmented into a large number of tax raising authorities (so-called *cajas*) and a variety of tax payers differentiated by status, ethnicity, corporate bodies or individuals, urban/rural residence and geographical demarcation. This created considerable possibilities for local colonial players to shape rates, incidence and collection reflected, for example, in the uneven application of allegedly universal taxes such as the *alcabalas* (the sales tax) or the *quinto* (tax on silver mining). For example the management and collection of *alcabalas* in 18th Century New Spain had a

⁷ Herbert S. Klein and John Jay TePaske, *Las Cajas De La Real Hacienda De La América Española, 1528-1820* (Mexico City: UNAM Facultad de Economía, 2004).

⁸ Grafe and Irigoín, "Legacy."

⁹ This discussion follows closely Ibid. and Irigoín and Grafe, "Bargaining for Absolutism."

remarkable variety in its administration: the tax was directly collected by treasury officials in five cajas¹⁰; in Puebla the *alcabala* was a prerogative of the Cabildo; in Guadalajara, this was commissioned to a Superintendente, in the person of one of the oidores of the Audiencia. In some regions within San Luis Potosi fiscal district, as in Guanajuato and Mexico the collection was farmed out In the colonial capital - as in Lima - the *alcabalas* were in the hands of the Consulado whereas an *asentista* was in charge in the cajas of Pachuca, Oaxaca and Veracruz.¹¹

Although royal revenues extracted from America to Spain formed a substantial share of the total receipts of the Madrid *hacienda* (rising to about 13 percent in the later 18th century), they were actually a notably smaller share of revenue collected in America, which fell from 11 percent (1729-33) to 4.8 (1785-89) rising slightly to 5.2 (1796-1800).¹² Nor did the colonial treasuries lean very heavily on the famous silver mining sector for revenue collection.

¹⁰ These were Durango, Sombrerete, in some regions belonging to San Luis Potosi, Zacatecas and Acapulco.

¹¹ M Bertrand, *Grandeza Y Miseria Del Oficio: Los Oficiales Reales De La Nueva Espana En Los Siglos 17 Y 18* (Mexico: Fondo de Cultura Economica 2009). ch 2 p, 10. This wide variety in the administrative structure of the collection of taxes points at another important claim of the argument which will be developed further below..

¹² Estimate of share of colonial hacienda based on data described in Appendix 1. Estimate of share of Spanish *hacienda* based on average for 1763-1800 *Indias* revenue as share of total revenue minus carry-overs, using José Patricio Merino Navarro, *Las Cuentas De La Administración Central Española, 1750-1820* (Madrid: Instituto de Estudios Fiscales, 1987), 'Cargos al Tesorero General'. Using the same source Marichal has implied a significantly larger share for the American contribution to the Spanish treasury (14-17 percent) by comparing transfers resulting from **ordinary** and **extraordinary** American revenue to peninsular **ordinary** revenue only. Unfortunately neither the original Spanish edition (Marichal 1999) nor the English edition (Marichal 2007) explain which parts of revenue are considered ordinary and the definition seems to have been adjusted by the author since the values do not coincide in the two editions. The exclusion of peninsular **extraordinary** revenue creates the somewhat misleading impression that the metropolis was extracting additional revenue from the Americas only. Extraordinary revenue in the peninsula rose equally fast as the contribution from the Indies. The Empire under strain put pressure on all constituent parts of the monarchy using similar means almost everywhere. Carlos Marichal, *La Bancarrota Del Virreinato: Nueva España Y La Las Finanzas Del Imperio Español 1780-1810* (Mexico: Fondo de cultura económica, 1999), Appendix 1. and Carlos Marichal, *Bankruptcy of Empire. Mexican Silver and the Wars between Spain, Britain and France, 1760-1810* (Cambridge: Cambridge University Press, 2007), Appendix 1. See also Elliott, *Empires*, p.95. Jacques A. Barbier and Herbert S. Klein, "Revolutionary Wars and Public Finances: The Madrid Treasury, 1784-1807," *Journal of Economic History* 41, no. 2 (1981): table 1B p.338.. Yun Casalilla estimates the American contribution to the Crown's income in the 17th century in less than 10 percent. Bartolomé Yun Casalilla, "The American Empire and the Spanish Economy: An Institutional and Regional Perspective," *Revista de Historia Económica* XVI, no. 1 (1998): p.139.

Instead, especially in the late colonial period, domestic trade and consumption were favourite targets of the imperial revenue collection machinery.¹³

Overall there is plenty of evidence for a vast amount of autonomy in the workings of the colonial treasury districts, which relied on negotiation at the local, regional and with the central level. Fiscal functions were often 'privatised' in a pattern that had strong peninsular precedents. Most importantly, a very large share of Spanish American revenues was not spent in the same regions, in which they were collected. ICTs were until recently a much ignored and ill-understood but very important feature of the Spanish American colonial system.¹⁴ For one in four of the 72 colonial treasury districts that existed towards the late 18th century in mainland Spanish America, funds transferred from other *cajas* were the single largest source of revenue. The empire in Spanish America financed itself through a network of interdependent treasury districts related in a large and complicated web of intra-colonial transfers.¹⁵ In other words, the Spanish Empire was self-financing throughout, while continuing to expand territorially. And since much of the actual transfer activity was privatised too, this system was sustained by the co-optation of regional mercantile elites, which benefited greatly from the use of fiscal monies as short-term ready-to-invest capital.¹⁶

The study of revenue collection in the Spanish colonies has thus challenged the absolutist caricature of Spanish rule and opened up new debates about the interpretation of comparative imperial structures. However, it could rightly be argued that a fundamental part of the analysis of the link between ruler and subject in these comparisons is so far missing, namely the question of 'what the Empire actually spent its money on?' Overall economic

¹³ Grafe and Irigoin, "Legacy," pp.255-57. Absolutist Spain like parliamentary England and unlike absolutist France relied strongly on indirect taxation, customs and *alcabalas, sisa, estancos* (taxes on internal trade, excise and monopolies on consumer goods). For France and Britain see Peter Mathias and Patrick Karl O'Brien, "Taxation in England and France, 1715-1810," *Journal of European Economic History* 5 (1976): 338.

¹⁴ The notable exception is Carlos Marichal and Matilde Souto Mantecón, "Silver and Situados: New Spain and the Financing of the Spanish Empire in the Caribbean in the Eighteenth Century," *Hispanic American Historical Review* 74, no. 4 (1994).

¹⁵ 'Border' areas in northern Mexico and southern Chile were the exceptional regions where the Crown undertook some direct investments on defence. "Subsidies came in from branches of government based in more central areas, channelled to individuals on the scene through the frontier institutions, so that the latter were able to play on a small scale the usual role of cities as market of goods and labour." James Lockhart and Stuart Schwartz, *Early Latin America. A History of Colonial Spanish America and Brazil* (Cambridge: Cambridge University Press, 1983), p.289.

¹⁶ Irigoin and Grafe, "Bargaining for Absolutism," pp.193ff.

historians have looked in much more detail at the revenue side of early modern empires and states than at the expenditure side.¹⁷ This is partially driven by the fact that researchers concentrated on using fiscal accounts as proxies for the performance of the economy rather than as measure of the performance of the state as we do. It is also a consequence of a basic underlying assumption that the main purpose of early modern tax collection was defence spending. Robert's influential claim was that starting in the 16th century a military revolution in strategy and technology left European states with little alternatives. They had to reform their fiscal systems if they wanted to survive in a phase of interstate 'mergers and acquisition', that saw at least three out of four states disappear for good.¹⁸ There is little doubt that despite some criticisms this concept contains a fundamental truth. Yet, as we will argue below, there were nevertheless large differences in what Empires spent their revenues on and most importantly, how they disbursed their payments. And we argue that these differences tell us a lot about the nature of the state.

Finally, economic historians' strong concentration on the revenue side of fiscal accounts is also rooted in an ex-ante ideological conviction that the relationship between state and subject was one of state predation versus subjects' attempts to evade and avoid taxation. Thus, in so-called absolutist regimes like Spain the agency of colonial subjects is seen as limited to tax avoidance, evasion or smuggling as means to overcome ruler's heavy-handedness. Corruption and poor compliance of individual colonial subjects, and collusion among the crown and corporate bodies in the colonies are stressed as rational responses of imperial subjects and institutions vis a vis the absolutist predatory ruler. The assumed rather than proven lack of representation in this political economic arrangement is cited regularly as the ultimate cause for Spanish peninsular and colonial decline. This notion has distracted historical economists from the equally important question how subjects actually engaged with

¹⁷ José Jurado Sánchez, *El Gasto De La Hacienda Española Durante El Siglo Xviii. Cuantía Y Estructura De Los Pagos Del Estado (1703-1800)* (Madrid: Instituto de Estudios Fiscales, 2006), p.16.

¹⁸ Michael Roberts, *The Military Revolution, 1560-1660; an Inaugural Lecture Delivered before the Queen's University of Belfast* (Belfast: M. Boyd, 1956). Geoffrey Parker, *The Military Revolution: Military Innovation and the Rise of the West, 1500-1800* (Cambridge: 1988). Charles Tilly, *Coercion, Capital and European States, Ad 990-1990* (Cambridge: 1990). and Edgar Kiser and April Linton, "Determinants of the Growth of the State: War and Taxation in Early Modern France and England," *Social Forces* 80, no. 2 (2001).

the colonial state, bearing in mind the remarkable lack of challenges from within to the persistence of Spanish rule.¹⁹

Recent research on colonial revenue collection and tax incidence has entailed a rethinking of the traditional story of the predatory state by showing that colonial subjects had a lot more influence on who was taxed how much than hitherto assumed. Yet, that is only one side of the coin. Whether they were shareholders or stakeholders, colonial subjects like every other taxpayer expected a return on their investment in the colonial state. In order to understand the long-term survival of Spanish imperial rule, which is so counter-intuitive to current thinking in political economy, it is equally important to find out whom colonial expenditures benefited in which way.

II

How big was the Spanish state?

Before we turn to the analysis of expenditure, however, we would like to place the Spanish Empire in an international comparison regarding the size of the state. The traditional picture of the strong and extractive Spanish state always implied that this was a ‘big’ but ‘inefficient’ state though actual estimates of its share in total GDP were not offered. Standard political economy models divide early modern states into those that are absolutist and those where rulers are limited by constitutions (essentially England after 1688) or those that were run by princes vs. those run (indirectly) by merchants.²⁰ Absolutist autocrats are seen as predators that used their unlimited power to overtax, expropriate and prey on their own subjects. By contrast, rulers constitutionally constrained by parliament can tax efficiently because they can credibly commit to reliable rules of taxation rather than arbitrary exactions. Since they enjoy credibility with the markets they can raise loans at favourable interest rates lowering the burden on the tax payer and creating a virtuous cycle of financial market development and sound fiscal regimes that foster growth.

¹⁹ A Irigoien and R Grafe, "Response to Carlos Marichal and Wiliam Summerhill," *Hispanic American Historical Review* 88, no. 2 (2008). esp pp 236-37

²⁰ Brad De Long and Andrei Shleifer, "Princes or Merchants. European City Growth before the Industrial Revolution," *Journal of Law and Economics* 36 (1983), Douglas C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *Journal of Economic History* XLIX, no. 4 (1989).

Table 1 Tax share of GDP, late 18th century

	% of GDP appropriated as taxes (1785-89)	Source as revenue	source GDP	% of GDP appropriated as taxes (1785-89)	source revenue	source GDP
New Spain	14.5	1)	2) & 3)	22.0	1)	7) & 8)
Peru	26.2	1)	4)	5.7	4)	4)
Chile	4.7	1)	4)	10.1	4)	4)
River Plate	11.3	1)	4)	4.2	4)	4)
Britain	(1785-90) 12.3	5)	5)			
Britain	(1810-15) 18.2	5)	5)			
Spain	(1800) 10.5	9)	6)			
France	(1788) 11.6	10)	11)			

Source: 1) our estimates based on reclassified *cajas*; 2) Coatsworth 1990; 3) TePaske (1985); 4) Coatsworth (1998); 5) O'Brien (1988); 6) Carreras (2003); 7) Aubrey (1950); 8) Rozenzweig (1963) 9) own estimates based on Merino Navarro (1987) ten year average 1790 to 1800 and Hamilton (1947), 10) Weir (1989) and 11) Daudin (2005) p. 18-9

Table 1 Column 2 shows the size of the colonial and European state as the tax over GDP ratio in the later 1700s based on our own re-estimation of the regional revenues using available GDP estimates by Coatsworth. Estimates range from 5 percent for Chile to 26 percent for Peru. Column 5 re-estimates the same ratio using alternative estimates of revenue and, where available, GDP. Here the shares are between 4 percent for the River Plate and 22 percent for New Spain.²¹ The margins of error are so large because of the difficulties in making inter-regional comparisons based on back extrapolated aggregates for political units that came into existence only after the 1820s.

However, these very tentative figures do suggest, that the total fiscal burden in colonial Spanish America was probably not outside the range O'Brien estimated for the fiscal role model of the 18th century, Britain: between 12 percent in peace and 18 percent in war. Based on our estimates the tax take relative to GDP was higher in both Britain and some of the Spanish colonies than in peninsular Spain or pre-revolution France. As several historians have argued convincingly, the British state was very successful at extracting taxes from its subjects and the British total fiscal burden per capita was higher than that of France or

²¹ The large margin of error in the figures comes from the GDP estimates rather than revenues.

Spain.²² But if the comparison is extended beyond the core European competitors, to include e.g. the Ottoman Empire, Spain looks more like France and England overall than like the Ottoman Empire which never appropriated more than 6 percent of GDP in the form of taxes.²³

Notwithstanding the large margins of errors contained in table 1, we conclude that Spanish rule in both, the Peninsula and the colonies, was not significantly different from its main European competitors in terms of the tax over GDP ratio. This would support the view that 'absolutist' rulers were actually subject to limitations of their fiscal power that were de-facto not unlike a constitutional monarchy. As Rosenthal has argued for the case of France so-called absolutist rulers did not control revenue collection thanks to the constitutional structure of a composite state that consisted of many territories and corporate bodies, which retained their own constitutional structures rather than merge into a unified administration creating complex systems of stakeholders. Indeed, Epstein and more recently Dincecco have shown that pre 1800, the main limitation on European states to tax was not rooted in their constitutional structure but in their degree of jurisdictional fragmentation.²⁴

The notable feature of Spanish taxation was therefore not its size but that the **tax incidence** differed greatly between distinct parts of the Empire. Given that there were multiple centres of decision making regarding revenue collection this should not surprise. There is e.g. some tentative evidence that Spanish American treasury districts that were beneficiaries of ICTs enjoyed a lower per capita tax rate. This became painfully clear to the beneficiaries of ICTs when Independence wars interrupted the flow of money. In 1817, after Mexican remittances

²² P.K. O'Brien, "The Political Economy of British Taxation, 1660-1815," *Economic History Review*, 2nd ser. (1988). Mathias and O'Brien, "Taxation.", Philip Hoffman and Kathryn Norberg, *Fiscal Crises, Liberty, and Representative Government* (Stanford: Stanford University Press, 1994). Jean-Laurent Rosenthal, "The Political Economy of Absolutism Reconsidered," in *Analytic Narratives*, ed. Robert Bates and et al. (Princeton: Princeton University Press, 1998), p.73.

²³ Sevket Pamuk, "Ottoman State Finances and Fiscal Institutions in European Perspective, 1500-1800," *paper presented at the Northwestern Seminar in Economic History* (2007).

²⁴ Stefan R. Epstein, *Freedom and Growth: The Rise of States and Markets in Europe, 1300-1750* (London: Routledge, 2000). and Mark Dincecco, "Fiscal Centralization, Limited Government, and Public Revenues in Europe, 1650-1913," (Lucca: Lucca Institute for Advanced Studies, 2007). Rosenthal, "Political Economy." and Philip T. Hoffman and Jean-Laurent Rosenthal, "The Political Economy of Warfare and Taxation in Early Modern Europe: Historical Lessons for Economic Development," in *The Frontiers of the New Institutional Economics*, ed. John N. Drobak and John V.C. Nye (San Diego et al.: Academic Press, 1997).

to Cuba (*situado*) had ceased, the tax bill of free Cubans rose to 8.71 pesos per capita from 5.54 pesos in 1792 and 4.17 pesos in 1774²⁵.

The structure of the Spanish peninsular and colonial revenue system suggests that wondering about the relative ‘strength’ and ‘weakness’ of the state with regard to its taxing ability might simply be the wrong question. De-centralised fiscal states like Spain could not be strong enforcers of public property rights to taxation. Yet, it stands also to reason that economic historians have mistaken *means* for *ends* when they assume that fiscal strength was the ultimate aim of early modern rulers. Recent analyses of Spanish revenues in the colonies and the metropolis argue that the utility function of the Spanish Crown was instead the aggrandisement of the empire and survival of its rule at the lowest possible costs.²⁶ This did depend in part on being able to raise the fiscal resources to run and protect the Empire. Yet, it had to be done without incurring excessive fiscal and political costs. Often colonial regional resources were not directly taxed in an attempt to co-opt regional colonial elites. Survival of Empire was bought at the expense of liquid resources available to the treasury. Sometimes, less was more.

III

Intra-colonial transfers and transfers to the metropolis.

As argued above there is a serious lack of fiscal analysis of what European Empires in general and the Spanish Empire in particular spent their revenues on. Table 2 and figure 1 below give some first answers to this question for the Spanish Empire in the 18th century based on our reworking of the published colonial Spanish treasury accounts. Table 2 illustrates the enormous expansion of expenditure over the course of the 18th century from roughly 10 million pesos per annum in the early 1730s to over 40 million in the late 1780s and 70 million in the late 1790s. This expansion went along with an important trend regarding the share of net expenditure actually transferred from the colonial treasuries to Spain. These fell from an average of about 12 percent per annum in the first five year period to five percent in the second and just under 4 in the last (see Appendix Table 9). In other

²⁵ Grafe and Irigoín, "Legacy." 258-259. Irigoín and Grafe, "Bargaining for Absolutism," p.197.

²⁶ Maria Alejandra Irigoín and Regina Grafe, "Response to Carlos Marichal and William Summerhill," *Hispanic American Historical Review*, no. 2 (2008): 243.

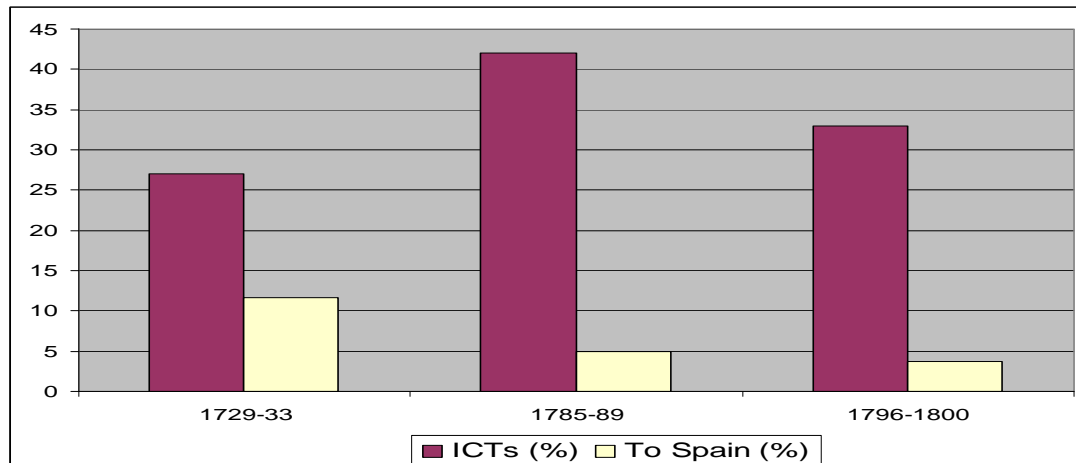
words, while the total amounts shipped from the colonies to Spain undoubtedly increased, they constituted a modest share of total expenditure at the beginning of the 18th century and a marginal one at the end. The Spanish Empire was not an extractive machinery geared towards siphoning off American resources towards the metropolis, even at this time of maximum fiscal strain from the wars in Europe.

Table 2 Intra-colonial transfers (ICTs) and transfers to Spain as share of total net expenditure 1729-1800 (%), all available treasury districts

	<i>net expenditure (pesos)</i>	<i>ICTs (%)</i>	<i>To Spain (%)</i>	<i>no of treasuries</i>
1729	8,057,311	34	5.0	
1730	11,253,542	28	12.8	
1731	8,924,902	28	1.6	
1732	11,218,904	17	16.4	
1733	12,690,660	28	13.6	35
1785	41,167,891	37	7.5	
1786	47,014,076	48	0.4	
1787	49,933,057	31	0.0	
1788	40,695,433	48	8.1	
1789	42,006,554	46	8.8	72
1796	63,099,930	44	11.2	
1797	69,358,934	35	0.0	
1798	89,045,083	28	6.7	
1799	88,403,387	34	0.0	
1800	74,610,075	29	0.6	72

Source: See Appendix

Figure 1 Intra-colonial transfers (ICTs) and transfers to Spain as share of total net expenditure 1729-1800 (%)



Much more important than transfers to Spain were ICTs. In terms of the overall share of expenditure going to ICTs we observe no clear trend over the 18th century (see figure 1). Throughout our three samples containing fifteen years of data they accounted for between 17 and 48 percent of overall net expenditure. In total about **one third of all monies** were thus **not** spent in the *caja* where they was raised. When we break this down further we see, however, that there are some differences over time. In the 1730s, the average amount going to ICTs across all *cajas* was higher than the average share of total expenditure spent on ICTs (51 v 27 percent, see table 3 below). This is because in the early eighteenth century a large number of often small *cajas* transferred almost all of their revenue into a few big *cajas* (see Appendix Table 9), which in turn realised most disbursements. In the latter part of the century this pattern had all but disappeared. By the 1780s the total number of treasury districts within the same territory had more than doubled from 35 to 72 (see table 2 and Appendix table 9). This regional decentralization of the fiscal machinery shows no clear patterns in the flow of transfers. Small or large *cajas* might be net beneficiaries of - or payers into - the system; some performed as intermediaries and the direction and flow might change from year to year.²⁷ The empire became even more decentralized over the course of the eighteenth century, at least with regard to the way in which colonial revenues were distributed. This feature seems to contradict the conventional notion of the centralising measures undertaken by Bourbon reformer.

Table 3 Average percentage of expenditure going to ICTs for all cajas

	<i>ICTs as percentage of expenditure (average)</i>
1729	54.6
1730	56.1
1731	53.9
1732	59.7
1733	51.6
1785	36.5
1786	34.4
1787	35.2
1788	39.5
1789	38.4

²⁷ For more details see Grafe and Irigoin, "Legacy," Appendix 2.

1796	39.1
1797	42.8
1798	45.2
1799	39.7
1800	37.5

Source: See Appendix

By the late 18th century the ICTs themselves had become an important part of the colonial economy everywhere. But even though they constituted essentially payments between two colonial treasury districts, they were not generally affected by the colonial administration. Instead the monies were managed by private merchants who used their own commercial networks to transfer them. This was nothing new given that states everywhere would use private bankers, who used commercial bills to transfer funds from one place to another, though rarely within a country. Yet, the Spanish American system of ICTs was very unusual in that the merchants did not transfer the funds in the form of bills or money but more often than not converted them into merchandise, which was then sold at the point of destination.²⁸ A typical example of colonial elites as tax-payers **and** administrators of imperial spending was the administration of *alcabalas* taxes in Puebla by the local *Cabildo* (the corporate body of local government) recently studied by Yovana Celaya. *Cabildo* officials, the *oidores*, were not only in charge of the collection of revenues. They also participated in the management of royal expenditures for the provision of troops stationed in the Caribbean, the Philippines and Florida in association with local merchants and producers. *Oidores* paid for some of the foodstuff for the Armada de Barlovento, the Nao de Filipinas and the San Agustín *presidio* (outpost) with minimal or no intervention of treasury officials. This example of the overlapping between tax payers and tax collectors (or farmers) and tax farmers and

²⁸ See e.g. Eduardo Saguier, "La Conducción De Los Caudales De Oro Y Plata Como Mecanismo De Corrupción. El Caso Del Situado Asignado a Buenos Aires Por Las Cajas Reales De Potosi En El Siglo XVIII," *Historia* 24 (1989).; Adolfo Meisel, "Subsidy-Led Growth in a Fortified Town: Cartagena De Indias and the Situado, 1751-1810," *paper presented at LACLIO 2000* (2000).; Johanna von Grafenstein, "Política De Defensa De La España Borbónica En El Gran Caribe Y El Papel Del Virreinato Nuevohispanico," *paper presented at LASA conference, Chicago* (1998).; Allen J. Kuethe, "Guns, Subsidies and Commercial Privilege. Some Historical Factors in the Emergence of the Cuban National Character 1763-1815," *Cuban Studies* 16 (1986).; Zacarías Moutoukias, "Power, Corruption, and Commerce: The Making of the Local Administrative Structure in Seventeenth-Century Buenos Aires," in *The Atlantic Staple Trade. Volume I: Commerce and Politics*, ed. Susan Sokolow, *An Expanding World. The European Impact on World History, 1450-1800* (Variorum, 1996).

royal suppliers in managing the royal monies was the norm rather than the exception in the functioning of the Spanish imperial treasury.²⁹

Local control over revenue and expenditure in conjunction with the system of ICTs led to a heavy concentration of royal spending on a few regions. Table 4 below illustrates this in more detail for a number of treasury districts, for which we have population data and can therefore offer per capita estimates. Most *cajas* had absolutely minimal expenditures on a per capita basis. A second group spent anything between three and five *pesos* per capita. And finally there were the big spenders: In our sample Potosí, Cuzco, Lima, Trujillo, Mexico, Veracruz and Buenos Aires, which topped the list at 32 *pesos* per capita. Comparators are hard to come by since wage and income data for Spanish America are notoriously deficient. Yet we have e.g. a good estimate for the per capita spending of a *mestizo* family in Arequipa (southern Peru), which was about 30 *pesos* per capita in the late 18th century.³⁰ This compares well with Salvucci's estimate for a per capita subsistence income of 34 *pesos* in considerably richer New Spain.³¹ The price level in Buenos Aires was probably higher than in Arequipa, but it is striking that the Buenos Aires treasury public expenditure per capita was comparable to per capita (*mestizo*) private consumption in Arequipa. The sums represented about three and half months of wages for an unskilled labourer in Mexico City and more than four months of work for a *peon* in Guadalajara by the 1800s.³² Per capita public expenditure in the 'big spender' *cajas* was also notably high when compared with peninsular Spain. Over the course of the 18th century peninsular public expenditure rose rarely above the 2.77 *pesos*

²⁹ Celaya Nandez, "La Administracion De Las Alcabalas Poblanas. Ingreso Y Transferencia, 1630-1743" (unpublished PhD, El Colegio de Mexico, 2007).

³⁰ K.W Brown, "Price Movements in 18th Century Peru - Arequipa," in *Essays on the Price History of 18th Century Latin America*, ed. Lyman L. Johnson and Enrique Tandeter (Albuquerque: University of New Mexico Press, 1990), 189-90. A 'Spanish' family in Arequipa spent around 260 *pesos* a year in 1780 and 240 in 1800, according to Brown and a *mestizo* family spent 160 and 130 *pesos* respectively, or about 30 *pesos* per capita

³¹ Richard Salvucci, "Mexican National Income in the Era of Independence, 1800-1840," in *How Latin America Fell Behind: Essay on the Economic Histories of Brazil and Mexico, 1800-1914*, ed. Stephen Haber (Stanford: Stanford University Press, 1997), 225. Manuel Abad y Queipo gives some estimates for *Mestizo* 'middle class' income per capita at \$ 60. M Abad y Queipo, *Coleccion De Los Escritos Mas Importantes Que En Diferentes Epocas Dirigio Al Gobierno*, Jimenez Codinach, G ed. (Mexico: Conaculta, 1813/1994).

³² R Salvucci, *Textiles and Capitalism in Mexico/ an Economic History of the Obrajes, 1593-1830* (Princeton: Princeton University Press, 1987). p 227 and E Van Young, *Hacienda and Market in Eighteenth Century Mexico. The Rural Economy of the Guadalajara Region, 1675-1820* (Berkeley: California University Press, 1981). p.252.

observed in the 1780s, and even in the late 1790s, when the metropolis was in the middle of a war for its own survival it did not rise above 5.5 *pesos*.

Table 4 Net expenditure and net ICTs per capita 1796-1800: Spanish American cajas and peninsular Spain average (pesos)

	<i>Net expenditure per capita</i>	<i>ICTs per capita</i>
La Paz	3.68	-5.72
Potosi	12.86	4.75
Mendoza	2.53	-0.16
Buenos Aires	32.15	19.85
Catamarca	0.01	-0.08
Corrientes	0.16	-0.03
Salta	3.50	0.00
San Juan	0.12	0.00
Sta Fe	1.17	-0.11
Stgo del Estero	0.11	0.00
Tucuman	0.16	-0.05
La Rioja	0.01	-0.03
Arequipa	2.49	-3.34
Cuzco	7.48	-5.17
Huamanga	4.31	-5.03
Lima	10.07	6.67
Trujillo	11.22	-10.22
Durango	0.29	-2.54
Guadalajara	0.21	-1.21
Guanajuato	0.19	-1.74
Merida	0.78	0.00
Mexico	21.60	-2.81
Oaxaca	0.15	-0.51
Puebla	0.92	-0.09
SLPotosi	0.24	-2.68
Veracruz	29.51	2.29
Zacatecas	4.15	-4.91
Peninsular Spain average 1785-89	*2.77	
Peninsular Spain average 1796-1800	*5.59	

* in Spanish American silver pesos (not *provinciales*)

Source: for Spanish America, see Appendix. For Spain: expenditure from Jurado Sanchez 2006, Appendix II, population from Perez Moreda (1997)

When we compare the expenditure figures with those for ICTs the picture is further complicated. The system clearly produced winners and losers. Some *cajas* were net payers into the system and some were subsidised through it. But as we have argued before, these patterns were not entirely stable over time and in some *cajas* changed from year to year. Still over the five year period from 1796 to 1800 some patterns are visible. To begin with the picture is slightly misleading because we lack detailed information for many districts that were major recipients of net transfers, especially those in the wider Caribbean, which received large payments from New Spain like Havana and Cartagena. In our sample some of the big per capita spenders, Veracruz, Potosi, Lima and Buenos Aires are the major beneficiaries, (though not Cuzco) while the net payers are more widely distributed over ten districts or so. There is no apparent pattern with regard to the kind of economic structure that existed in these districts.³³ What does stand out is that commercial centres overall seem to have done very nicely out of the system of transfers.

The system of inter-regional revenue redistribution had by the late 18th century acquired a life of its own. ICTs lubricated trade within the Empire and between colonial regions with a surprising efficiency. The greatest beneficiaries of the system were thus the large trading ports, such as Veracruz, Buenos Aires, Havana and Cartagena de Indias and Montevideo, Lima (Callao) or Valparaiso to a lower degree. Merchants used the transfer of fiscal funds to finance trade between the ports and the hinterland. Thus liquidity constraints on commercial ventures were relaxed. Regional elites used the transfers actively as a means to finance inter-regional trade and to enrich themselves in the process. It is well known, that a substantial share, maybe around one quarter to one third of the revenue to be transferred never reached its destination, since merchants and shippers not only used this additional liquidity for their own purposes but also charged sizeable transaction costs.³⁴ Maybe more importantly, ICTs actually effected a massive redistribution of income, increasing the per capita income

³³ However, the fiscal contribution from personal tribute paid by indigenous communities in the “net payer” *cajas* like La Paz, Arequipa, Cuzco, Huamanga, and Trujillo seems to have been relatively larger than elsewhere and proportionally a higher share of the total royal revenues. More research is necessary to provide a definitive assessment. Grafe and Irigoín, "Legacy."

³⁴ Irigoín and Grafe, "Bargaining for Absolutism." In De la Sagra's words “the remittances from Mexico never arrive in full” Ramon de la Sagra, *Historia Económica, Política Y Estadística De La Isla De Cuba O Sea De Sus Progresos En La Población, La Agricultura, El Comercio Y Las Rentas* (Habana: Imprenta de las Viudas de Arazoza y Soler, impresoras del gobierno y capitania general, de la Real Hacienda y de la Real Sociedad Patriótica por S.M., 1831). 280 and 281-83 and Kuethe, "Guns."

especially of ports for overseas trade by a substantial margin. They raised demand in those large agglomerations and are presumably one of the reasons why economic historians have argued that colonial ports like Havana or Buenos Aires experienced very high rates of economic growth in the 18th century.³⁵ ICTs thus fulfilled in some senses a function that elsewhere would have been expected to be met by a financial sector: they channelled capital into the fastest growing regions and sectors.

IV

Where did all the money go? Expenditures by category

Large intra-colonial transfers were not the only distinctive feature of the Spanish American fiscal system. A closer analysis of the expenditure categories reveals other important patterns. Table 3 below classifies the expenditure of Spanish American *cajas* net of all transfers to either Spain or as ICTs by major category of expenditure in columns 2 to 4. Over the course of the 18th century the amount of civil wage and non-wage expenditure seems to fall at the expense of military expenditure. However, caution is in order since the treasury accounts for the late 18th century contain more expenditure for which the records do not indicate a clear purpose. By the later 1790s almost 40 percent of expenditure could not be categorised safely.

This is not a problem of source survival; the expenditures in our unspecified category were registered completely normally. But they appear in indistinguishable generic categories such as '*masa del comun*', literally 'general mass', which is surprising since overall the treasury accounts for the later eighteenth century are more specific, in that many more disaggregated revenue and expenditure categories appear than earlier in the century. Increasing specificity in recording coincided with the appearance of big, ill-defined lump sums. There seemed to be an increasing number of payments that the treasury officials could not or would not classify clearly within the standard categories employed previously. We will come back to possible explanations later.

³⁵ J. Coatsworth, "Economic and Institutional Trajectories in Latin America," in *Latin America and the World Economy since 1800*, ed. J. Coatsworth and A.M. Taylor (Cambridge/MA: Harvard University Press, 1998).

Table 5 Expenditure net of all transfers by category, 1729-1800 (%)

	Spanish America	Spanish America	Spanish America	Peninsula Spain	Peninsula Spain	Britain peace time	Britain war time	France 18 th 1788
	1729-33 [35 cajas]	1785-89 [72 cajas]	1796- 1800 [72 cajas]	1770s	1780s	Late 18 th C	Late 18 th C	1788
Military wage & non-wage	41	28	16	65	60	31	61	26
Civil wage & non-wage	57	44	38	30	29	13	9	23
Financial	2	4	7	5	12	56	30	49
Unspecified	0	24	39					

Sources: Spanish America: our estimates, Spain: own elaboration based on Jurado Sanchez (2006). Estimates for Spain by Torres Sánchez (2006) table 1 differ marginally possibly due to rounding and aggregation procedures. Britain: O'Brien (1988), France: Braesch (1936) pp 200ff.

Comparing again the Spanish American expenditure with those of peninsular Spain, France and Britain in the late 18th century as yardsticks, a number of points stand out. Just as we saw above that the total size of the state was not unusual when compared to the British or French case, the size of the military budget was also well within the same range in Spanish America as in peacetime Britain and France. French spending on wages and non wages for defence (inclusive of Foreign Affairs) represented 26 per cent of the total.³⁶ Britain's direct expenditure on military wages and non-wage items was about 30 percent in peacetime and 60 per cent in wartime according to O'Brien; the latter was also the average for peninsular Spain for the later 18th century. Our comparable figures in the Spanish American *cajas* are 41 percent in the early 1730s, 28 percent in the late 1780s and 16 percent in the late 1790s. However, most of the 'unclassified' category in the later sample could essentially not be determined because it is not possible to distinguish beyond doubt if it was spent on civil or military wages/items, while we can safely exclude the possibility that it was expenditure involving financial instruments. Hence, if we assume for now that about half of the unclassified items were civil and half military expenditure, the share for direct military expenditure remains in the British and range throughout and lower than the peninsular Spanish one.

³⁶ They amounted to expenses of 165.5 million of lives tournois in the 1788 and included the foreign service according to F Braesch, *Finances Et Monnaie Revolutionnaires, Deuxieme Fascicule. Les Recettes Et Les Despenses Du Tresor Pendant L'annee 1799. Le Comptendu Au Raoi, Mars 1788. Le Dernier Budget De L'ancien Regime* (Paris: La Maison du Livre Francais, 1936), 200ff. We are very grateful to Joel Felix for sharing this information with us.

The real difference between Spanish American and Spanish expenditure structure on the one hand and that of Britain and France on the other was in the very large Spanish American and peninsular civil expenditure and the tiny financial expenditure.³⁷ The latter made up most of the British and French non-military expenditure. As fiscal historians have pointed out it was essentially the result of deferred payments for military costs. Between wars Britain and France serviced war debts. Taken together *direct* military expenditure and *time-deferred* military expenditure accounted for 90 percent of British expenditure. France allocated a total of 72 percent of total expenditure to military related purposes in the critical year of 1788; 23 percent went the Civil list and expenses and 49 percent to debt service, including interest and principal repayments.³⁸ In Spanish America interest and debt payments never accounted for more than 7 percent of total expenditure, even less than the 12 percent reached in late 18th century peninsular Spain.³⁹ By contrast, civil costs and wages accounted for almost half of the total in Spanish America and a third in the metropolis.

Low interest and debt payments thus mark the difference not only compared to Britain but also to France, which degrades the conventional idea that absolutist fiscal regimes should look broadly similar as a group and be clearly distinguishable from parliamentary ones in such central features as their debt ratios. Colonial treasuries (like their metropolitan counterparts) took relatively few loans before the last decades of the 18th century and even then the total amounts remained small. It should be noted that this was not because Spain engaged in fewer wars than its competitors. From 1700 to 1814 Britain was at war 46 years, France 45 and Spain 51 years.⁴⁰ The high apparent correlation between revenues and expenditure (see table 8 Appendix 1) persuaded Klein that “obviously the Crown spent only what it had, and if that income disappeared it did not ‘invent’ new incomes or go wildly into deficit financing. When income declined drastically, so too did expenditures.”⁴¹ Torres

³⁷ See also Rafael Torres Sánchez, "Possibilities and Limits: Testing the Fiscal Military State in the Anglo-Spanish War of 1779-1783," *Facultad de Ciencias Económicas y Empresariales Universidad de Navarra, Working Paper 06/06* (2006).

³⁸ 145.8 million livres and 310.4 million for the 1788 fiscal year respectively. See Braesch, *Finances Et Monnaie Revolutionnaires*.

³⁹ The low indebtedness of the Spanish peninsular *hacienda* in the 18th century has recently also been noted by H.V. Bowen and A. González Enciso, *Mobilising Resources for War: Britain and Spain at Work During the Early Modern Period* (Pamplona: EUNSA, 2006). Introduction.

⁴⁰ For France and Britain Mathias and O'Brien, "Taxation," 603, fn1.

⁴¹ Herbert S. Klein, *The American Finances of the Spanish Empire. Royal Income and Expenditures in Colonial Mexico, Peru, and Bolivia, 1680-1809* (Albuquerque: University of New Mexico Press, 1998), 23.

claimed for the Peninsula that the Spanish Crown was simply opposed to taking up more loans.⁴²

But budgetary probity and ‘fiscal conservatism’ was more apparent than real in the colonies as in the metropolis. To begin with Spanish American colonial institutions had always relied to an extent on traditional Spanish debt instruments such as *juros* (annual redeemable pensions drawn on earmarked taxes) and *censos* (especially *al quitar*, redeemable annuities). Investible capital in Spanish America was traditionally provided by a small number of large investors that were interested in low risk, stable returns over the medium and long term. These included ecclesiastical institutions, the Inquisition, lay brotherhoods (*cofradías*) and indigenous communities’ funds (*cajas de comunidades indígenas*). The latter were at least on paper investment funds on behalf on the indigenous communities resulting from sales of lands or legal restitutions, ‘administered for them’ by Spanish and *creole* officials. In the mid-eighteenth century these types of institutions accounted according to Alfonso Quiroz for about half of the credit supplied in the Viceroyalty of Peru.⁴³ Another important source of credit was the merchant guilds of the large colonial centres, the *consulados*.⁴⁴

Though not always visible in the fiscal accounts the Spanish American treasuries used available debt instruments throughout the colonial period. Evidence for such transactions exists for Havana, Mexico, Lima, New Granada, Santiago de Chile and Guatemala.⁴⁵ Much of the financing need was initially driven by the volatility of expenditure. Military investments and other large-scale outlays were never perceived as ‘annual’ expenditures. It is obvious from the accounts that the expenditure side was never governed by annual regularity, a feature also noted by Klein.⁴⁶ Short-term credit had to be raised against future income. More importantly debts were written into a multitude of private contracts of apparent military and civil nature; presumably one reason why hard-to-define general

⁴² Torres Sánchez, "Possibilities."

⁴³ Alfonso W. Quiroz, "Reassessing the Role of Credit in Late Colonial Peru: Censos, Escrituras, and Imposiciones," *Hispanic American Historical Review* 74, no. 2 (1994): 203.

⁴⁴ Guillermina Del Valle Pavon, *Mercaderes, Comercio Y Consulados De Nueva España En El Siglo XVIII* (Mexico: Instituto Mora, 2003).

⁴⁵ de la Sagra, *Historia Económica*; Quiroz, "Credit."; Marichal, *La Bancarrota*, 97 fn2. Timothy E. Anna, *The Fall of the Royal Government in Mexico City* (Lincoln: University of Nebraska Press, 1978); Johanna von Grafenstein, "Mexico Y El Caribe Durante Los Anos De La Emancipación" (Universidad Autónoma de México, 1994).

⁴⁶ Klein, *The American Finances*, 7-8.b

categories began making up a large chunk of total expenditure as shown in table 5. Merchants supplied the state, regularly advancing large amounts of funds to provision militias or fulfil administrative functions. Officials were private entrepreneurs that covered the outlays of such essential government functions as tax collection or adjudication against presumed future repayments.

As the financing needs of the Spanish American *cajas* increased the state impacted more on local credit markets. The situation was aggravated by the expulsion of the Jesuits in 1767, which resulted in a one-off windfall from expropriated property but also dried up an important source of colonial credit.⁴⁷ The colonial treasuries had also abused the state administered Indian trust funds on such a scale that they were depleted and unwilling to continue lending. Towards the second half of the eighteenth century other traditional lenders in several of the large markets became more apprehensive about lending to the colonial *hacienda* after the Crown lowered unilaterally the interest rates paid on loans. Credit rationing ensued but was countered in much the same way as in the Peninsular. Small investors were reassured through the bundling of loans under the control of the influential *consulados*.

Effectively these guilds performed as merchant banks.⁴⁸ As agent for a ‘syndicate’ they were able to place large loans in the market by breaking them into smaller amounts, not unlike an investment bank.⁴⁹ The *Consulado* could negotiate more efficiently with the colonial state and thus guarantee the servicing of the public debt from the point of view of the small creditors. At the same time it acted as fiscal and financial agent of the Crown but their service was not free of charge for the colonial Treasury. The *Consulados* of Lima and Mexico enjoyed the privilege of collecting the main taxes on trade, international and domestic since their establishment in the late 16th century. Both received monies from the public (members, other individual merchants and religious institutions) on behalf of the Treasury, the *Real Hacienda*,

⁴⁷ Confiscated Jesuit assets, mainly rural estates and *censo* funds, were sold to private bidders. “Property was sold at 80% of their value at terms ranging from 3 to 50 years. Total revenue for the Treasury amounted to 4.5 million pesos, of which one third consisted of *censos* and *capellanias*” Quiroz, “Reassessing the role of Credit” p 219-20

⁴⁸ See Appendix 2 for examples.

⁴⁹ “As far back as 1627 the Consulado of Lima had raised loans among local creditors at interest rates as high as 17 per cent in order to provide *emprestitos* and *donativos* at no additional interest” Quiroz, “Credit,” 224,29. See also Guillermina Del Valle Pavon, “El Apoyo Financiero Del Consulado De Comerciantes a Las Guerras Españolas Del Siglo Xviii,” in *El Crédito En Nueva España*, ed. M Martinez Lopez-Cano and Guillermina Del Valle Pavon (Mexico: Instituto Mora, 1998).

against the guarantee of the yield of such taxes.⁵⁰ Until 1754 in Mexico and 1777 in Lima, the *Consulado* was entitled to the collection of *alcabalas* (domestic excise) and *averías* (overseas trade tax), which then passed under the control of Treasury officials.⁵¹ But this proved temporary. The *Consulados* regained the collection of *averías* and with the increasing demand for funds from the war with France after 1780, the *alcabala* too fell back in the hands of *Consulados*. In smaller port towns and markets these levies continued to be farmed to individuals or local corporations. With each additional *donativo* or loan requested by the Crown or its representatives in the colonies *Consulados* obtained a rise in the tax or additional levies which became collaterals for the subscription of capital among the public. At the same time monies were increasingly lent at interest to the crown, and lenders whose funds were syndicated through the *Consulado* preferred to maintain their capital in the hands of the corporation for longer periods if at a lower interest in return. The *Consulado* in Lima, e.g., was paid by first retaining and then expanding the *avería* and later received a new 1.5 percent tax on silver exports from most of South American ports in return for syndicating a 1.5 million pesos loan to fund the war against the Portuguese in the River Plate.⁵²

Non-monetary payments for services were always a large part of the equation and explain another share of public debt that never showed in the accounts. As early as the 1670s the merchant guild of Lima agreed to give some emergency loans for the defence of the Viceroyalty “ostensibly [...] as a means of avoiding an increase in fixed taxation.”⁵³ In parallel with developments in peninsular Spain, the state’s financing needs were often not covered by specific financial market transactions but by co-optation of individuals and a

⁵⁰ These were fixed term concessions for a number of years to collect the tax, (*asientos* or *encabezamiento*), which were periodically re-negotiated between the corporation and the highest royal authorities in the colony. For Peru Robert Sidney Smith, *El Indice Del Archive Del Tribunal Del Consulado De Lima* (Lima: Archivo Historico del Ministerio de Hacienda, 1948). Introduction and our Appendices 3 & 4 for examples.

⁵¹ The Mexico *Consulado* also financed the coinage of silver in the Mexico City mint house. Guillermina Del Valle Pavon, "Los Excedentes Del Ramo De Alcabalas, Habilitacion De La Minería Y Defensa Del Monopolio De Los Mercaderes De Mexico En El Siglo XVIII" *Historia Mexicana* LXI, no. 3 (2007).

⁵² Loans with similar or larger guarantees repeated in the 1780s when the Crown granted the collection of the additional tax on bullion exports from other ports elsewhere in South America. See Appendix 3 and 4

⁵³ Quiroz, "Credit," 210.

large number of contracts, which today in Britain and the US would be euphemistically called ‘public private partnership’.⁵⁴

“The best way for merchants in Peru to assure royal support for their demands and counteract peninsular competitors was to provide loans to the Royal Treasury and guarantee their payment. In this way the Consulado of Lima was behaving much like the Cádiz merchants, the Cinco Gremios Mayores de Madrid, and the companies of Caracas and La Habana.”⁵⁵

The privatisation of state functions thus guaranteed the availability of credit for the regional Spanish American *cajas*. The enmeshing of private interests and public accounts was of course the very nature of *ancien regime* rule but the differences between French financing patterns and Spanish ones illustrate that they could play out in very distinct ways .

Still, there is no reason to assume that this represented some “archaic” or old form of financial instruments.⁵⁶ Citing so-called *donativos* ‘donations’ and ‘interest free’ loans to the colonial treasuries Marichal argued that these were based on coercion and/or implied social obligations of the elites.⁵⁷ By contrast, Baskes considers them “virtually bribes” paid to the Crown in exchange for rulings in the lenders favour.⁵⁸ *Donativos* had formed part of the peninsular and colonial tax structure since the sixteenth century and are more correctly

⁵⁴ Bowen and González Enciso, *Resources*.

⁵⁵ Quiroz, "Credit," p.217.

⁵⁶ The persistent notion that credit markets in Spain and Spanish America were underdeveloped because of religious controls over usury is clearly contradicted by more recent research. From the 16th century onwards usury laws were circumvented by drawing up *juros* and *censos* in such a way that they represented a contract, where the lender (*censualista*) essentially acted as a buyer of ‘proceeds’ (*reditos*) sold by the debtor (*censatorio*). This rephrasing converted a potentially usurious credit transaction into a perfectly legitimate sale of a good (the proceeds from the loan) as long as the interest rate stayed within the going market price for such a sale (*precio justo*), i.e. what we would think about as the market interest rate. Jose Antonio Alvarez Vazquez, *Rentas, Precios Y Credito En Zamora En El Antiguo Regimen* (Zamora: Colegio Universitario de Zamora, 1987), 256ff. This explains why credit instruments were sold and bought without restrictions, why religious institutions acted as the largest credit intermediaries without any qualms and why secondary markets in financial instruments were readily available all over Spain and Spanish America. For Spanish America, see Quiroz, *La Deuda Olvidada*,

⁵⁷ Marichal, *La Bancarrota*, p.99. The English version of the book offers a more nuanced version of the argument. Marichal, *Bankruptcy*, 84-87.

⁵⁸ J Baskes, "Risky Ventures: Reconsidering Mexico's Colonial Trade System," *Colonial Latin American Review* 14, no. 1 (2005): 34. In 1821, the Lima Consulado sent a representative to Madrid asking for bold military actions against the Revolutionaries who were at the doors of Lima and reminded the (restored) King Ferdinand VII in great detail of 7.3 million *pesos* total that the merchants’ guild had lent or “donated” to the Treasury since 1806. A Real de Asua, "Representacion Hecha Por El Consulado De Lima a S.M.," *Madrid* M Reppulles (1821).

described as a mixture of extraordinary taxes and loans. A closer look at the conditions and interest payments included in the so-called forced loans and donations to the colonial treasury illustrates that these were complex contracts but clearly not a free lunch for the treasury.

Table 9 in the Appendix 1 provides a list of loans the New Spain's treasury took out in the late 18th century according to Marichal's very complete analysis and Table 10 offers similar information for Peru. Given that this was a period of international warfare and conflict the pressure on the colonial treasuries was higher than ever. By 1816 the Mexican treasury was indebted to Mexican institutions and individuals to the tune of 80 million pesos roughly equivalent to 120 percent of its 1796-1800 annual revenue.⁵⁹ The estimated debt of the republican treasury in 1827 according to Peruvian Finance Minister, Morales y Ugalde, amounted to 14 million pesos – of which 2 million belong to the émigrés-, plus 7.8million which corresponded to Consulado loans in arrears. These 10 million pesos –the lowest estimate for colonial debt- were equivalent to four times the annual yield of the treasury in the plentiful years of 1796-1800.⁶⁰

Some loans stipulated a regular interest rate and most devised additional benefits for the creditor and – more importantly – clearly defined collateral in the form of a specific tax that would be earmarked for repayment. Even when the interest rate charged was not explicit in the contracts and when their complicated form makes it hard for historians to price them it is fairly obvious that they did carry a cost for the Treasury *cajas*. Contracts between the regional treasuries and individuals often included future tax breaks, surcharges, arbitrage gains by using silver coins of different qualities, complicated types of collateral and contractual penalties and royal privileges and offices. To interpret even such items as titles of nobility granted against “services” rendered to the Crown as a sign of some form of “social obligation” towards the Crown in an almost medieval way completely misses the point that relations between Crown and subject were based on mutual rights and duties that had a price

⁵⁹ Klein, *The American Finances*, 89.

⁶⁰ Jose Morales y Ugalde, "Manifestacion Del Estado De La Hacienda De La Republica Del Peru En Fin De Abril De 1827.," in *Anales De La Hacienda Publica Del Peru*, ed. P Dancuart and J Rodriguez (Lima: Ministerio de Hacienda, 1827/1903). Thanks to Carlos Contreras for the data on Peruvian colonial debt. In 1821-22 Buenos Aires consolidated the colonial debt of the former vice regal capital, which totalled to 4 million pesos. This sum was equivalent to double the annual average revenue in the period 1796-1800. For Lima and Buenos Aires annual revenues see Grafe e Irigoin, “The Spanish Empire and its Fiscal Legacy”.

tag to them. Noble titles involved tax advantages and rights to the creation of entails. They also were valuable 'brand names' that allowed the owner access to lines of credit, business contacts and lucrative marriage options.⁶¹ More research needs to be done on the actual contracts to estimate the implied interest rates charged. But for now it stands to reason that the system was not necessarily unusually corrupt, though it lacked transparency. But it is not obvious that it was actually either an expensive nor particularly expropriatory way of running an Empire.

In many ways the Spanish Empire was quite adapt at using market competition to its own advantage. The history of the 'forced loans', so common in many early modern fiscal systems, has yet to be written. Pre-modern factor markets were served by contractual arrangements that often included a mixture of 'force' and 'choice'. Just as labour markets were governed at the same time by free labour contracts, left-overs of traditional pre-Columbian labour relations, apprenticeships, indentures, slavery with manumission and slavery without any chance to attain freedom, credit contracts could exhibit the full range from force to choice.⁶² On such a scale the Spanish and Spanish American 'forced loans' were subject to a relatively weak form or exertion of sovereign power. In practice they amounted often to little more than a syndicated loan that produced a decent fee for the agent and was subscribed voluntarily by individual investors.

Another example of use of market forces was the sale of offices – no matter how offensive to modern ideas of independent state bureaucracies. Historians have long condemned the sale of office as a mechanism that was born out of extreme fiscal needs, and through which unscrupulous and incompetent men took the government in their hands contributing to the decline of Imperial Spain.⁶³ That abstracts from the fact that the purchase of offices, and hereditary and transferable posts, existed since very early times as means to man the

⁶¹ R Rizo Patron Boylan, *Linaje, Dote Y Poder. La Nobleza En Lima De 1700 a 1850* (Lima: PUCP, 2000), chapter 1. D.M. Ladd, *The Mexican Nobility at Independence* (Austin: University of Texas Press, 1976).

⁶² For Colonial Spanish America labour see J Monteiro, "Labor Systems," in *The Cambridge Economic History of Latin America*, ed. Victor Bulmer-Thomas, John H. Coatsworth, and Roberto Cortes-Conde (Cambridge: Cambridge University Press, 2006). Ch 6

⁶³ The classical source for the sale of bureaucratic offices as one manifestation of the Spanish decline in the 17th century is J. H. Parry, *The Sale of Public Office in the Spanish Indies under the Hapsburgs* (Berkeley: University of California Press, 1953).

government of the colonies.⁶⁴ Sales continued in the 17th century and under the new dynasty in the 18th century. During the Habsburg period a large variety of minor appointments, municipal, notarial and 'miscellaneous fee earning' positions went on sale.⁶⁵ From the early 17th century onwards, with the expansion of the empire the extension of the bureaucracy opened positions for sale including the highest posts in the judiciary (*Audiencia*), the Mint Houses (*Casas de Moneda*) and treasury (*Real Hacienda*), which included the *tribunal de cuentas* the supervisory body of all treasuries, tax farmers and final Court of Appeal in tax matters.⁶⁶

There is plenty of evidence that there was a reasonably competitive market for offices that reflected location and office. The top prizes were Viceregal positions, which were occasionally sold; or top jobs at the Casa de Moneda of Mexico City.⁶⁷ Beyond those the post of *contador mayor* (chief treasurer) in Lima fetched the 20,000 *pesos* in the 18th century, while a post in the *Audiencia* could be had for 12,000.⁶⁸ When no vacancies were available the crown sold repeatedly *futuros* – the promise of appointment to a future vacant office. Posts were often auctioned or acquired through individual private transactions, though the purchaser had to fulfil general requirements of competence for treasury posts and the Crown guarded against corruption through requiring high security bonds (collaterals), which in Lima could reach between 20,000 and 45,000 *pesos*. Given the high cost of these collaterals some

⁶⁴ The crown used the power of patronage to compensate for services with a grant of offices by means of a *merced* since early 16th century. Mark A Burkholder and D.S. Chandler, "Creole Appointment and the Sale of Audiencia Positions in the Spanish Empire under the Early Bourbon, 1701-1750," *Journal of Latin American Studies* 4, no. 2 (1972). Mark A Burkholder and D.S. Chandler, *From Impotence to Authority. The Spanish Crown and the American Audiencias, 1687-1808* (Columbia, MO: 1977), 26.

⁶⁵ These posts were usually hereditary and transferable sold through public auction Burkholder and Chandler, "Creole Appointment," p.188.

⁶⁶ Kenneth J. Andrien, "The Sale of Fiscal Offices and the Decline of Royal Authority in the Viceroyalty of Peru," *Hispanic American Historical Review* 62, no. 1 (1982): p.55.

⁶⁷ For the sale of office of viceroy in Peru and New Spain in the 1690s see A Domínguez Ortiz, "Un Virreynato En Venta," *Mercurio Peruano* 49 (1965): 46-51. According to Michele Bertrand, offices in the mint House ranged between 60 and 160,000 pesos in the late 17th century and the position of Treasurer was sold in private transaction for \$ 289,500 in 1671. Yet in 1703 the crown's appointment would go for a quarter million Bertrand, *Grandezza Y Miseria Del Oficio: Los Oficiales Reales De La Nueva Espana En Los Siglos 17 Y 18*.ch 8 fn 66.

⁶⁸ Juvenal Luque, "La Data De Los Salarios De La Caja Real De Lima, Siglo Xvii-Xviii," in *Congreso De Historia Economica* (Lima: PUCP, 2008). Andrien, "The Sale," p.57. and Burkholder and Chandler, "Creole Appointment," p.204. F Tomás y Valiente, *La Venta De Oficios En Indias: 1492-1606* en fotocopia from rutgers ed. (Madrid: Instituto de Estudios Administrativos 1972), F Tomás y Valiente, "Las Ventas De Oficios De Regidores Y La Formación De Oligarquías Urbanas En Castilla : Siglos Xvii Y Xviii

" *Historia, Instituciones, Documentos* 2 (1975).

of the bids for high office in Lima involved a syndicate of merchants and financiers who gathered the amount in advance for the bond. Sales of office '*en propiedad*' (for life) allowed the buyer to transfer it after paying a fee, usually with the purpose of bequeathing to a younger member of the family.⁶⁹ Thus, transactions involving private sale of office were not uncommon. This mechanism of filling colonial administration was a far cry from a professionalised bureaucracy, but it responded to economic incentives.⁷⁰ As Root has pointed out, in pre-modern states the choice was generally one between corruption and nepotism; and the former had the distinct advantage of handing the prize to the individual with the largest economic interest in obtaining it, in other words it at least maximised marginal return.⁷¹

But the pricing structure for these offices also reveals that the sales did not only reflect the potential returns of corruption. In the 18th century *creoles* faced barriers to entry as holders of governmental office.⁷² They were never excluded from office holding, but more *creoles* than *peninsulares* (those born in Spain) had to purchase their offices rather than receiving them as a *merced* (grant).⁷³ Those *creoles*, who finally held positions in the *Audiencias* or the *Cajas*, regularly paid considerably more for their positions than the *peninsulares*, who became

⁶⁹ In his study of the New Spain Administration of the Real Hacienda, Bertrand found that a sizable number of sales went to minors "under the legal age". Bertrand, *Grandeza Y Miseria Del Oficio: Los Oficiales Reales De La Nueva Espana En Los Siglos 17 Y 18*.ch 4, p 13. fn 11 Some purchases also entailed the prerogative of appointing a successor. Thus, the colonial administration developed more like lineages than a bureaucratic structure.

⁷⁰ Historians have pointed at the lack of hierarchy in the wages and responsibilities. There was no promotion sought and a persistent "reluctance" to be transferred elsewhere. Yet Bertrand does not offer a convincing explanation for this reluctance, which even at times caused strong protests and outright rejection of viceregal directions of moving to another post, even on a temporary commission. Ch 4, p 21-22

⁷¹ Hilton L Root, "The Redistributive Role of Government: Economic Regulation in Old Regime France and England," *Comparative Studies in Society and History* 33 (1991). Root's point was that the English Parliament was corrupt, while the French administration was governed by nepotism. Interestingly, France as opposed to Spain, never sold offices in its colonies leaving less room for local representation.

⁷² This has been a persistent claim, starting with Simon Bolivar among others, in the wake of Independence; see his 'Jamaica letter' of 1815. Historians have repeated this, see e.g. John Leddy Phelan, *The People and the King : The Comunero Revolution in Colombia, 1781* (Madison: University of Wisconsin Press, 1978), p.9. and John Leddy Phelan, *The Kingdom of Quito in the Seventeenth Century : Bureaucratic Politics in the Spanish Empire* (Madison: 1967), p.145. However, Phelan also noted the *creole* dominance in the *Audiencia* of Bogota and David Brading identified the same distribution in the composition of the *Audiencia* of Mexico in the 18th century. D.A. Brading, *Miners and Merchants in Bourbon Mexico, 1763-1810* (Cambridge: 1971).

⁷³ Burkholder and Chandler, "Creole Appointment," p.191-92.

American office holders.⁷⁴ Generally, this has been interpreted as a sign of discrimination against *creoles* and an attempt by the Crown to limit local influence even if its success was limited.⁷⁵ If differential pricing reflected the Crown's desire to make sure that the *creoles* did not become too powerful, it also reveals another obvious truth: the purchase of offices was potentially more lucrative for members of the elites with strong local, American connections. This was precisely why they were willing to pay a higher price for the same office compared to a prospective peninsular office-holder.⁷⁶

Locally born office holders had the same powers to extract backhanders as *peninsulares*, so there is no reason why locals should have been willing to pay more for the office on the grounds of potential returns to corruption. But being well connected in the local business community seems to have mattered in order to realise the maximum benefit from office-holding. Here is another indicator how closely royal officials' and local elites' economic activities were integrated. Differential pricing for American offices between *creoles* and *peninsulares* might just have reflected the market value of the office for either group. Consequentially, wealthy neighbours were usually the ones to provide the bonds required for treasury offices 'socialising' the returns from office-holding by a fellow *creole*.⁷⁷

The very expansion of the colonial administration from about 35 treasury districts in the 1730s to over 70 (table 2 and 6) in the late 18th century was a result of the extension of the colonial state towards its boundaries in the Southern Cone and the northern Mexican regions as well as less developed interior regions. All of this development was, like the entire Spanish colonial enterprise, self financed. Existing colonial districts acted as springboard. In relay fashion, they organised and financed the successive establishment of new immigrants from Spain and of the state in new regions. Thus, if aggrandisement of the Empire was the

⁷⁴ Phelan, *The People and the King*, p.9. Also, Bertrand has found that the sale of fiscal offices attracted preferably creoles, young and "inexperienced" people.

⁷⁵ "Most of those who purchased (fiscal) offices were already resident in the Indies" and "(this) led to a significant increase in the number of local personnel recruited to serve the crown". "By the end of the century the crown routinely approved sales to native sons of Lima" Andrien, "The Sale," pp.59-60.

⁷⁶ This is corroborated by Ibid.: p.62. "Creoles and even native sons were apparently willing to outbid peninsular claimants for the posts. Apparently the high prices they were willing to pay also led officials in Madrid to ignore any legal obstacle to their holding office". Bertrand indicates a similar pattern for the Treasury officials. Bertrand, *Grandeza Y Miseria Del Oficio: Los Oficiales Reales De La Nueva Espana En Los Siglos 17 Y 18*. ch 4p 17

⁷⁷ Andrien, "The Sale," pp.64-65 and 69-70. gives examples of such bonds.

maximisation target of the Spanish Crown it was remarkably successful at almost no direct cost to itself.

Table 6 Expenditure of Spanish American cajas net of all transfers by category

Expenditure category	% of total expenditure 1729-33 (35 cajas)	% of total expenditure 1785-89 (72 cajas)	% of total expenditure 1796-800 (72 cajas)
Direct mining subsidies	12	10	15
Direct tobacco subsidies	-	5	4
Wages (military/civil/church) excl tax collection cost	12	21	17.3
Goods and services	68	24	10
Welfare and public works	0.6	4	1.9
Collection costs (fees and taxes)	5.8	9	6.3
Unspecified	0	24	29.2

Source: Appendix 1

But there was an indirect cost. The Crown in return not only allowed almost all of its revenue to remain in the colonies but it also co-opted colonial elites by letting them manage revenue spending. The outcome was not surprisingly that much of the revenue was fed back into the local economy right away. Table 6 offers a more detailed break down of expenditures of Spanish American *cajas* net of all transfers. Tax collection costs were actually not very high, between 6 and 9 percent. Neither was this state paying a lot for welfare provision (still largely the domain of the Church) or public infrastructures (often in the hands of towns or merchants' and miners' corporations which in turn might subcontract). Instead it directly subsidised some of the most important sectors of the economy, mining and tobacco production.⁷⁸ Rather than extracting revenue from the mining sector, as has often been alleged, the main sources of revenues were taxes on trade and consumption. Thus, the Spanish colonial state acted more like a developmentalist state that subsidised the development of the export sector, namely in mining and tobacco. And the rest of its expenditure went indirectly back into the local economy in the form of wages and locally purchased goods and services.

⁷⁸ As shown in Rafael Dobado, "El Monopolio Estatal Del Mercurio En Nueva Espana Durante El Siglo Dieciocho," *Hispanic American Historical Review* 82, no. 4 (2002).

Where the money did not go

Historians have always noted that the Spanish Empire seemed to be spending rather little on the enforcement of its rule.⁷⁹ For the Crown or the colonial elites it was not easy to establish a systematic recourse to repression without an equivalent investment into some means of enforcement; a price the Crown was not willing or able to pay as Coatsworth has recently pointed out and the low spending on colonial bureaucracies and standing armies we can glance from the fiscal accounts confirm.⁸⁰

This was also the view of traditional military historians of the Spanish Empire, who considered that the colonial military establishment before the Seven Years wars “was hardly more than token”.⁸¹ Table 7 summarises the available information. Before the 1760s there were few regular troops. After the 1760s the intensification of British, French and Portuguese threats to the Spanish possessions led to an enlargement of the regular army and navy. But most troops were stationed in the circum-Caribbean region or other strategic areas on the route to the Cape Horn. The viceroyalty of New Spain with 5.8 million inhabitants had about 6000 regular troops, of whom most were located far away from the densely populated areas.⁸²

Table 7 Size of regular army in Spanish America

<i>Region</i>	<i>Year</i>	<i>Place</i>	<i>notes</i>	<i>Regular army</i>
	Before 1760s			
New Spain	1760	Veracruz	Main port	1,000
		Campeche	Port in the Gulf	125 ¹
		Acapulco	Main port	65 ²

⁷⁹ Noting that initial forced indigenous labour schemes evolved into all sort of informal and temporary arrangements over time Lockhart & Schwartz pointed at the “weakness of the institutional means of enforcement” and “the little policed countryside”. An unsurprising fact “**considering how relatively weak and inactive government in the Indies was**” Lockhart and Schwartz, *Early Latin America*, 140, 42 and 48-49. emphasis added.

⁸⁰ Coatsworth, "Political Economy."

⁸¹ Lyle N. McAlister, "The Reorganization of the Army of New Spain, 1763-1766," *Hispanic American Historical Review* 33, no. 1 (1953). 2 For the increase in military spending see also Leon G Campbell, "The Army of Peru and the Túpac Amaru Revolt, 1780-1783," *Hispanic American Historical Review* 56, no. 1 (1976): p.35.

⁸² New Spain's population amounted to 5,837,000, exclusive of Central America which totaled 1,160,000. The Spanish Caribbean had 550,000 inhabitants. Lockhart and Schwartz, *Early Latin America*, 338.

Peru	since 1615	Mexico City	Capital	1,700 ³
		Northern frontier	Louisiana to California	1,000
		Callao	Main port	500 ⁴
After 1760s				
Cuba	1765	Cuba		1797(5)
New Spain	1771		Entire Viceroyalty	6,196
	1771	Puerto Rico	Strategic post	2,884
Peru & Upper Peru River Plate	1771		Whole area (including Charcas)	1,362 ⁶
	1771	Buenos Aires, Montevideo, Colonia del Sacramento	Main ports bordering Portuguese colonies	4,882
Spanish America	1771		All viceroyalties (population between 12,577,000 as of 1800 and 13,500,000) ⁷	45,000

References: source: New Spain, Veracruz, Campeche, northern frontier McAlister (1953); Peru and Upper Peru Campbell (1976); River Plate McAlister (1953) fn65, 33.

1) 125 men from a detachment of infantry, artillery and dragoons.

2) 52 infantrymen and 13 artillerymen.

3) Includes cavalry and infantry, whose main duties were to guard the viceroy and his palace, the treasury, prisons and other public buildings. This contingent also performed as law enforcing body in aiding civil magistrates.

4) Regular troops sent from Europe following the O'Reilly mission after the British occupation of Havana. Overall defensive manpower totalled 9,603 troops, including 7,806 militia. {Rojas, 1967 #848}p 14-15.

5) Troops serving for most of the 17th century enlisted always less than the 500 men assigned. This total contingent also manned the *presidios* in Chile and the royal navy anchored at Callao. Lima had apparently never more than 275 men in the city. Campbell (1976) p.33. Peru was never militarized before the massive rebellions of mainly indigenous peasants around 1780.

6) Frequent attacks by the Dutch in the late 1680s and 1690s, or even the incursions of Morgan on the Pacific coast of Panama did not alter the size of the Spanish regular detail.

7) Population for 1800 from Lockhart & Schwartz, *Early Latin America*, 338. and Sanchez Albornoz (1984)(Sanchez Albornoz 1984) 34{Sanchez Albornoz #1465@ p.3}.

In fact, Peru and other colonies in South America had long relied on battalions of local militiamen who were mobilized during times of emergency, such as the attack of a small Dutch fleet (sponsored by the VOC) on Callao (Lima's port) and Guayaquil or the constant threat of pirates to Panama in late 16th and the 17th centuries.⁸³ Increasingly, the expense for the recruiting and fitting out of the local militiamen moved from the direct responsibility of royal officials in Lima to the purses of municipal corporations, local merchant guilds and landowners.⁸⁴ The colonial militia organized as small military units, received periodic training

⁸³ Juan Marchena, "La Financiación Militar En Indias. Introducción a Su Estudio," *Annuario de Estudios Americanos* 36 (1979).

⁸⁴ For an example in 17th Century Peru see L.A Clayton, "Local Initiative and Finance in Defense of the Viceroyalty of Peru: The Development of Self-Reliance," *Hispanic American Historical Review* 54, no. 2 (1974).

and were mobilized to reinforce or replace regular units. They were regarded as law enforcers and existed throughout the empire, in cities and rural areas, in proportion to the size of local population (roughly 1 man for every 25 families). Soon they outnumbered the size of regular armies, as in New Spain where in 1766 about 13,000 rural and urban militiamen reinforced the strength of the 2,341-strong regular army, including cavalry, artillery and infantry.⁸⁵

This limited military might – hardly significant for a region inhabited by some 5 million people – was essentially a paper army. Charles III repeatedly instructed his envoys and military officials to exert the most care in their relations with local populations when classifying and enlisting recruits for the militias. Colonials were apparently very reluctant to join the military apparatus of the empire and even these modest forces could only be levied by granting extensive privileges and exemptions.⁸⁶ The Spanish Caribbean (Hispaniola, Puerto Rico and Cuba) after the losses of Jamaica, and (temporarily) of Havana and Manila, was the colonial region with the strongest military presence of the Empire. Allen Kuethe has shown how the Crown's special envoys in the later 18th century had to concede far reaching commercial privileges to the powerful planters and merchants of Cuba for their support in establishing a militia of 7,500 men: they were allowed to trade freely with Neutrals, i.e. North American merchants, and intermediate the bulk of Mexican silver that royal and private remittances tended to concentrate on its shores.⁸⁷

Moreover, “public private partnership’ also was present in the dearest pursuit of an absolutist ruler of the mercantilist age in early modern Europe: shipbuilding for the Navy. In a very well documented article Douglas Inglis reveals details of a frequently ignored aspect of Spanish naval defence and spending. During the 18th century about 150 ships were constructed in Havana, half of which were warships. Organized as *asiento*, the crown's shipyard in Havana was ready to build and fit several seventy-gun ships of the line and

⁸⁵ “Estado que manifiesta el en que se hallan las tropas de que se compone el Ejercito de Nueva Espana” August 23, 1766 cited in McAlister, "The Reorganization."

⁸⁶ The best know privilege was the *Fuero Militar* for life, the enjoyment of military jurisdiction in all legal affairs, civil and criminal. But officers were also exempted from taxes and exactions and the provincial (rural) militias were exempted from paying the tribute. Militiamen were entitled to pensions and gratuities.

⁸⁷Allen J. Kuethe, "The Development of the Cuban Military as a Socio-Political Elite, 1763-1783," *Hispanic American Historical Review* 62, no. 4 (1981). shows how trading privileges of all kinds bolstered the sugar economy, which boomed in subsequent years.

frigates. The scheme “resembled more a loan than a contract building” because despite the crown’s possession of the materials and the technical direction, the government let a contractor, willing to invest the capital, undertake the actual building of warships.⁸⁸ The shipyard, which employed over 100 skilled labourers and 260 day workers at the peak of the season, was very busy in the 1730s and 1740s building more than one of such a large ship a year. Cuba’s captain general, the treasurer and the chief accountant of the royal treasury in Havana plus the Spanish Naval commissioner contracted with wealthy merchants the financing of the naval works. These were the seeds of the *Compania de la Habana*, which after 1740 would take charge of financing the shipbuilding. The crown participated in the company with 5 per cent of the stock for the royal family. Yet within a decade final costs of warship were so much over budget that the Company went bust within a decade. Two and four fold final costs over the purchase prices agreed of \$ 75,000 were paid in the late 1740s. Ignominiously, the English capture of Havana “liquidated both, the government and the company treasuries” and after 1763 a Naval Intendancy opened in Havana was funded with transfers of revenues from Mexico.⁸⁹ Construction of warships halved and the naval expenses increased from half a million pesos after 1763 to 700,000 until Spain engaged in supporting the American Revolution, when the naval spending “skyrocketed to almost six million”.⁹⁰

Rather than behave like a revenue-hungry empire, Spain chose to buy off regional elites in America to defend strategic interests. This empire run on the cheap left it to the often desperate and ill-prepared local militias to fend off continuous attacks of pirates and other European navies. “So disorganized and unarmed was the local militia” that in 1740 when British Admiral Anson was about to capture the port city of Paita north of Lima and the

⁸⁸ When the ship was completed” the navy purchased at an agreed price, usually 5 or 6 percent over the cost” and “it was not uncommon for such debts to be repaid with royal favours in lieu of specie” DG Inglis, "The Spanish Naval Shipyard at Havana in the 18th Century" (paper presented at the New aspects of naval history selected papers from the 5th Naval History Symposium, Baltimore, 1981 ? 1985).p 49-51. We thank David Weiland for pointing us at this source. These contractual arrangements for shipbuilding had been used in the peninsula since least the early 17th century.

⁸⁹ Ibid. p 52. “the stringent financial conditions precluded the Royal Treasury from paying even the ludicrous purchase prices, and the company was reluctant to let the vessels go before some agreement was reached.

⁹⁰ Innis points at the squadron “accounts that exploded”. Interestingly, the Naval intendant Lorenzo Montalvo arranged shipments of the silver *situados* from Veracruz to the Spanish islands and Caracas and of tobacco leaf from the royal monopoly to Spain. Ibid, p 54.

town ran out of shot, “it resorted to loading their cannon with (silver) *pesos fuertes* in a ludicrous effort to save the city”⁹¹

Where external defence relied largely on local militias, any internal repression required the co-optation of, and more often the initiative from, local colonial elites.⁹² Small contingents of Spanish regular troops could hardly enforce any policy against determined colonial resistance, which consequentially had to be avoided and if necessary negotiated away. In that the empire was apparently quite astute. Tax collection costs were rather modest (see table 6), suggesting that the legitimacy of taxation system overall was not systematically challenged by the population. There were several large tax rebellions, but these were usually precisely reactions to eager reformers, who attempted to alter the status quo negotiated in particular regions. Eighteenth century reformers found out more than once that these ‘novelties’ were fiercely resisted by unlikely alliances that could stretch the social divisions of colonial society and reformers generally had to give in precisely because no serious repressive apparatus was available.⁹³

It is extremely difficult to find out how much repression the state paid for, not just in Spain and her colonies but in almost all early modern states, of which few maintained a regular policing force. France is one of these exceptions. England on the other hand relied largely on the ‘voluntary’ service of justices of peace, magistrates and constables, although their reputation for corruption was such that there presumably was a substantial pecuniary incentive at least in the larger towns.⁹⁴

How was Spanish rule in the colonies enforced in the absence of any serious repressive machinery? We have to speculate and what follows is largely conjecture. Probably jurisdictional fragmentation so ingrained in Spanish colonial rule again offers part of the answer. Just as different groups in colonial society were subject to different rates of taxation

⁹¹ Vargas Ugarte, *Historia del Peru*, pp 189-193 cited in Campbell, "The Army," p.35, fn12.

⁹² Brian Hamnett, like many other historians, assigns the nature of Spanish rule to the pervasiveness of corruption “since royal bureaucracies could neither be neither adequately staffed nor adequately paid, inefficiency and corruption, collusion and extemporary practices filled this vacuum, where perhaps representative institutions might have stood”. Brian R. Hamnett, "Process and Pattern: A Re-Examination of the Ibero-American Independence Movements, 1808-1826," *Journal of Latin American Studies* 29 (1977). 292.

⁹³ For more details see Irigoien and Grafe, "Bargaining for Absolutism." and Irigoien and Grafe, "Response."

⁹⁴ Clive Emsley, *Policing and Its Context, 1750-1870*, 1st American ed. (New York: Schocken Books, 1984).

so they were subject to different jurisdictions. *Fueros* governed substantial parts of colonial population. These were traditional peninsular ‘freedoms’, i.e. special privileges, which in Spain could apply either to territories or particular groups. Practically every Spanish town and historic territory had its own *fueros*, but so did the clergy, the military orders, the nobility or certain corporations such as guilds and *consulados*. The latter group specific ‘freedoms’ were generally transferred directly to Spanish America and became a part of the legal organisation of the *república de los Españoles*, i.e. the Spanish population in the colonies. But the system was adapted in that largely separate legal rules were accepted since the 16th century to govern the *república de los Indios*, the American indigenous population.⁹⁵ In addition, indigenous communities were allowed to use traditional means and institutions of conflict solving.⁹⁶ Moreover, the development of common “instruments of legality [which] could link the local” to the imperial cemented the stability of the Spanish rule – and law. Recently Brian Owensby has unveiled how “the crown’s authority suffused the entire structure of the empire, an authority otherwise weak against those who wielded local power so effectively”.⁹⁷ Over time, “this empire of law” based on the moral authority of the crown which legitimized its overarching rule demanded minimal fiscal – though a highly symbolic-investment in the enforcement of the king’s rule.⁹⁸

Whereas the local militias performed the role of enforcers of the magistrates’ decisions, the main institution in matters of criminal justice, the Tribunal of the *Acordada*, operated in a similar fashion. In New Spain, the Tribunal imposed and executed criminal sentences while placing the centralized police authority in the hands of the viceroy (and hence the militias and the law enforcement arm). The majority of its agents served without compensation, so local landowners and merchants populated its cadres. Having a stake in controlling crimes

⁹⁵ As Owensby has shown (paraphrasing Solorzano y Pereyra): “Like all of the king’s subject, Indians had ‘liberty’. Unlike the rest of the king’s subjects, the Indians ‘humble, servile and subordinated condition’: entitled them to a special royal solicitude and protection”.BP Owensby, *Empire of Law and Indian Justice in Colonial Mexico* (Stanford: Stanford University Press, 2008). p 298.

⁹⁶ See e.g. Woodrow Borah, *Justice by Insurance. The General Indian Court of Colonial Mexico and the Legal Aides of the Half-Real* (Berkeley, Los Angeles and London: 1983), Lockhart and Schwartz, *Early Latin America*.

⁹⁷ Owensby, *Empire of Law and Indian Justice in Colonial Mexico*. p 308. See also C MacLahlan, *Criminal Justice in Eighteenth Century Mexico. A Study of the Tribunal of the Acordada* (Berkeley: University of California Press, 1974).

⁹⁸ For the political economic dimension of the constitutional role of the king see MA Irigoien and R Grafe, "Bargaining for Absolutism: A Spanish Path to Nation State and Empire Building," *Hispanic American Historical Review* 88, no. 2 (2008).

against property the tribunal overwhelmingly dealt with offences such as robbery, banditry and theft rather than with purely social crimes, such as homicides, assaults or sexual offences. Colin MacLachlan, who studied this Criminal Justice institution, concluded “the interests of the state and such individuals coincided [...] With the investment of relatively insignificant state funds to provide an organizational structure for the volunteer agents, the vice regal government demonstrated its ability to confine criminal activity throughout New Spain to an acceptable level.⁹⁹ In other words, much of the legal system was outsourced to parallel institutions e.g. the court of the *consulados*, which dealt with commercial matters, the Tribunal of the *Acordada* or the Indian courts.

Spanish Imperial Rule revisited

The political economy of the Spanish Empire was not what the textbook still tells us. Studies of revenue collection have shown that there was very little centralizing tendency and extraction to the metropolis was limited. At the same time local initiative, bargaining and control determined also much of the expenditure policies. The way in which the fiscal system was organised suggests that economic historian’s single-minded focus on rulers who allegedly maximised revenue over all other things is mistaken. The structure of the Spanish fiscal administration over three centuries is not compatible with such a strategy. Instead it looks perfectly rational if we assume that the Spanish Crown tried to maximise aggrandisement of the Empire and the retention of the imperial bond rather than simple income. This allowed it to acquire further rents while keeping the cost of running the empire very low.

The price of this strategy was the need to co-opt colonial elites. The means of co-optation was to keep most of the revenues in the Americas and allow local merchants a significant stake in their collection **and** expenditure. Intra-colonial transfers were the means to involve a large number of stakeholders in the system. Main local sectors received direct subsidies and merchants profited from the returns to the implicit credit. This ‘hidden’ credit market in turn

⁹⁹C.M MacLachlan, *Criminal Justice in Eighteenth Century Mexico. A Study of the Tribunal of the Acordada* (Berkeley: University of California Press, 1974), 109.. Not surprisingly 71% of those who were before the Tribunal were of Spanish and *Mestizo* origin and only 29% classified as Indians. The *Sala del Crimen*, a similar tribunal which depended on the Audiencia, processed 39% of Indians and 61 % of Spanish and *mestizos*. Table 4 p 116.

served the states needs successfully in the sense that the empire could be maintained, run and defended for three centuries without disbursements from the metropolis. But the downside was the lack of a transparent interest rate and the under-development of financial markets.

Still the system was clearly compatible with substantial economic growth in the 18th century and it could be argued that it was inherently geared towards subsidising the most successful economic sectors. Seen from the working of the fiscal system and more specifically the way in which the Spanish Empire spent its money there is very little evidence for coercion or for a predatory state. It was a cheap way of running an Empire and the rule was very efficient in the sense that there were nearly no direct challenges towards Spanish rule from within. While Britain became more and more a shareholder society, where subjects could profit from government activities by buying bonds and shares, Spanish rule was based on a stakeholder concept, that co-opted its subjects through private-public-partnership deals that increased local participation and returns while necessarily circumscribing the power of the Crown to enforce any centralist designs.

Spanish and Spanish American subjects were deeply invested in imperial governance. The lack of a centralized fiscal system not only provided for local and regional bargaining in raising revenue, as has been argued before. It also gave colonial subjects a large influence over how, where and what the money was spent on. This took three main forms. Firstly, civilian expenditure on local administration, wages and purchases of goods was evidently a much larger share of outlays in the Spanish Empire than in Britain or France converting large numbers of merchants, bureaucrats and producers into imperial stakeholders. Within the system religious institutions and other corporate bodies performed as financial intermediaries, increasing in turn their stake in the colonial economy. Secondly, because military expenditure was raised and spent locally rather than centrally, it reinforced the same structures. Militias depended for their salaries on Spanish American *cajas*. Local suppliers were paid out of the same funds.

A side effect of this arrangement was the creation of a military apparatus that was wholly unsuitable for the suppression of any internal opposition to the empire. At the same time, it worked surprisingly well to repel external threats, such as Captain Vernon's 4000 men strong invasion of Cartagena during the War of Jenkins' Ear, or the brief occupation of Manila during the Seven Years war led by Admiral Cornish, or the equally ill fated attempts of the

English navy on Buenos Aires 1806-1807.¹⁰⁰ Overall, subjects of the Spanish Crown in the Americas were consistently unwilling to be 'liberated' by the British or anyone else. This leads to our third point. In order to keep expenditure low, the Crown allowed (or did little to avoid) additional jurisdictional fragmentation to result from devolving important judicial functions to corporate bodies and indigenous communities. In this way, it could combine a weak repressive apparatus with the upholding of imperial (devolved) rule.

Resistance to metropolitan aims was obviously not something special to the Spanish Empire. The recent historiography of anti-colonialism is all about agency of and resistance from colonial populations, be they indigenous, colonials, slaves or *criollos*.¹⁰¹ Problems resulting from poor infrastructure and communications marred efficient and effective control in Dutch Java, Portuguese Brazil, or British North America. The interests of Europeans in the colonies were less and less aligned with those of their metropolitan peers as time went on. Yet, the perceived ineptitude of the centre to rule in the colonial peripheries of the Spanish Empire was not simply the result of a common 'technological' problem of running early modern European Empires or the emergence and consolidation of colonial identities as separate and autonomous.¹⁰² Spanish American subjects were used to running their own show, not as participants in local representative assemblies and shareholders of the state but as stakeholders in the empire's administration, defence and upholding of justice. That was why they opposed the attempts of 18th century Bourbon reformers to over-rule local decision-makers so vehemently. They were a potential breach of the political and economic contract between colonial subjects and Crown in place for 250 years. They were successfully

¹⁰⁰ British forces landed and eventually occupied these main ports – all them were main destinations of Intra Colonial Transfers throughout the 18th century and destination point of million of silver pesos. Despite substantial numeric and warfare technological superiority local militias managed to contain or expel invaders very quickly. On September 1754 Brigadier General Draper led 6,389 men to Manila which was defended .. by some 565 soldiers. There were only 80 artillerymen, including some Filipinos." A renewed attempt in 1762 to take Cuba involved a 4,000-men expedition directly from Portsmouth which occupied the city but could not hold in control as Cuban militias resisted. R Gott, *Cuba, a New History* (New Haven: Yale University Press, 2004), 39-41.

¹⁰¹ See e.g. Sergio Serulnikov, *Subverting Colonial Authority : Challenges to Spanish Rule in Eighteenth-Century Southern Andes* (Durham: Duke University Press, 2003).; Sinclair Thomson, "'We Alone Will Rule ...': Recovering the Range of Anticolonial Projects among Andean Peasants (La Paz 1740s to 1781)," *Colonial Latin American Review* 8 (1999).; Florencia E. Mallon, *Peasant and Nation : The Making of Postcolonial Mexico and Peru* (Berkeley: University of California Press, 1995).; Steve J. Stern, *Resistance, Rebellion, and Consciousness in the Andean Peasant World, 18th to 20th Centuries* (Madison Wis: University of Wisconsin Press, 1987).

¹⁰² Irigoien and Grafe, "Bargaining for Absolutism." And specially Irigoien and Grafe, "Response to Carlos Marichal and Wiliam Summerhill."

resisted and/or neutralized because the Crown had no means to push them through against those who essentially constituted the devolved and jurisdictionally fragmented state in the Americas.