CHAPTER TWENTY EIGHT

NEW IMPERIAL ECONOMIES

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INTRODUCTION

In this chapter we aim to offer an integrated view of the Iberian imperial economies of the 18th century. The picture is still far from clear and few if any historians have tried to interrogate developments in Hispanophone and Lusophone America in close comparison and also within their peninsular context. The sheer size would seem to advise against such an attempt. Indeed, there are few survey texts that have even tried to depict eighteenth-century Spanish America, Brazil, peninsular Spain or Portugal on their own from an economic perspective (Bulmer-Thomas, Coatsworth, and Cortés Conde 2008). Yet, we will argue that such an integrated view offers a new perspective and brings common trends and substantial divergences into sharper relief.

The structure of this chapter will be thematic seeking to make developments in the Lusophone and the Hispanophone worlds speak directly to one another. We will begin with a short introduction to the peninsular economies. In the second section we will cross the Atlantic looking at the trading regimes that linked the Americas and the peninsula, and then turn to the sectors of production in the third section. The fourth section asks how the relationship between market and states developed.

THE PENINSULAR ECONOMY

For historians of Spain and Spanish America the year 1700 has always been irresistible as an historical watershed. The physical and intellectual frailness of the last Habsburg, Charles II el Hechizado, seemed to embody in cruel fashion the alleged decadence of the Spanish Empire. His demise was anticipated by Europe’s other powers by schemes that in the name of balance of power planned the dismemberment of the Spains in Europe and the Americas. Charles’ death in 1700 and the War of Spanish Succession (1705–1714), which pitched France and most of Castile against England, Austria, the Netherlands, Portugal, and most of Aragon, appeared to be a predictable fight over the spoils of the implosion of a dysfunctional polity with an economy in deep crisis.

In the event, neither French, Dutch, English, Austrian, nor Portuguese diplomatic and military endeavours yielded particularly important gains. Under a new Bourbon
dynasty that had been anathema to Anglo-Dutch-Austrian-Portuguese plans, Castile and Aragon remained united in spite of the painful civil war that accompanied the international conflagration. The Italian territories were lost to the Spains (as contemporaries called them) temporarily but recovered in due course. The Southern Netherlands became Austrian. Yet, most important the Spanish transatlantic empire remained fundamentally intact, and much to the dislike of the French the Spanish Bourbons turned out to be more Spanish than Bourbons.

Economic historians have insisted that 1700 marked a new era for two partially contradictory reasons in both the peninsula and the Americas. The first argument sees the reforms initiated by the Bourbon rulers of the eighteenth-century Spains as an initially slow, but eventually fundamental break with the economic governance of the imperial and peninsular economies. The second cites the rules established in the Peace Treaty of Utrecht as a deep intrusion of non-Hispanic economic actors into the Hispanic imperial realm benefiting especially French and English mercantile interests while constraining the room for reform within Spanish governance. Much of the historiography on the economy of the eighteenth-century Spanish empire is written with the tension between those two developments as guiding principles.

Similarly, the turn of the century has long been seen as a landmark for the economic history of Portugal and her empire. There are some specific reasons, such as the inauguration of what has been known as the “gold cycle”, after the discovery of large deposits in Brazil in 1693, but also reasons that have to do with the international order, namely with the choice of allies in the context of the War of Spanish Succession, and the signing of the notorious Methuen Treaty (1703). The treaty, in promoting the exchange of Portuguese wines for English woollens, allegedly established a new pattern of international trade of ponderous consequences for the long-term economic development of Portugal, which the reforms implemented after mid-century by the marquis of Pombal are supposed to have reversed.

Just like the Pombaline Reforms, the Bourbon Reforms are a contentious topic from the point of view of intellectual history. In this chapter, however, the focus is on the economy itself. An earlier historiography stressed the reform projects during the reigns of José I (1750–1777), in Portugal, and Carlos III (1759–1788), in Spain, as fundamental ruptures, while little progress was supposed to have occurred before. More recently a new consensus is emerging among scholars, which suggests that in Spain several phases of reforms begun in the late 1710s were instrumental in paving the way for the deeper transformations of the later years (Kuethe and Andrien 2014, 12–26). In many ways one could date the start of reforms even earlier. The ministers of the much-maligned last Spanish Habsburg had created the basis for a sounder peninsular economy by stabilising the monetary system and the fiscal system in the 1680s (Grafe 2012).

At the same time, in Portugal, the count of Ericeira, minister of Pedro II, also adopted monetary and fiscal reforms and promoted import-substitution in the industrial sector. However, this proved to be a short-lived program, due to changing economic and political circumstances, in particular easier access to precious metals in America and the renewal of the English alliance as a means of fending off the Spanish threat to national sovereignty, which tightened bilateral trading relations in the terms defined by the Methuen Treaty and opened the Portuguese market to British textiles (Macedo 1963; Pedreira 1994). Even so, new measures sponsoring
the setting up of large industrial units were again adopted in the 1720s and 1730s, although these were even more ephemeral and inconsequential initiatives (Macedo 1963; Madureira and Matos 2004; Pedreira 2004).

Meanwhile Spain entered the eighteenth century with the burdens of international and civil war still fresh but a first set of economic reforms in place. Economic production per capita, which had declined in the first half of the seventeenth century and stagnated in the second, expanded in the eighteenth century (Álvarez Nogal and Prados de la Escosura 2013). Reformers set to simplify the political map of Spain, unify fiscal systems, and support trade and industry. Their success was mixed. Even though some Spanish historic territories, notably those of the Crown of Aragon, lost much of their political independence and tax regimes were changed, their economic and fiscal regulation remained separate. Major projects to rationalise the myriad of local and regional trade and consumption taxes that bedevilled the domestic market came to little. But the administration of the public purse was notably improved. After a reorganisation of the public debt in the 1730s and until the wars of the last decades of the eighteenth century the Madrid treasury’s situation was stable. It owed its newly won stability to its low indebtedness by European standards, a peninsular economy where capital chased investment opportunities and where therefore the interest rates for the public debt were low, and to its ability to expand taxation in the metropolis (Grafe 2012).

In Portugal, recent research has suggested that, after a slight but long decline during the second half of the seventeenth century, the economy entered a phase of “strong intensive growth”, the most significant in the early-modern age, which lasted until the mid-eighteenth century (Palma and Reis 2016). As in Spain, the financial condition of the state improved substantially, but in Portugal the improvement was due to a large growth of receipts coming mainly from taxes on the extraction and transportation of Brazilian gold and from the rents of crown monopolies. In the aftermath of the War of Spanish Succession, the adoption of a strategy of strict neutrality in European affairs helped to keep military expenditure under control. King João V could thus afford the reduction of public debt through the redemption of padrões de juro real (treasury bonds) in 1743, in an amount nearly equivalent to the annual revenue of the crown (Azevedo 1929; Silva 2004). However, indications are that prosperity resulted more from structural change and the dynamics of the economy itself, and especially from the spread of maize cultivation, the growth of wine production and export, and the profitability of the empire, than from easier financial circumstances (although these were also related to the empire). During this period, the Portuguese economy seems to have been able, albeit temporarily, to escape the Malthusian trap, experiencing consistent rates of growth of both income and population (Costa, Palma, and Reis 2015; Palma and Reis 2016).

That is not to say that all was well in the peninsular economy of the eighteenth century. Demographic expansion started by the second half of the century to put pressure on food prices. Inequality increased, bad harvests still caused local and regional famines, and infant mortality remained painfully high in comparison to the rest of Western Europe (Abarca Abarca 2015). The growth of the economy was sluggish by the standards of Europe’s most dynamic societies, Britain, and the Netherlands. In northwestern Europe a mixture of the availability of new consumer goods from Asia and America and more diversified domestic production
brought about an “industrious revolution” (de Vries 2008) that integrated global and European markets. People worked longer hours so that they could join the consumer revolution of the eighteenth century, drink their tea or coffee from a Chinese (imitation) cup, and put on cheap but fashionable cottons.

Iberia by contrast experienced at best a “consumer evolution”, new products were introduced more slowly, and most important domestic markets remained poorly integrated (Llopis, Yun Casalilla, and Torras Elías 2003). Even though there are some indications of a growth in the number of working days per year and a more intensive use of labour in agriculture, at least in certain sectors and regions—one of the dimensions of the “industrious revolution”—this was not enough to prevent falling real wages and the corresponding degradation of living standards in the second half of the century, particularly after the 1760s.

In both Spain and Portugal, there is a lively debate about the origins of this relative economic underperformance or backwardness, as it is frequently labelled. Some see the reasons mostly in a domestic political economy that protected urban and territorial interests. That was good for political and social stability but limited economic development (Grafe 2012, 2014). Others blame the inability of a largely stagnant agricultural sector to adopt new techniques, raise productivity, and in this way make a positive contribution to growth. Others still point to the strictures imposed on the peninsular political economy by their integration into the international political order, and especially by the Methuen Treaty, in the case of Portugal, and the Peace Treaty of Utrecht in 1713, in the case of Spain (Pérez Sarrión 2016). Commercial privileges conceded to France, the northern Netherlands, and particularly England were said to have thrown the peninsular market open to foreign merchants, who benefited from exemptions from customs and regulation, and so reaped the best part of the gains from international trade.

Even more fundamental was the question of the role the legal framework would play in the development of the transatlantic economy and the domestic economy of Spanish America over the eighteenth century. Eighteenth-century Spanish political economists were convinced that peninsular Spain failed to take full economic advantage of its American territories. Quantitative modern economic historians tend to agree. A recent attempt to estimate the benefit that common labourers in European imperial metropolises realised from their countries’ colonies offers strikingly large returns for Portugal and later eighteenth-century Britain, as well as important ones for the Netherlands. For Spain, however, the numbers are meagre (Costa, Palma, and Reis 2015). Did the Spanish Empire let the economic spoils of empire slip away, where Portugal succeeded at reaping them?

Already in the sixteenth and seventeenth century, the empire had made a larger contribution to the revenue of the Portuguese Crown than to the treasuries of the other imperial powers. Even in the heyday of the arrivals of precious metals in Seville, returns from the empire and intercontinental trade weighed proportionately more on the income of the Portuguese monarchy (Pedreira 2007). Thanks to overseas resources and particularly to the taxes levied on Brazilian gold, Portugal was probably one of the European countries with higher state receipts per capita in the first half of the eighteenth century, and the economic weight of the empire kept growing until the turn of century (Silva 2004). At that time, according to recent estimates, almost one-fourth of the real wage of a Lisbon skilled worker could be accredited to
the proceeds of colonial trade (Costa, Palma, and Reis 2015). Even if the combined impact of late century inflation and declining real wages may overstate the actual economic effect of that share, it is undoubtedly a most relevant contribution in absolute and especially in relative terms, when compared with the other colonial powers, particularly Spain.

When accounting for the remarkable divergent effects of empire on the Iberian economies, the disproportionate dimension of the empire relative to the mother country would seem to be an obvious explanation. But in fact, in terms of population Spanish America outran the metropolis while Brazil was still smaller than Portugal. Gold shipments from Brazil, which represented more than half of world flows, immediately spring to mind as another major factor. But in the calculation of the benefits of the empire, they are supposed to have played a secondary role, although the indirect effects of the continued growth of money supply and the corresponding injection of liquidity into the economy are difficult to compute. How were they distributed in both social and geographical terms, and did they stimulate consumption and foster capital formation, or did they cause a kind of “Dutch disease” (Costa, Lains, and Miranda 2016, Drelichman 2005, 199), harming the economy because of the effect of exchange rates on relative costs? More than any other economic effect, in Portugal the development of intercontinental trade and the exploitation of other opportunities emerging in the overseas dominions were the driving force behind the economic contribution of the empire (Costa, Palma, and Reis 2015). They could not, however, prevent the reversal of economic fortunes that set in in the second half of the century.

Given the outsized impact of empire in Portugal, the economic crisis after the 1760s has equally been explained by the decrease in gold remittances. But gold arrivals show the decline actually begins in the 1750s, even if it only becomes critical after the 1770s. The reduction of money supply was both limited and temporary. Still international trade contracted, in particular British textile imports, which in the aftermath of the Seven Years War moved away from European markets and found growing opportunities in the British American colonies (Costa, Lains, and Miranda 2016; Costa 2013; Cuenca Esteban 2004, 193–210).

Another explanation comes from the losses incurred in the big Lisbon earthquake and fire of 1755, when most of the city was destroyed and probably more than 15,000 people lost their lives. Losses might have reached as much as 48% of the GDP, according to the more informed guesstimates, but apparently the economy responded quickly to that shock (Pereira 2009; Serrão 2007). However large, such costs cannot account for the difficulties in traditional agriculture, where familiar subsistence crises occurred in the 1760s. As in neighbouring Spain, the structural changes introduced in the sector were not enough to escape the Malthusian trap in a sustainable way, but the reasons for this reversal are still far from full elucidation. In Portugal, evidence for the exhaustion of the effects of an earlier structural transformation is far from obvious. For wine, both production and export show an impressive growth in the second half of the century, and even for maize, the few available data do not support the notion of a major setback.

All in all, the benefit derived from empire by the peninsular economy as a whole was always much more limited in Spain, notwithstanding the spectacular gains made by some individuals and in a few regions, such as Catalonia, in the eighteenth century.
In Portugal the development of the economic ventures most closely associated with the empire could not offset the recurring difficulties of the more traditional sectors, which were still providing employment and sustenance for the majority of the population. Urbanisation did not advance, holding up structural changes and the move of resources to more productive endeavours. Hit by the regression of Lisbon, Portuguese urbanisation endured a slight decline, just as general demographic growth became stronger. It seems that the renewed vigour on the imperial front, which was remarkable in the last decade of the eighteenth century, could not prevent the relative degradation of real wages and the standard of living. It is not surprising, then, that the contribution of the empire, however impressive it may have been, could not help Portugal escaping from the wrong side in the process of the so-called “little divergence” which was then widening the gap that set apart the more progressive powers (Great-Britain and the Netherlands) from other European countries.

**INTERCONTINENTAL TRADE**

Early modern European long-distance trade was an important source of revenue and practically everywhere strongly regulated by states, cities, and/or guilds. This was even more the case for European colonial intercontinental trade. All European Empires strove to enforce an effective “colonial exclusive” that reserved the right to participate in colonial trade to its subjects and resulting customs and taxes to its treasury. In Portugal and Spain, the discussion on this issue has clustered around the extent to which foreign merchants (mostly British in Portugal, French, Dutch, and British in Spain) diverted the benefits of that trade to their own profit (Novais 1983; Ricupero 2016).

Provisions had long been approved outlawing direct communication between colonies and foreign nations, whose vassals were banned from living in the overseas dominions and taking part in their trade. Time and again, the Portuguese monarchy and her agents expressly asserted the right to establish exclusive access to the territories and routes that had been conquered or discovered under her banner. Spanish commentators regularly blamed Spanish merchants who were entitled to trade to Spanish America for acting as testaferros (frontmen) for northern European business partners. The enforcement of exclusion lay beyond the capability of the administration (making contraband endemic to both systems). Furthermore, for lack of capital or expertise, rulers often admitted foreigners in their service and even encouraged their participation in trade under franchise. The seeming paradox consisting in the construction of a system that aimed at securing privileged rights on certain resources for the vassals of a state, but that could only be constructed with the collaboration of those that it meant to exclude, is an integral part to the making of early-modern Iberian empires.

As Philip V became King of Spain, transatlantic trade between Spain and the Indies was still regulated within the framework of the Carrera de Indias while Mexico and the Philippines were connected via the Manila Galleon. The set of regulations is often referred to as “a monopoly [operating] out of the port of Seville under the supervision of the Casa de Contratación” (Kuethe and Andrien 2014, 39). Yet, from the point of view of economic theory, it was never a monopoly (Baskes 2013; Grafe 2012). Contemporaries distinguished the carrera clearly from proper monopolies.
(estancos), such as those that governed mercury production or the tobacco trade (Uztáriz 1757). Instead, the system combined a traditional “staple”, that is a requirement to take goods to or from a specific port (e.g., Seville/Cadiz, Veracruz, Cartagena), with merchant guilds (the consulados) that managed licences for trade and adjudicated disputes and protected compulsory fleets (the flotas y galeones). Within the guilds, merchants competed on their own account in contrast to what had become the norm in the Dutch and English East India monopoly companies.

The confusion with regard to the conceptual history of the Carrera has led to a paradoxical assessment of its history in the eighteenth century. On the one hand, historians have focused on the apparent question why so much of the transatlantic trade ended up in the hands of foreigners rather than in the hands of the merchants of the consulados, that is why the supposed monopoly never functioned as a colonial exclusive. On the other, the history of the regulation of Spain’s intercontinental trade has been written as a story of starts and stops of the abolition of a supposed monopoly culminating in the conveniently termed Free Trade (comercio libre) of 1765/78. But comercio libre was as little free trade as the carrera had been a monopoly.

Intercontinental trade in the eighteenth century saw nevertheless the same tensions between reform and stasis that would characterise most areas of economic activity. The most important legal commercial concession the English extracted at Utrecht was the right to supply Spanish America for 40 years with enslaved Africans under the so-called Asiento and a specified amount of trade goods. At the same time the French and Dutch received guarantees that certain rights offered to their merchants in the peninsula that had long since existed, such as consular representation, would be upheld facilitating their trade at Seville and Cadiz after the transfer of the staple to the latter port which began in 1717.

Kuethe and Andrien (2014) and Stein and Stein (2000) have argued that these privileges undermined any mercantilist strategy the Spanish Empire could have pursued, while at the same time making a reform of the existing commercial system organised around the New Spain flotas and Cartagena galeones impossible. In that view the famous Proyecto para Galeones y Flotas del Perú y Nueva España y para navíos de registro that sought to reorganise the system in 1720 in the face of widespread smuggling especially in the Pacific was merely a “capitulation” in the face of foreign interests, who re-imposed an “archaic commercial system” (Kuethe and Andrien 2014, 64–67) on a Spain that would have liked to reform. Others point to the ongoing reforms in a system that was no monopoly to start with. Also, the English South Sea Company had scant commercial success with its slave ventures while other privileges confirmed in the 1710s merely reaffirmed what had long been practice.

The Proyecto also regulated the already existing single ships, so-called registros sueltos, which could be sent to a larger number of ports. Over the next four decades the fleets were regularly cancelled, for example during the War of Jenkin’s Ear (1739–1748) and register ships became the norm. As an unintended consequence of that deregulation, much deeper transatlantic commercial networks emerged that persisted even when fleets were partially reintroduced in 1757 (Lamikiz 2010). The introduction of correos, packet boats with news sailing from A Coruña to Havanna once a month, reinforced this tendency after 1764. In 1765, nine peninsular ports were included in the staple and allowed to trade directly with the Spanish
Caribbean. In 1778, the famous “free trade” decree de facto all but abolished the staple restrictions by extending them to four more ports in the peninsula (the Basque Country remained outside) and 27 in the Americas. It also formally ended the fleet system.

Even after the staple was relaxed, however, Cadiz retained about four-fifths of the trade until a British naval blockade shut down its port in 1797. Over the eighteenth century the initial concentration of the staple right had been increasingly widened, calling into question the notion of a sudden policy shift in the 1760s and 1770s. Changes introduced in 1739 had fundamentally transformed the flow of information across the Atlantic and in so doing created a wider and more connected Atlantic. Between 1757 and 1788 less than 15% of trade was conducted by the fleet system, the rest travelled in single ships (Lamikiz 2007, 258). Yet, traders still preferred Cadiz and insurance businesses that sprang up and failed in Cadiz in the wake of the deregulation. This suggests that agglomeration of business and the fleet system had indeed fulfilled an economic purpose. Rather than just enriching guild merchants, they had reduced uncertainty (Baskes 2013).

Somewhat ironically as part of the attempt to reform Spanish transatlantic trade, monopolies proper were introduced. The first successful Hispanic chartered monopoly company was created in 1728 as a joint stock company at the behest of Basque merchants. The Real Compañía Guipúzcoana de Caracas had a regional monopoly on the expanding trade of cocoa from Venezuela. Unlike the Dutch West India Company active in the nearby Dutch colonies, the company did not control production or introduce a full plantation complex. But its existence, just as the later creation of the Havana and Philippine Companies, is one indicator that joint stock companies could be created within the legal and regulatory framework without major obstacles. And in the case of the Caracas Company they were commercially successful for decades (Gárate Ojanguren 1990).

The Company was in many ways emblematic for the challenges in transatlantic trade. One was to create a response to the rapidly expanding regional economies outside the old centres in Peru and New Spain, such as the Río de la Plata and Venezuela, and a rapidly diversifying Spanish American productive sector. A second was to respond to the proliferation of Dutch, English, and French privateering/smuggling in kind; the Company had an express remit to prey on non-Spanish shipping and did so with some success especially in its early years. Finally, the diversification of agricultural production on the northern mainland mirrored changes in New Spain and elsewhere.

The transformation of agriculture in Spanish America went hand in hand first slowly, and then very quickly, especially in the Caribbean, with much greater reliance on slave labour. Slave trade was nothing new in the Spanish Atlantic of course, but Spanish merchants’ direct involvement was limited before the 1790s. The Caracas Company for example never undertook slaving journeys to Africa. Instead, increased slave trade also meant increased inter-imperial trade offering new intra-American ways to undermine any idea of a colonial exclusive. The Company contracted with British and Dutch slavers and bought slaves in the intra-Caribbean networks. Slave arrivals to Venezuela had begun to accelerate in the second half of the seventeenth century and they increased further under the leadership of the Caracas Company. But they tripled again after the slave trade was de-regulated after 1789 as part of the
“free trade” reforms and coinciding with a diversification of production from cocoa to tobacco, sugar, and cotton (Borucki 2012). As in other trades deregulation met with an already expanding market. But in the trade in humans it also led to a very pronounced increase in inter-imperial trade for slaves and foodstuffs.

Venezuela was an exception insofar as the commercial expansion took place in the context of increasing regulation. Elsewhere the slow but ultimately steady deregulation of Spanish Atlantic trade over the eighteenth century interacted with the Spanish regional economies and coincided in complex ways with the expansion of the domestic economy and with merchants’ strategies. In Mexico new opportunities attracted creole investors who diversified from trade into investments in agriculture and mining towards the end of the century. In the River Plate merchants became large landowners. In Peru the business of governance was the diversification strategy of choice as well as investments into the northern slave plantations (Mazzeo 1994).

In Portugal the protection of exclusive trading rights and fiscal prerogatives relied less on the single port regime, and more on the organised fleets, the Carreira da Índia for the East and the Brazilian convoys. Lisbon still held a virtual monopoly on shipping over the Cape Route and came to dominate connections with Brazil. It benefited from more centralised communications in the age of gold transportation, but the fleet regime had first been established in 1649 as a way of protecting navigation in the Atlantic against Dutch privateering. Then the organisation was entrusted to a chartered company, which soon lost its monopolistic benefits and in 1663 became incorporated into the crown. The reformed administration board kept the responsibility over the convoys which were retained even after Portugal was at peace.

By 1720, however, after decades of underfinanced operation, the company had accumulated huge liabilities and king João V opted for its closure and handed the fleets logistics over to the crown general stores (Costa 2002; Costa 2013). Financially, it was necessary to pull the resources together to fund not only the regular operation of the convoys, but also the repayment of the outstanding debts. In times of increasing gold shipments, it seemed natural that a duty of 1% be collected on the value of gold loaded onto the fleets. Convoys escorted by warships and carrying safe boxes where gold was stored during the voyage were the most secure means of sending gold to Lisbon. The costs of protection and transportation justified the duty (Costa 2013).

The fleets worked as a kind of insurance for gold transportation. Their advantage was not so obvious for general trade. As in Spain, individual ships (navios soltos) were often allowed to sail. The collection of taxes on the commodities they carried was farmed-out in the major port cities of Brazil, which shows its importance and regularity. But the crown tried to tighten the regulation of trade and in 1740 revoked the licenses, forcing ships to join the fleets. That decision had been heralded, between the beginning of the century and 1761, by two dozen measures intended to fight the admission of foreign vessels in Brazilian ports under the pretext of needing urgent repairs or food and water supplies. They imposed severe penalties for those who engaged in trade with foreign crews and for permissive officials who let them do it. Over and above illegal trade, the authorities were concerned with gold smuggling. The recurrence of similar decisions shows the crown’s determination in fighting the intrusion of foreigners but at the same time its relative ineffectiveness. As long
as Portuguese shipping was almost absent from foreign trade, re-exports, mainly British textiles, accounted for more than two-thirds of the cargoes dispatched to Brazil it could hardly have been otherwise (Costa, Lains, and Miranda 2016; Pinto 1979; Sideri 1970).

Inter-colonial commerce and transatlantic slave trade also offered chances of circumventing the exclusive rights of Portuguese vassals. After the 1660s, the Carreira da Índia was kept alive through the Brazilian connection, but the crown still vacillated over the attitude it should take towards that relationship (Antony 2013; Cunha 2006; Lapa 1968). Outgoing ships stopped at Bahia to load tobacco under a royal monopoly that produced an important rent for the Estado da Índia, despite persistent complaints against extensive contraband. Closer inspection procedures, to fight tobacco and gold smuggling, made stops less frequent. From 1710 to 1750, only half a dozen nau​s called at Bahia on their way to the East, the same number as in Rio de Janeiro.

As for the return voyage, in 1694 permission was given to ships coming from the East to call at Bahia, and later at Rio de Janeiro as well, although some restrictions would afterwards apply. Galleons unloaded Asian goods in Brazilian ports, especially Indian cotton clothes, before they sailed to Lisbon. Those goods were sold on the local market but could also be used to feed the slave trade in Africa and contraband in the Rio de la Plata (an important source for silver) based on the Portuguese outpost of Colônia do Sacramento. Sometimes ships returning from Asia also made a detour to Mozambique or Angola where Indian clothes were exchanged for slaves that were then taken to Brazil, although legal limitations applied to the number that could be carried aboard the Carreira ships.

Asian trade was conducted to a large extent by officials and crewmembers. Their liberdades meant they had the right to load merchandise exempt from freight and taxes on the royal ships. Lack of capital for the Asian trade meant that most operated on behalf of East Indian merchants. In Brazil, more and more traders refused to accept as payment for the Asian goods anything other than gold or at most bills of exchange drawn on Lisbon merchants, who seem to have also engaged in that business through their agents in Bahia as a way to evade heavier taxes collected in Lisbon (Cunha 2006). Yet this branch of inter-colonial connections, because of the number of ships and values involved, could have hardly menaced the colonial exclusive.

Slave trade was another story. Unlike Spain, Portugal was a leading direct participant in the trade. After the discovery of gold deposits, the price of slaves in Brazil stimulated the return of Luso-Brazilians to the Costa da Mina (Gold Coast), particularly on the route between Bahia and the Bight of Benin. Even though the pre-eminence of Brazilian-based traders may have been overstated in some historiography (Alencastro 2000; Florentino 1995), and recent research has suggested the significance of metropolitan capital participation (Menz 2013; Miller 1988), most of the traffic operated on the direct transatlantic connections, both to Angola and the Gold Coast. In contrast to Angola, Luso-Brazilian slavers in Benin could not count on a firm territorial foothold and so had to deal with rival traffickers (Dutch, British, and also French).

The secret of their success lay first in the fact that they accepted to play second fiddle to other merchants, from whom they bought slaves and European and Asian goods (mainly textiles) that could in turn be traded for slaves or smuggled
to Brazil. Second, they benefited from accessible means of exchange—tobacco and gold (and also manioc)—that were used to settle transactions with both Africans and Europeans. Inferior tobacco was a cheap means of payment accepted by most African dealers in return for slaves. European traders, in turn, only accepted the finer varieties. Similarly, gold smuggled out of Brazil was used to pay for a substantial number of the slaves, and for goods purchased from the other European slavers (Lopes and Menz 2008).

The slave trade on the Costa da Mina stood in clear opposition to the rules of the colonial exclusive, but the authorities never seemed really committed to force a change even if they tried to limit to 24 the number of ships allowed each year to depart from Bahia. They could not suppress contraband and tax evasion, which were inevitable consequences of commercial operations that, although illegal, ultimately ensured the supply of labour to Brazil during the golden age.

Lack of commitment is something the marquis of Pombal could hardly have been accused of when it came to the protection of exclusive trading rights and the improvement of tax collection capacity. While in government, he strove to break the system of commerce and credit which had enabled the English stranglehold on Portugal’s trade. A system that, prohibitions notwithstanding, had let them drain a significant part of Brazilian gold, carried aboard navy ships or the Falmouth packet boats. His aim has been aptly described as “the nationalization of the Luso-Brazilian economy” (Maxwell 1968).

Pombal tried to tighten the bonds between colony and mother country. In 1750 boards of inspection were instituted in major Brazilian port towns to promote and control production and the export of sugar and tobacco (later local authorities were instructed to encourage other productions). In his attempt to strengthen the colonial system, Pombal would then resort to a familiar mercantilist tool, one that in Portugal had never met with significant success, i.e. the institution of chartered monopolistic companies. The first one of his age still suffered from the chronic problems of

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<th>Amazon</th>
<th>Bahia</th>
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<td>91,494 50.6</td>
<td>23,176 12.8</td>
<td>64,017 35.4</td>
<td>1,491 0.8</td>
</tr>
<tr>
<td>1741–1750</td>
<td>799</td>
<td>0.4</td>
<td>91,322 47.7</td>
<td>29,427 15.4</td>
<td>69,268 36.2</td>
<td>714 0.4</td>
</tr>
<tr>
<td>1751–1760</td>
<td>5,559</td>
<td>2.9</td>
<td>74,749 38.8</td>
<td>30,207 15.4</td>
<td>81,391 42.2</td>
<td>880 0.5</td>
</tr>
<tr>
<td>1761–1770</td>
<td>12,144</td>
<td>6.3</td>
<td>66,645 34.7</td>
<td>28,166 14.7</td>
<td>84,673 44.1</td>
<td>351 0.2</td>
</tr>
<tr>
<td>1771–1780</td>
<td>13,547</td>
<td>7.0</td>
<td>78,639 40.6</td>
<td>21,799 11.3</td>
<td>79,410 41.0</td>
<td>188 0.1</td>
</tr>
<tr>
<td>1781–1790</td>
<td>17,540</td>
<td>7.4</td>
<td>82,622 34.9</td>
<td>27,256 11.5</td>
<td>109,660 46.3</td>
<td>0 0.0</td>
</tr>
<tr>
<td>1791–1800</td>
<td>18,767</td>
<td>6.7</td>
<td>97,204 34.5</td>
<td>37,730 13.4</td>
<td>119,965 42.6</td>
<td>8,074 2.9</td>
</tr>
<tr>
<td>Total</td>
<td>71,738</td>
<td>3.6</td>
<td>815,904 41.0</td>
<td>329,336 16.6</td>
<td>756,560 38.0</td>
<td>15,480 0.8</td>
</tr>
</tbody>
</table>

Figure 28.1  Slave trade in Brazil (1700–1800)
Source: Transatlantic Slave Trade Database Estimates (20 December 2018).
Number of disembarked slaves

592
undercapitalisation and poor management. Established in 1753, it counted on special privileges on trade over the Cape route but could not withstand the losses incurred in the Lisbon earthquake and went bankrupt in a just a few years (Miranda 2007).

Problems did not deter other initiatives, as two companies were set up to develop trade and agriculture in North-eastern Brazil. Established in 1755 (for Pará and Maranhão) and 1759 (for Pernambuco and Paraíba) they were granted the monopoly of trade for these regions both with the metropolis and with the African coast. They were supposed to supply basic foodstuffs, manufactures, and slave labour, and to ensure the exports of traditional staples (sugar, hides, cocoa) and the promotion of alternative crops (tobacco, rice and especially cotton). As opposed to the Companhia de Caracas there was some room for participation of local interests. Resident management was recruited in the region, and local merchants and producers could transport merchandise on their own account in the companies’ ships provided they paid for freight and insurance. Pulling capital together in a “powerful corporation” was a way of releasing intercontinental trade from the credit scheme on which English merchants had built their domination as the letter which conveyed the news of the creation of the Companhia de Pernambuco e Paraíba to the local authorities labelled it (Júnior 1950). Monopoly gave the Portuguese some leverage when dealing with their foreign counterparts.

Yet, the companies favoured first and foremost a small group of big businessmen closely associated with the crown. They fostered the commerce of Northeast Brazil and launched new crops that would soon grow into very important staples (primarily cotton). They overcame the strains inherent in transatlantic trade and became solid corporations that managed to distribute valuable dividends to their associates. However, given the political resistance they had met in both Portugal and Brazil, they could not survive the king’s death and Pombal’s prompt resignation. Even so, because of the large sums they held in credit (mostly in Brazil), their liquidation was a very protracted procedure (Carreira 1983; Dias 2004, 1970; Menz 2013; Ribeiro Junior 2005).

Pombal trusted instruments such as monopolies and the ascriptive allocation of resources, but he was no orthodox mercantilist doctrinaire (Cardoso and Cunha 2012; Dias 1984). When circumstances so demanded, he took a different path. For instance, as a way of encouraging exchange with Angola, trade was declared free for all vassals in 1758. Three years later, a royal order determined that ships of the Carreira da Índia on their return voyage call on Luanda where the merchandise they carried could be traded. That instruction was then revoked in 1772 because apparently the Indian cotton textiles unloaded at Luanda were being re-exported to Brazil rather than exchanged for slaves, which was the original reason for ordering the stop. That reveals Pombal’s pragmatist disposition, which also shows in his decisions about the fleet regime. After having tried to strengthen it, he opted to suppress it in 1765. The idea was to remove obstacles that hindered more frequent communication with Rio de Janeiro or Bahia and to speed up the rotation of merchandise and capital (Silva 1984).

Political change after Pombal’s downfall did not spell any new trend towards deregulation, contrary to what the companies’ suppression might suggest. Government even tried to approve a stricter “Colonial Pact”, based on the division of labour between metropolis and colony. In 1785, a law banned manufacture in Brazil and many workshops were consequently shut down (Novais 1966). Nevertheless, trade regulation reforms introduced by Pombal and his followers met
with only partial success. Effects cannot be completely disentangled from other concurrent circumstances, such as the great Lisbon earthquake, the Seven Years War, and declining private gold remittances from Brazil which might have helped to alienate British interest in Portugal trade. In the end, control over intercontinental trade was largely won back by transatlantic merchant networks operating under a Portuguese banner, which concentrated on business chances in which they enjoyed substantial institutional advantages. As to foreign trade and shipping (including re-exports of colonial produce), it remained in the hands of European merchants and their agents in Lisbon and Porto, amongst whom the British still enjoyed a privileged position (Fisher 1971, 1981; Pedreira 1995).

In the late eighteenth century, Portuguese entrepôt trade (Daudin 2006) benefited from changing international circumstances. During the War of American Independence, Lisbon regained, albeit momentarily, its long-lost role as a centre for redistribution of Asian merchandise in Europe. The number of ships coming from the East grew from two or three a year, to eight, ten or almost 20 in 1784 (Godinho 1990; Lopes, Frutuoso, and Guinote 1992; Pinto 2003). At the same time, some private vessels were outfitted in Lisbon and allowed to sail to Surat (MacPherson 1812). To be sure, the largest share of the cargoes belonged to merchants of the contending nations who sought refuge under the Portuguese neutral flag and the input of Portuguese capital was modest, as compared to British and Asian participation. But some returns from this trade accrued to Lisbon’s port economy.

Then came the French Revolutionary Wars, which completely disrupted communication in the Atlantic, especially in the French, Dutch, and Spanish empires, to the great benefit of Portuguese carrying trade. Exports of Brazilian produce through Lisbon and Porto, which had been on the rise at least since the 1770s, experienced a period of intensive growth, taking advantage of diminished competition and higher prices. At the turn of the nineteenth century, despite the uncertainties of a volatile international situation, Luso-Brazilian intercontinental trade was thriving, supplying cotton to Great-Britain and France, sugar, tobacco, hides, and also rice, cacao, and coffee to Northwestern and Mediterranean Europe (Andrade Arruda 1980; Pedreira 1994, Pedreira 2000).

The expansion of the exporting economy in Brazil was probably met by a parallel increase in contraband, but this did not call the colonial system into question, until the same problems that had beset other colonial powers finally hit hard on the Portuguese empire (Pedreira 2001, 2006, Pijning 1997, 2001 and 2001). In 1807, when the government delayed yielding to Napoleon’s injunctions until it was too late, French troops invaded Portugal and the royal family opted to take refuge in Brazil with British support. On arriving at Bahia, the prince regent immediately declared Brazilian ports open to ships of friendly nations (at the time it meant Great-Britain). This was the end to the exclusive rights of Portuguese vassals and, within a little more than a decade, the intercontinental trading empire itself.

PRODUCTION

The Spanish American economy was not just geographically very large and demographically with about 13 million inhabitants larger than its metropolis (ca. 11–12 million) by the end of the eighteenth century. The core regions, New Spain and
Peru (including Upper Peru, today’s Bolivia), were also in terms of their productive
capacity quite comparable to that of the European end of the empire. It was a fairly
urbanised place, too. There was nothing small or peripheral about the core Spanish
American regional economies in the eighteenth century. Brazil could not exactly
boast the same relative grandeur. Despite the consolidation and integration of the
vast territory and the impressive demographic growth (white population grew ten-
fold in the eighteenth century), at the turn of the century it still did not match up
to the metropolis, as it had just over two million people (2.35 in 1808 according to
recent estimates), as compared to Portugal’s 2.85 (Alden 1963, 1987; Botelho 2015;
Carrara 2014; Marcilio 1984). It was a mostly rural colony, but the major towns, the
seaports of Bahia and Rio de Janeiro, and to a lesser extent Recife, Belém, São Luís
do Maranhão, São Paulo, and Ouro Preto (at least during the gold rush), compared
well with most metropolitan cities, with the exception of Lisbon. Furthermore,
Brazil played an utterly central role for the configuration of Portuguese society and
polity and for the international integration of the empire, economic and otherwise

Estimates of what an economist might call GDP per capita for the eighteenth
century should be taken with more than a grain of salt. However, there is recently
increasing evidence that Peru might have had a product per capita of maybe three-
fourths or four-fifths of that of Spain over the eighteenth century while New Spain
was basically equally productive as the peninsular economy (Álvarez Nogal and
Prados de la Escosura 2013; Arroyo Abad and van Zanden 2016; Seminario 2016).
Less central regions, such as Chile or Venezuela, were less productive but catching
up quickly, and the Rio de la Plata was probably more productive. As for Portugal
and Brazil, the only available comparative estimate indicates that, even after exclu-
sive trading rights had ceased, in 1820, there subsisted a sizeable difference between
metropolis and colony, as Brazilian GDP per capita was just two-thirds of the
Portuguese (Maddison 2007, 92).

In Spanish America, more than half of the economy was agricultural and some-
what less than a third consisted of mostly urban manufacturing and services. But in
terms of the attention paid by both contemporary political economists and latter-
day historians the stand-out activity in the most important areas of the Spanish
Indies had been, since the sixteenth century, mining. The absolute numbers of
free and unfree labour it employed were in fact not that large (Golte 2016, 74–
75). The estimates are that throughout Peru about 6% of indigenous adult men
worked in mines, though in some regions their share could be up to a quarter.
Mining as such and the silver it produced are easily overestimated. However,
mining centres early on became poles of regional integration that needed to be
supplied with foodstuffs and manufactures, draft animals, and human labour that
provided services for mines and miners (Assadourian 1983; Tutino 2011). In the
Viceroyalties of Peru and New Spain, cycles of mining often mirrored those of
overall economic activity, even if the sector accounted for only about 10 to 15%
of the economy.

In Brazil, as opposed to Spanish America, mining was an eighteenth-century nov-
elty, but it soon gained overwhelming weight. During the first half of the century,
while Brazil was the world’s leading gold and diamond producer, mining became
the first and foremost economic pursuit not only because of the wealth it created
directly, but because of the connections it promoted with other activities as well. In
the eighteenth century, Brazil’s contribution to world gold production may be placed
at between 53 and 61 percent (Costa, Rocha, and Sousa 2013; Barrett 1990). In
the heyday of Brazilian production (1745–1750) that contribution must have been
considerably higher. However, this was meant to be a temporary surge. After mid-
century, as deposits were depleted, and gold production declined, agriculture and
cattle-raising soon regained economic ascendancy.

Figure 28.2 illustrates the trends and cycles of expansion of precious metals in
Spanish America. New Spain (Mexico) had overtaken Peru with its famous mines at
Potosí in the seventeenth century and the eighteenth century witnessed an unprece-
dented expansion that was only broken in the wars of independence. But the Upper
Peruvian mines, too, turned the corner in the first three decades of the eighteenth
century and expanded production until the late eighteenth century. By comparison
the expansion of gold and silver production in the new Viceroyalty of New Granada
was modest, though it too grew substantially.

What brought about this expansion? Mining was at the heart of much of the
thinking about economic reform in the Bourbon century. In a simplified version,
historians have argued that mining was easy to tax and thus reformers in Madrid
and the Americas pushed for an expansion of the sector that would shoulder the
increasing needs of the state. In intention this is certainly right, but the story was
more complicated.

Mining in Spanish America was a private activity taxed in various ways by
local treasuries, most directly through the *quinto*, which despite its name (the
fifth) translated into anything between 5 and 20%. In New Spain the mines relied
almost entirely on free labour, while in southern Peru and Upper Peru there was
free wage labour and the *mita* labour draft, that forced indigenous villages to send

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Figure 28.2 Production of precious metals in the territories of the Spanish
Viceroyalties and Brazil 1680–1810 (in millions of Spanish American silver pesos)
Source: Palma and Silva (2016) and TePaske and Brown (2010)
labourers in rotations of one-seventh of the adult male population to work at artificially reduced pay in the mines of Potosi and Huancavelica. Often the same workers worked as draft labour for their assigned half or third of the time and hired on as (much better paid) free wage labour for the remaining weeks. African slavery played a role in some of the smaller mining regions in New Granada, such as the Choco. But overall free capital and wage labour dominated Spanish American mining.

For much of the mining sector the relation between labour costs, taxation, the price of mercury needed to extract the silver, and the quality of deposits determined profitability. The latter tended to decline; in the absence of large new discoveries, existing mines tended to suffer an erosion of the silver content of the ore over time. That gave special importance to the availability of mercury, more of which was needed to separate out silver from lower grade ores.

The supply of mercury and its price were at the core of the resurgence of silver production in the eighteenth century. The royal monopoly (estanco) on mercury from Huancavelica (Peru) and Almadén (Spain) was the one exception to the rule that mining was private. Theoretically, the royal treasury could maximise its fiscal income from mining by pushing up the price of mercury. Yet, interestingly, towards the mid-century, with demand for mercury high and outstripping supply even at the prices asked by the estanco, policy seems to have shifted. Production at Almadén was expanded and prices were lowered well below the international price (Dobado and Marrero 2014). Production at Huancavelica also expanded towards mid-century but then fell back again (Contreras 2010, 139).

As Dobado and Marrero (2014) have shown, this expansion was neatly mirrored by the expansion of silver production in New Spain, which in turn raised tax receipts from the sector. In a process they call “mining-led growth” the colonial state quite astutely used its control over one small but absolutely crucial part of the sector as a means to jump-start mining as a whole. In Upper Peru, too, the state contributed to the resurgence by lowering the main mining taxes by half (Contreras 2010). But here labour paid at least part of the “subsidy”. Though overall wage labour dominated in Upper Peru, the persistence of mita subsidised mine owners’ labour costs by supplying a fixed share of the workforce at forcibly low wages. It is hard to say by how much (Tandeter 1981). By the mid-eighteenth century mine owners in the mita regions could still count on about 5,600 low wage mitayos. Over the eighteenth century the demographic expansion meant that labour became plentiful and cheaper at any rate (Golte 2016, 86–89). That meant that paradoxically the real burden of mita on the regions that had to supply labour for the draft decreased; but only because labour conditions worsened in general.

In Brazil, the quest for gold finally yielded results in 1693 when the first deposits were found in the region that came to be known as Minas Gerais. This encouraged extensive exploration and until mid-century new, smaller deposits were found in Bahia, Mato Grosso, and Goiás (Boxer 1962; Russell Wood 1984). Some 50 kilometres up north, diamonds were also found. The first consignments arrived in Lisbon in 1729 and in the next few years flooded the international market and almost ruined the East India trade. In order to fight smuggling and control prices, a royal monopoly was declared, which was exploited under lease until 1771, when
the crown established the *Real Extracção* to operate extraction on its own account (Pinto 1979; Vanneste 2011; Yogev 1978).

Contrary to diamond extraction, gold mining remained a private endeavour, as in Spanish America. Though it was heavily taxed and regulated, it retained much of its informal character. The administration’s authority was often misappropriated by officials’ and other powers’ self-interests and its capacity was limited in the face of the irrepressible attraction that gold strikes aroused. In fact, soon after the discoveries, people from different regions and social statuses of both the colony and the mother country converged on the mining districts.

As alluvial gold extraction could do without much capital, small-scale operations, using only basic tools, became common. Unlike mercury, water, which was indispensable for sorting gold from mud and gravel, could not be controlled by the crown. So, despite the hardship and failure that many endured, numerous adventurers tried their chance at mining, triggering fierce competition, which sometimes led to violent outbursts and put pressure on the constantly strained administration. New regulation had soon to be adopted. Beside the collection of the crown’s share (the royal fifth), the prevention of smuggling, and the definition of the supervising functions, the main concern of the authorities was the allocation of land concessions for prospection. Even so, access to water and labour mobilisation determined both the scale and the scope of operations, especially when more works and excavations were required.

Because of former widespread use of African slave labour, extraction depended from the outset on imported manpower to a much larger extent than in Spanish America. The size of concessions was established according to the number of slaves that could be put to work, although the number of requests as well as the way in which officials handled legal and informal privileges introduced inevitable adjustments to that rule. At any rate, such was the weight of slave labour that from 1735 to 1751 the crown chose to collect its part as a head tax on adult slaves. In the heyday of mining in Minas Gerais the number of registered slaves reached more than 100,000 and some ten years later, when slow decline had already set in, they probably accounted for 40 or 50% of the region’s population of 225,000 (Bergad 1999).

Explosive population growth caused disruption. The demand for labour, foodstuffs, basic tools, and clothing grew exponentially in areas where there was no production and which focused on mining. Early on, shortages were frequent, and prices skyrocketed. For traders, mule drivers, and producers, unprecedented demand and high prices presented an outstanding opportunity, but their movement threatened economic stability. The crown strove to hold back the excesses of the gold rush. It tried to restrict migration, albeit with little success, and control the routes of trade to Minas Gerais, ultimately sponsoring Rio de Janeiro, which turned into the chief distributive centre.

The need for basic goods of a fast-growing population with easy access to means of exchange set the Brazilian domestic economy in motion. Demand was met in part by the colony’s own production. Cattle raising was by far the activity most encouraged by such opportunity, but manioc cultivation also expanded. From Bahia and the northeast down to Rio Grande do Sul, most of Brazil took part in supplying Minas with meat. Along the paths that led to the region, many corrals were set up where herds taken on the hoof would feed and breed. Eventually, cattle ranches and farms (using both free and slave labour) were established around the mining district.
Later they began supplying other regions, including Rio de Janeiro, allowing for the reconversion of the regional economy once gold deposits became exhausted. At the same time, small workshops were also established to attend to the local population needs (Bergad 1999; Boxer 1962; Carrara 2007; Russell Wood 1984; Zemella 1951).

The development of Minas Gerais marked a very important change in Brazil’s economy. To be sure, the largest share of gold and diamonds found its way to the metropolis (and then Britain), by way of the royal fifth and other taxes, the compensation for imported supplies and other private remittances. Paradoxically perhaps, it was that seemingly extraneous activity that created new opportunities for domestic development. Trade and circulation fostered the interconnection between distant and formerly disparate regions and advanced business chances outside export agriculture. This was the reverse side of the gold coin.

During the first three-quarters of the eighteenth century, mining was undoubtedly the single most important economic activity in Brazil. Available estimates suggest that other merchandise never made up more than one-third of returning cargoes in Brazilian fleets until 1755 and never reached one-half up to the 1770s (Costa, Lains, and Miranda 2016; Morineau 1985). Available data for 1776–1777 confirm that the value of shipped goods still did not match gold remittances, even though these were down to 50% of what they had been and exports were on the rise (Pedreira 2000).

The relevance of mining can hardly be exaggerated, but Brazil never ceased to be a commodity-exporting economy based on the production of tropical groceries and raw-materials. Sugar remained the most important among these. The engenho, or sugar mill, at the same time a plantation and a manufacturing unit, persisted as a central social and economic institution of colonial Brazil. It established strong links with other areas of the economy, through the relation with planters, from whom it took part of the cane, and the demand for labour, food, fuel, equipment, and livestock. Slaves formed an important part of capital and expenses, but salaries made up 15 to 20% of operating costs (Schwartz 1985).

Although it also produced rum, molasses, and low-quality sugar that could be consumed locally or used in slave trade (in Angola, rum played an important role), the engenho became specialised in a kind of clayed white sugar that didn’t need to be refined and was largely exported to Europe. During the eighteenth century, the sugar market became one of the more integrated in the Atlantic (Rönnbäck 2009). At the same time, commodities and especially sugar showed very high price volatility, particularly in times of war (Jacks, O’Rourke, and Williamson 2011). Marketing opportunities and international price fluctuations, more than productivity and costs, determined the volume of production and export, even if the gold rush and the consequent demand for labour and basic goods generated much higher costs for export agriculture.

Up until the 1770s or 1780s, European markets did not show a positive disposition towards Brazilian sugar, and production capacity remained fairly stable. However, wars involving other colonial powers (the War of Spanish Succession, the Seven Years War, the War of American Independence) opened favourable spells that encouraged more intensive use of resources. In 1710, output was probably at one of its peaks, but competition from the Caribbean had greatly reduced the value of production, as the price in international markets had dropped to less than one-half of that of mid-seventeenth century. At that time, the value of production at the
mill would have been between 1515 and 1685 million réis, which compared with 1835 million for the estimated annual average gold production for 1706–1710.

In the 1730s the combined effect of declining prices and rising costs exacerbated an atmosphere of crisis for sugar production. By mid-century, output was worth about one-fifth of the estimated gold production, before the wars of the 1760s and 1770s brought short-lived spurts. Until the 1790s progress was actually moderate, but then resurgence gathered momentum, as a result of changes in the international market. British West Indies production was almost entirely drained by Britain’s own domestic consumption, and the rebellion in Saint-Domingue in 1792 put the leading producer out of contention. Brazilian sugar doubled its share in the European market to more than 15%. Between 1789 and 1796–1800, average sugar exports from Portugal more than doubled in volume and, profiting from an exceptional rise in prices, grew 3.5 times in value. That opportunity prompted a real extension of the production capacity in the colony, and the number of engenhos grew extensively. That also shows in the volume of the slave trade (Alden 1987; Pedreira 2000; Schwartz 1985).

Sugar was not the only commodity in that drive towards prosperity. However, tobacco, which was for most of the century the second most important staple from Brazil, made only a minor contribution to such development. Most Brazilian tobacco exported to Europe fed the royal monopolies (estancos) of Portugal and Spain (which incidentally was farmed out to Portuguese merchants), and, like sugar, although in much smaller proportion, the distributing centres of Hamburg and Italy. Until the 1780s, tobacco exports from Portugal corresponded to about one-fifth of those of sugar, but in a decade that ratio was down to 10%. Yet, as mentioned, in Africa there developed another market associated with the slave trade and contraband that almost matched the one in Europe. Furthermore, in contrast to sugar, tobacco was mostly grown in medium and small farms that combined slave and family labour, so it could be slower to respond to market opportunities but had a strong impact in the regional economy, particularly in the Bahian Recôncavo (Acioli 2005; Alden 1987; Nardi 1996; Schwartz 1984).

Cotton was the success story of diversification attempts made after mid-century, especially in Maranhão, where growth had been promoted by the Companhia. Exports from Portugal rose from a yearly average of 388 metric tons in 1776–1777 to 4,443 tons in 1796–1800, reaching 3.3 billion réis (as against 5.3 billion for sugar and 3658 million for tobacco). In the last decade of the eighteenth century, as much as 30% of British cotton imports came from Portuguese America. At the time, sugar, cotton, and tobacco made up almost 90% of the re-exports of Brazilian commodities from Portugal (Pedreira 2000). The only other staples were hides (6.5%) and cacao (3%). Rice was a different case, as it accounted for 3.5% of imports from Brazil but was largely destined for Portugal’s own consumption. In terms of production for the Brazilian domestic market, one must not forget produce such as manioc and dried meat, but also pork, beans, and corn, which fed most of the rapidly rising population (Bergad 1999; Boxer 1962; Carrara 2007).

Increasing diversification of agriculture over the eighteenth century was common to Spanish America as already mentioned. Cash crops such as tobacco, sugar, and cocoa became increasingly important. Exports of cocoa from El Callao (Lima) increased seven times between the 1740s and the 1770s, for example. The Caribbean islands of Cuba and Puerto Rico embarked late, but fatefuly, on the
path of those in the British and French Caribbean and became full-blown, slave-based plantation economies. Even Peru counted by the end of the eighteenth century 90,000 enslaved Africans, though employment patterns were more diverse than on the islands (Newson 2006, 157). Plantation regions were by definition not self-sufficient in food stuffs and the Cuban elites were the first who negotiated an opening of the staple system in order to guarantee the supply of foodstuffs as well as the sale of sugar. Only in New Spain did the transformation of the primary sector occur largely without slavery.

Demographic expansion and productive diversification meant that by the eighteenth century in the more densely settled parts of the Spanish Americas conflicts over access to land became more important again. Indigenous communities in New Spain and the Andes had in fact managed to keep control over substantial land resources (Owensby 2008). Even where land was communal property as in many parts of the Andes, peasant families produced for their own consumption on their assigned plots and obtained cash for the payment of tribute and forced purchases under the repartimiento mercantil (Chocano 2010). The latter constituted the right of royal officials in rural regions to force indigenous families to purchase a series of goods, mules, textiles, and ironware mostly, that expanded fast in the second half of the eighteenth century. While in some cases the goods might have satisfied existing demand and repartimiento provided much needed credit (Baskes 2000), in many they just turned de facto into another form of taxation, often more important than either mita or tribute (Golte 2016). By the eighteenth century the rural sector in most of the Spanish Americas was thoroughly monetised and markets had widened and deepened. Indigenous populations offered wage labour as a consequence of a mixture of monetary incentives and needs caused by increasing tribute payments.

What did the development of the productive sector mean for the standard of living of the majority of Spanish and Portuguese American populations? As in all premodern societies, inequality was largely a function of status, as defined by race, gender, free or slave status, and social category, though some of these categories were more malleable than others. We thus have only a sketchy picture of inter-group inequality, leave alone that within various segments of society. Nevertheless, a broad comparison of wages is instructive to place Spanish America within a global context and understand better differences between regions. Economic historians use the concept of the “welfare ratio” for that purpose, a simple measure that looks at prices and wages and determines a consumption basket that represented the minimum consumption for subsistence. This is presented below in Figure 28.3.

An index of one means that workers were barely at subsistence level: above one, the index represents multiples of that level. Territories are indicated by modern nation states and for comparison the arguable richest city in Europe, London, and a poor one, Leipzig (Saxony) are included. To begin with, trends seem hardly coherent. For Upper Peru (Bolivia), Mexico, and Columbia strains are showing in the last quarter of the eighteenth century, while in Lower Peru and Chile the opposite is true.

Yet more interesting are the differences in levels. What has often been affirmed - namely that labour relations in Peru were overall more coercive than in New Spain (Assadourian 2006) - seems to be borne out by the low welfare ratios in the former, which were barely above subsistence. The Rio de la Plata stands out for its high
wages, consistent with most of the historiography. Maybe more surprising overall, welfare ratios were not low by global comparisons, though we need to keep in mind that slaves, many of whom received no wage (some did), are not represented at all in this picture. With the important exception of Peru, welfare ratios were higher compared to what we know about Asia (not shown in the Figure 28.2) and comparable or higher than poor European regions, including most of peninsular Spain. Data on heights and real wages recently have confirmed this impression of overall living standards that were tough, but probably not tougher than in many other places of the eighteenth-century globe (Arroyo Abad, Davies, and van Zanden 2012; Challu 2007; Dobado González and García Montero 2012).

Unfortunately, data and studies are scarce regarding prices and the standard of living in late colonial Brazil. Acute regional, racial, and social differences make any general assertion on this matter at least adventurous. Gold mining made fortunes but produced poverty as well (Souza 2004). The debate on slave conditions has been lively, but not much oriented towards quantification. An example is the criticism drawn by Mattoso (1995). However, even among slaves, inequality between those who were allowed to work for themselves and save enough to buy their manumission and most others makes averages and common measures essentially misleading. As much as the large proportion of slaves might bring down wages and the status of workers, it seems that for skilled labour, which was in short supply, pay was comparatively good. In the second half of the century nominal labour remuneration grew considerably, both for escravos de ganho (slaves hired out by their masters) and for other workers. Rises of one-third between 1750 and 1802 and of more than 150% between 1763 and 1821 have been registered, mirroring the upsurge in the price of slaves (Johnson Jr 1973; Schwartz 1985). However, sharp inflation in late century seems to have engulfed those rises, and at least in Bahia the standard of living for most people was under severe pressure (Mattoso 1973a, 1973b). Anyway, for many Portuguese, and not exactly for the poorest, Brazil promised new opportunities and the perspective of a career in trade was an enticing perspective that attracted thousands every year (Pedreira 1998–1999).
STATES AND MARKETS

What was the role of the state in the market? Many economic historians (Acemoglu and Robinson 2012; Coatsworth 2006; Mahoney 2010) have argued that Iberian colonial institutions were contrary to long-term economic development and especially in long-term comparisons the “colonial legacy” is singled out as an explanation for Latin American countries woes in the nineteenth and twentieth century. Much of that assessment points to a state that sought to increase revenue, but often did so by turning over a share of its sovereign rights to private entrepreneurs. Tax-farming and the concession of royal privileges were part and parcel of the same colonial system, but this is not to say that they always worked in unison. The recurrent struggle of royal or colonial authorities to enforce tax collection and get vassals, otherwise mindful of their state-protected rights, to fulfil their fiscal obligations stands as inescapable evidence for that disagreement. By the same token, it should not be forgotten that breaches to vassals’ privileges and to tax requirements, which are often confounded under the all-inclusive notion of contraband (at the time they were set apart in Brazil by the use of the term descaminhos, usually referring to royal duties), were different in nature and had rather dissimilar economic and political consequences. An assessment of the performance of the state has to start from questions such as how much state there actually was, how much local versus metropolitan decision-making, how burdensome was the state for its colonial subjects, how much was extracted from America to the coffers of the central state, and how the polity spent its money.

Over the course of the eighteenth century the “state” came closer to its colonial subjects. Spanish American reforms to the administrative structure saw the introduction of new Viceroyalties in New Granada (1739 after an aborted attempt in the 1717–1723) and the Rio de la Plata (1776), and Captaincies General of Caracas (1777) and Chile (1789). They were cut out of the old Viceroyalty of Peru, while that of New Spain (Mexico) remained largely intact. The number of treasury districts multiplied. The fiscal system in Spanish America had been localised from the early days of conquest, and new districts were rolled out as economic activity increased or abolished where it had declined (Klein 1998). In the 1730s there were about 40 treasuries in the Americas and by the end of the century the number was closer to 100 (Grafe and Irigoin 2012).

In Brazil, expansion of mining, more compact occupation in the peripheries, and intense population growth also dictated significant changes in the administrative structure. The importance of mining determined the creation of new captaincies in Minas Gerais, Goiás, and Mato Grosso and ultimately led in 1763 to the transfer of the viceregal seat from Salvador (Bahia) to Rio de Janeiro, which served as the chief port for the mining region. The crown also decided to grant the status of vila to several towns which had been established during the “gold cycle” and which thus gained their own municipal institutions (câmaras municipais) (Boxer 1962; Russell Wood 1984).

From the beginning of the century the Portuguese crown’s main concern lay in the prevention of smuggling and on the maximisation of revenue within the limits of people’s consent, that is to say without triggering rebellion. Protest was not infrequent as the people of São Paulo and Minas Gerais were known for their restlessness,
and fiscal regimes were often amended not only to improve fiscal efficiency, but to placate local reaction as well. The role of the câmaras as representative of the local elites in the negotiation with the crown and their officials was of the utmost importance. Next to the new institutions expressly created to collect and manage the royal revenue, such as the mints, the intendants, the boards of finance, the câmaras played a major part in the fiscal administration. After 1716 they lost the capacity to collect directly the royal duties and taxes, but the rules of collection continued to be negotiated with them and based on assessments they produced (Carrara 2009, 2010; Costa 2013).

The state in Spanish America expanded massively if we take the revenue of all the Spanish treasuries as a measure. In the early 1730s the sum of receipts of all districts for which data survive was about ten million pesos per annum, by the late 1780s that had risen to over 40 million and in the late 1790 to 70 million. The corresponding expenditures closely matched those numbers (Grafe and Irigoin 2012, 619 and Table A2). Most of the revenue was spent within the Americas. Figure 28.4 shows that remittances to Spain accounted for less than 12% of expenditure of Spanish American treasuries in the early 1730s and 5% or less late in the century. The total windfall that the Madrid treasury received from the Americas, on average about 12 or 13% of the total receipts of the peninsular treasury, rose in line with peninsular Spanish receipts, both of which expanded spectacularly over the eighteenth century (Merino Navarro 1987). However, transfers to Spain rose at a slower rate than revenues in the Americas until the trend was reversed in the last two decades (Irigoin and Grafe 2008).

Figure 28.4 also illustrates a feature of the interaction between state and economy in the Spanish Americas that has recently become better known. The governance

![Figure 28.4](https://example.com/figure28.4.png)

**Figure 28.4** Transfers of fiscal resources to Spain and to other Spanish American districts as percentage of total expenditure of regional treasuries (1729–1800)

Source: Grafe and Irigoin (2012)
structure of the empire relied on extremely large transfers between Spanish American treasury districts. These so-called *situados* were traditionally mostly seen as a means to finance the defence of the empire in border-regions such as the Caribbean (Marichal and Souto Mantecón 1994). Yet, defence was just one of the objectives and often not the crucial one (Grafe and Irigoin 2012). Intra-colonial transfers between treasury districts guaranteed that the empire could sustain itself without support from the metropolis. The rolling out of the state was financed within the empire itself. More important still, the transfers lubricated in the internal markets within the Americas since moneys were employed in economic transactions on their way from one treasury to the other.

The complex web of redistribution is still only partially understood (Grafe and Irigoin 2012). It is clear, however, that local elites in the treasury districts played a fundamental role in determining the direction of redistribution between sectors and regions. Involvement with the treasury was an increasingly important business opportunity. Furthermore, the Spanish American treasuries fed an unusually large share of expenditure directly back into the American economies in the form of wages and services paid for out of revenue. By the standards of the eighteenth century military expenditure as a share of Spanish American treasuries’ expenditure was about average while expenditure on the interest of debts was very low, at least formally (Grafe and Irigoin 2012, Table 5).

In Brazil, the expansion of the state was perhaps not as spectacular as in Spanish America in terms of revenue collection. Using the same benchmarks mentioned above, and in a very gross estimate, annual receipts grew from about 1500 million réis in the 1730s to over 2000 in the late 1780s and between 2500 and 3000 at the turn of the century, a much smaller increase than in the neighbouring colonies. The sharp decline of gold remittances helps explain such development. However, the expansion of the institutional apparatus—fiscal, administrative, judicial, military—was certainly impressive, allowing for the consolidation of colonisation and normalisation of political and social life on the fringes of the territory. This of course implied the faster growth of expenditure, which, except under exceptional circumstances, should be funded by locally raised receipts (Carrara 2009; Costa 2013).

Contrary to Spanish America, transfers within the colony seem to have been relatively small. Of course, frontier territories and communities often had to be helped in meeting their, mostly military, needs. But the really significant transfers took the form of gold remittances to Portugal. These consisted not only of the proceeds of the royal duties on gold extraction (the royal fifth or the head tax), but also of the revenue of several other taxes and monopolies. Among these, the most significant were no longer the taxes on the production and export of the traditional staples, but the customs duties collected on European imports from Portugal. Income growth generated by mining turned consumption into an obvious target for the fiscal administration, which, as shown in Figure 28.5, displayed a strong capacity for tax collection.

In fact, a sizeable proportion of gold produced in Portuguese America during the eighteenth century found its way to the Lisbon treasury. In one way or another, Brazil made a major contribution to the royal revenues: 40% in mid-century and still more than 20% in 1762–1776 (counting remittances alone) (Costa, Rocha, and Sousa 2013; Pedreira 2007; Tomaz 1988). The efficiency of the fiscal apparatus improved in the time of Pombal, when, despite declining gold
production, remittances reached their peak, which means that in addition to a more effective collection of the royal fifth, other taxes produced larger returns as well. Rationalisation at the centre, with the institution of the centralised treasury (Erário Régio), which adopted more watchful procedures of control and modern techniques of bookkeeping and accounting, combined with the creation of local boards of finance (Juntas da Fazenda) which reported to the treasury but at the same time kept the doors open for the participation of local elites in the fiscal administration. The fact that the juntas replaced the Overseas Council in putting out for bidding and awarding the contracts of tax collection apparently extended the opportunities for that participation, even if the most valuable contracts were largely held by the Lisbon merchant elite that Pombal deliberately helped to engender (Carrara 2016; Figueiredo 2015; Pedreira 2016).

Merchandise and capital moved between Portugal and Brazil through a vast transatlantic network of merchants and other commercial agents (Costa, Rocha, and Sousa 2013). Mining, domestic trade, and the revival of export agriculture in the last decades of century opened up the possibilities for accumulation in Brazil. Although most merchants in Brazil were recruited among the very recent immigrants, merchant communities took root in the chief seaports, and grew in wealth and social status, gaining an important representation in the câmaras. However, at the top, and in the financial arrangements of the Portuguese Crown, reigned a narrow elite, to which the most lucrative contracts were awarded and which advanced money to the treasury when it needed it most. A system of exchange emerged between the crown and that elite, which became part of the imperial system of power (Costa 1992; Pedreira 1995).

Instead of separating governance and private economy more the eighteenth century saw an even deeper intermingling of the two. In Spanish America, the most important institutions structuring this relationship became once more the
The merchant guilds had long administered part of the tax system as tax farmers. By the mid-eighteenth century Bourbon reformers had tried to lower the corporations’ share in tax administration, the Consulado de Mexico, for example, lost the right to collect the alcabala (the most important trade tax) in 1754. Yet, that weakening of the ties between commercial elites in the Americas and the Spanish monarchy went decisively into reverse as wars in the last third of the eighteenth century increased the hacienda’s needs. On the one hand, the monarchy rebuilt its relations with the existing consulados by turning over the collection of new taxes to these bodies. On the other, the Madrid councils allowed the creation of a large number of new consulados, which empowered mercantile elites in their home towns, but also competed with the existing ones (Mazzeo 2012).

The consulados were instrumental in financing the war effort in the late colonial period, while in the process also negotiating commercial exemptions. They essentially turned into investment banks and syndicated large loans. Lending to and supplying the American treasuries was good business because their debt was religiously serviced until the wars of independence. Loans were usually backed by either existing or new taxes that were earmarked for the purpose and collected by the lending body itself. Yet this increased elite control over the regional governance structure also gave the upper strata of colonial society the possibility to offload a larger share of the increasing fiscal burden on those less powerful.

One pattern that is repeated in many regional Spanish American treasuries is that what we would expect to be the strongest sector in each region often did not shoulder as much of the revenue burden as would seem to be justified. Elite control in seaports, for example, meant that powerful merchants had an interest in making sure trade was lightly taxed, rolling over the cost on consumers or agriculture or any other sector. Equally, it stands to reason that the evident increase of the burden of Indian fiscal contribution in Upper Peru in the late eighteenth century was not just about the overall increase in taxation. It reflected the ability of the overwhelmingly white elite to roll over the fiscal burden on mostly indigenous peasants. Within Spanish American governance that risked breaking a political economy contract that had evolved over centuries. Rebellions in the late eighteenth century were, from this perspective, one reaction to excessive pressure exerted by increasingly powerful regional elites (Golte 2016). There, much in the same way as in Brazil, a balance had to be found between the desire to obtain a higher revenue, the authority of the king and his officials, the efficiency of the fiscal regime, and the interests of the local elites and the people. Under the extremely unstable circumstances of the time, such an equilibrium was not easy to establish.

CONCLUSION

The making of colonial empires had an inbuilt economic rationale that supposed the privileged access, ensured by some form of political and military control, to overseas resources (such as land and its productions, mineral deposits, labour, markets, trade routes). For the early-modern European states, it meant taking hold of riches and reserving economic opportunities for themselves and their vassals. But there were important differences as to who in the end reaped the benefits, and the reforms of the eighteenth century led to important changes. Both empires drew from a tried
and tested tool kit of political economy measures. But they also often diverged, and the impact of similar attempts was different across empires and regions. The above discussion is far from conclusive, but it does suggest a few tentative comparisons.

In the Spanish system trade was regulated by a form of merchant guild with staple ports rather than a monopoly, a system that benefited the members of these consulados and their international business partners. The colonial exclusive was always weak and subject to outsiders easily using guild members as intermediaries. As the eighteenth century progressed, intra-American trade with, first, the Caribbean colonies of other European states, then with Anglo-North America and with Brazil increased dramatically. By contrast, the role of the metropole in the Portuguese trading system was at least partially reinforced by the Pombaline reforms which strove to make Lisbon the hub of its empire east and west, though direct trade between Brazil, Africa, and Asia also expanded.

Production in both imperial spheres expanded dramatically in the eighteenth century and underwent significant structural changes. Mining expanded everywhere till the later eighteenth century, but while this was a new sector in Brazil and went along with an expansion of slavery, in Spanish America, it was a revival of an old sector and indigenous forced labour became less important and slavery remained the exception in the larger mining regions. Nevertheless, slavery expanded dramatically in Spanish America, too, as a consequence of the expansion of plantation agriculture in the Spanish Caribbean and elsewhere. Brazil and Portugal were important actors in the slave trade. Spanish Americans and Spaniards relied mostly on supplies from other European and American traders, one of the reasons why the Spanish Atlantic became increasingly integrated with the British, Portuguese, Dutch, and French.

The traditional picture of a massive expansion of the state in colonial Latin America is clearly visible. Administration became more professional over the eighteenth century as a result of reforms. The economy grew, the state grew faster, and in Spanish America it grew even faster than in Brazil. But it would seem that more of the larger revenue remained in Spanish America, while Portugal succeeded in channelling a three to four times larger share of the smaller total receipts to the metropolis. It stands to reason that that made for significant political economy differences. In the Lusophone case the spoils of empire went to a larger extent to the crown and a relatively narrower elite, often, though certainly not exclusively, in the peninsula. In Hispanophone America the pie was a lot larger, shared by larger and more diverse elite actors, who were more often in the Americas. Much more research is needed to understand better what this meant for standards of living, inequality across race and social status, and in particular how much responsibility Latin America’s colonial past bears for economic distress and inequality in the present.

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