BANKRUPTCY OF EMPIRE
MEXICAN SILVER AND THE WARS BETWEEN SPAIN, BRITAIN AND FRANCE, 1760-1810

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Below is the index of this book by Carlos Marichal and published by Cambridge University Press in 2007.

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INTRODUCTION

From before the time of Gibbon, historians with a global perspective have been discussing the rise and fall of empires. Today political scientists frequently speak of hegemonic states. If we review some of the best-known studies conducted over the last forty-odd years, it is possible to identify a variety of theoretical approaches adopted by those working on the history of imperial or hegemonic states. The literature is vast and includes traditional geopolitical studies with a focus on the roots of military superiority\(^1\), the sweeping propositions of the world-system school\(^2\) as well as the interpretations of historical sociologists who offer explanations based on the changing capacities of states to exercise power through manipulation of capital and coercion.\(^3\) While all raise important questions, these quite general approaches do not necessarily provide convincing answers to the issue of explaining the specific reasons for the rise and/or decline of a given state or empire.\(^4\)

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4 More satisfactory and informative than some of these historically-applied social science models are diverse, classic historical studies. For example on the rise of the Spanish empire in the sixteenth century two superb examples are Fernand Braudel, *La Méditerranée et le Monde Méditerranéen à l’Epoque de Philippe II*, (Paris: Armand
Fortunately, in recent years, numerous historians have adopted a more focused approach, analyzing specific features of the historical evolution of states that can be studied in considerable depth, both empirically and theoretically. One of the most fruitful is the analysis of the fiscal and financial structures of ancien regime monarchies and/or empires as well as modern states. The advantage of such an approach is that it allows for major insights into the specific links between economy and polity. This is because the resources made available by taxes and credit have always constituted the basis of long-standing military and hence political power. The study of fiscal organization and dynamics can therefore contribute to clarify key aspects of the different anatomies and trajectories of states (whether imperial or not) under consideration.

Particularly illuminating has been the work of a generation of contemporary scholars who have carried out studies and provoked debates on the historical origins of the fiscal and military bases of modern states in Europe, prior to the nineteenth century. Comparative analysis of fiscal history for the medieval and modern eras became possible from the 1980s and 1990s as a result of the construction of long series of tax data by more than a score of European historians, a selection of their work being published in a set of collective volumes edited by Richard Bonney. But perhaps the most innovative discussion has centered on the relation between the rise of the modern tax


state and the consolidation of the military and naval power of Great Britain in the eighteenth century, put forth forcefully by Patrick O’Brien and John Brewer. Their hypotheses galvanized a broad set of ongoing historical debates on great powers, focusing primarily on the comparison of the relative fiscal, financial and military success of Britain as opposed to the more problematic experience of France during that same century.

Among the most provocative hypotheses to emerge from this debate was the proposition that parliamentary regimes- such as that of Great Britain- could prove more effective at systematically raising taxes: in a seminal study, Philip Hoffman and Kathryn Norberg explicitly argued that “representative institutions, not absolute monarchy, proved superior in revenue extraction.” Other researchers focused on public debt policies, explaining in detail the relation between financial and political revolution in late seventeenth century England and its lasting consequences. Barry Weingast and Douglass North published a much-cited essay based on a variety of historical monographs to demonstrate that the establishment of credible public debt policies contributed notably to

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institutional reform and the creation of deep and stable capital markets: “the financial revolution played a critical role in England’s long-run success.”10

But was Britain so singular? The debates have deepened as a result of a full-scale research campaign to reevaluate the history of taxes, credit and debt under the French absolute monarchy, on which there now exists a broad range of studies which reveal the extraordinary complexity of ancien régime finance.11 On the one hand, a thorough revision of the policies of French finance ministers during the eighteenth century reinforced the contrast between relatively stagnant revenues and the rising costs of war.12 Yet as Eugene White has argued in a series of incisive essays, there was nothing inevitable about the financial collapse of the monarchy and it is possible to identify major mistakes that contributed to the buildup of a deadly deficit before the outbreak of revolution in 1789.13 On the other hand, a number of researchers began to reconstruct French fiscal and debt policies by focusing on regional estates, revealing that provincial parliaments played a significant role in the finances of the Bourbon regime, in contrast to the traditional view of virtual centralization of the absolutist state.14 Nonetheless, there is consensus that the costs of war and

of rapidly rising debt surpassed the fiscal and financial capacities of the French monarchy and impelled its final bankruptcy and downfall.

While the ensuing discussions have been vigorous and stimulating, they would appear to follow in the path of the traditional Britain/France dichotomy which has been prevalent in the discussion of power politics during the apogee and final crisis of the European old regime. Such a markedly binary focus has the disadvantage of leaving out most discussion of the parallel trajectories of other rival, imperial states, most notably Spain and Portugal, which continued to govern vast territories on a world scale during the eighteenth century.  

Indeed, it is important to recall that before the Napoleonic wars, the Spanish imperial state remained the third most important state in Europe in terms of fiscal income and naval power, and first in size of territorial empire. Due, in good measure, to the rise in colonial fiscal income during the second half of the eighteenth century, the Spanish monarchy was able to compete actively with its principal and more powerful rivals, Britain and France, and succeeded in building a fairly centralized fiscal-military administration throughout its extensive empire. This allowed it to regain stature as a colonial and naval power, participating in naval wars against Great Britain in 1762, 1779-1783, 1796-1802 and 1805-1808, while it also engaged in a major, land

(Spring, 1997), 577-612.

15 A broader approach can be found in R. Bonney, ed, Economic Systems and State Finance and in the recent compilation by Manuel Lucena Giraldo, ‘Las tinieblas de la memoria: una reflexión sobre los imperios en la Edad moderna’ in the journal Debates y Perspectivas, no. 2 (September, 2002), that compare the Spanish, Portuguese, British, French, Dutch and Ottoman empires.

war against France in 1793-1795 before the devastating invasion and occupation of the Iberian peninsula by Napoleon’s armies from 1808 to 1814.

Surprisingly, in the western hemisphere, the Spanish empire proved more resilient—in many ways—than the colonial regimes of Great Britain or France. The French lost effective control of Canada and the vast territory of Louisiana after 1763 and their richest Caribbean colony, Haiti, in 1803. The British were forced to let go their most important North American colonies (the United States) in 1783. In contrast, the huge Spanish American empire remained in place until the wars of independence, 1810-1825. This resiliency—in an era of revolution and war in the Atlantic world—undoubtedly merits more historical analysis and debate in the future. In any case, it bespeaks the capacity of the Spanish Bourbon administration in transforming the tax structure in the colonies into an effective engine of imperial defense.

This book focuses on the viceroyalty of New Spain because in terms of colonial tax productivity, it is hard to find examples in history that surpass Mexico in the eighteenth century. Mexican tax silver not only covered the costs of its colonial administration and military forces but also served to finance deficits of Spain, itself, and of large parts of the empire. As the richest tax colony of the eighteenth century, the viceroyalty of New Spain served as a fiscal submetropolis that assured the capacity of the imperial state to defend itself in a time of successive international conflicts.
But how did the Spanish crown coerce or convince its colonies to pay for empire? The analysis of Bourbon tax policy in Spanish America provides us with a striking example of the successful rebuilding of a fiscal military state without a parliamentary government. A combination of coercion, fiscal and administrative efficiency and colonial pacts allowed for an extraordinary tax revolution in the Spanish empire. The success in imposing a highly extractive tax regime in Bourbon Mexico contrasts markedly with the failure of the British government in establishing new taxes in the thirteen colonies in North America after 1765. In this case, the European historical debate on political regimes and finance in the eighteenth century is turned upside down: legislatures in colonial British America impeded tax reforms while, in colonial Mexico, absolutist policy successfully rebuilt a formidable fiscal machine financed not only the defense of the viceroyalty but also of other colonies of the Spanish Caribbean as well as the metropolis, itself, in a time of a succession of international wars.

Taxes, however, were not the only factor in this story. In colonial Mexico ordinary revenues provided much of the money required by the Bourbon monarchy to revitalize its defenses yet were not sufficient to cover all the extraordinary expenses provoked by each new war. At the behest of Madrid, the viceregal administration turned increasingly to raising loans and donations. As metropolitan deficits skyrocketed, especially from the 1790s, taxes were increasingly complemented with a policy of indebtedness- including an extraordinary succession of loans and forced contributions- in both metropolis and colonies, which would eventually have catastrophic consequences for the monarchy and empire.
In short, by looking *from* the colony *towards* the metropolis, we argue that it is possible to gain a new perspective on the complex dynamics – military, fiscal and financial– of the Spanish *imperial state* in the successive wars with Britain and France between 1780 and 1810. Such an approach feeds into the current debate on the antecedents of globalization in one of the many paths suggested by A.G. Hopkins in a recent seminal study, aimed at stimulating more comparative history.\textsuperscript{17} It also speaks to the need for more *transatlantic* history, linking the already rich historiography of eighteenth century Spanish America with that of Europe and North America.\textsuperscript{18}

**The *longue durée* of the Spanish American empire: military and fiscal resurgence in the eighteenth century**

Historians have argued in many different studies that of all European empires, the Spanish empire was long the most productive in strictly fiscal terms. The tax and financial surpluses obtained from Spanish America that were transferred to the metropolis from the mid sixteenth century onwards, have been described in classic works by Earl Hamilton and Michel Morineau as well as more recent studies by María Emelina Martín Acosta and Carlos Álvarez Nogal, among others.\textsuperscript{19} During the late sixteenth and early seventeenth


\textsuperscript{18} A recent exemplar is Horst Pietschmann, ed., *Atlantic History: History of the Atlantic System, 1580-1830*, (Gottingen: Vandehoek & Ruprecht, 2002).

centuries, the great transfers of volume of silver (and gold) were used in good measure to finance the military forces of the Habsburg administration in Italy and Flanders, engaged in almost constant war from the 1570s until the late 1640s.20

The historiography on the second half of the seventeenth century tends to emphasize the decline of the Spanish empire after 1648 and, indeed, many historical works go as far as to suggest that there was never any recovery.21 This is a serious mistake which long misled much European historiography. It is true that in the second half of the seventeenth century, the Hapsburg monarchs of Spain proved singularly ineffectual. It is also true that during the first half of the eighteenth century, the new Bourbon regime was relatively slow in materializing reform both in metropolis and in the colonies. But it should also be recognized that in the last four decades of the same century (1760-1800), the Spanish empire in the Americas experienced a remarkable resurgence, visible in the recuperation of naval strength and land defense and, equally so, in the notable increase in fiscal income of most colonies (which allowed for greater

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21 A typical example of this view of irremediable decline can be found in Carlo M. Cipolla, *The Economic Decline of Empires*, (London: Methuen, 1970), but is also adopted by most of the “great power” theorists.
military strength). The Spanish imperial state was, therefore, neither static nor condemned to permanent decline.

To use a metaphor, the Spanish empire may have been slumbering but it reawakened in the late Bourbon era. David Brading has eloquently illustrated this point:

“If in the reign of Philip II, the mines of Potosí rescued the monarchy from bankruptcy and paid for Spanish hegemony in Europe, during the reign of Charles III, in contrast, the silver mines of New Spain provided the funds for the reconstruction of the Spanish navy and the resurgence of the American empire.”\(^{22}\)

But the road to imperial recovery was paved with enormous difficulties. The wars of Spanish Succession (1702-1713) reflected the military decadence of the Spanish state as many European powers fought in the peninsula for the spoils of an ancient power. After the accession of the Bourbon dynasty, nonetheless, there was a gradual transition to a more modern and powerful military and fiscal state. The Spanish imperial state regained strength progressively during the eighteenth century, although this did not imply that – in the long run-it was able to match its chief competitors, in particular Great Britain which had begun its extraordinary march forward as the first industrial power and the leading naval power in the world.

Despite the naval superiority of Britain in the Atlantic, the Spanish empire responded and restructured during the second half of the eighteenth century and therefore retained control of most trade and military dominion in its

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extensive colonies overseas. The process of imperial renovation was driven by the fact that Spanish America continued to fulfill an absolutely critical function for the world economy: the viceroyalties of Peru and New Spain provided the bulk of silver which served as basis to the metallic currencies of virtually all countries in the globe. In particular, the steady increase of silver production in Mexico during the eighteenth century contributed to its increasingly important role in the dynamics of world money and trade at the same time that it provided a fundamental stimulus to the economy of the viceroyalty and created the conditions for a spectacular rise in tax revenues of the colonial administration. The Bourbon reforms in the Spanish America were a notable example of the capacity to use the silver boom to forge an increasingly productive and efficient tax state, on an imperial scale.23

From the perspective of the comparative history of the eighteenth century in the Atlantic world, the present book raises a simple question: did Spain and Spanish America matter? Our answer is loudly affirmative and argues for the need to incorporate the recent, rich literature on the history of the fiscal organization and financial dynamics of the Spanish American empire (metropolis and colonies) within the broader historical debates on the destinies of the diverse and rival European imperial states in the eighteenth and early nineteenth centuries. For it is important to emphasize that the hypotheses advanced in this book are based on a vast, collective effort of recent historical research realized over the last two decades. The labors of a diverse cohort of

23 This hypothesis is developed at length in the major quantitative study by Richard Garner and S. E. Stefanou, Economic Growth and Change in Bourbon Mexico, Gainesville, University of Florida Press, 1993.
scholars from Latin America, Europe, the United States and Canada have progressively illuminated large parcels of the vast and complex, fiscal structure of the Spanish monarchy both in the metropolis and in its overseas possessions.24 Particularly important strides have been made in the reconstruction of the tax system and finances of colonial Mexico in the eighteenth century.25 These studies lay the basis for a deeper understanding of the common dynamics of financial administration over the vast mosaic of multiethnic territories under Spanish rule. They also provide a huge amount of reliable, quantitative data for the detailed


study of the income and expenditure of most parts of the Spanish American empire. This represents a major step forward in our understanding of the eighteenth century world.

**Atlantic wars, Mexican silver and colonial debts in the second half of the eighteenth century**

In the first chapter of this book, the principal objective is to illustrate the military and especially the fiscal resurgence of the Spanish empire in the second half of the eighteenth century. We argue that from the end of the Seven Years War (1756-1763) onwards, the finances of imperial defense in Spanish America depended to a great degree on Mexican silver tax remittances. We propose a model for analysis of the *fiscal logic* of imperial *expenditures* and look particularly at how they contributed to sustaining the defense of both Mexico and the Spanish colonies in the greater Caribbean. Special emphasis is placed on the description of the complex network of tax transfers from one colony to another –known as *situados*- which financed the military and naval infrastructure of the empire. In this sense, our study demonstrates how Spain increasingly shifted many of the costs of imperial defense and of war to Mexico, precisely as the viceroyalty experienced a great silver boom that allowed royal functionaries to implement a rigorous campaign to increase extraction of taxes. In order to facilitate estimates of the relative importance of the data presented we include in the appendix at the end of the book basic information on the colonial monetary system and several key indicators of the colonial economy.
In the second chapter we analyze the fiscal income structure of the administration of the viceroyalty of New Spain during the decades 1760-1800. We extend the concept of national tax state developed by historians of eighteenth century Europe and propose that, in the case of Spain and Spanish America, it can be useful and appropriate to think in terms of an imperial tax state. Despite the vast extension of the empire, the Bourbon reforms allowed for the development of a relatively homogeneous fiscal administration, particularly in the colonies. The operation of the almost one hundred different regional treasuries in the western hemisphere is illuminated by a case study of those of New Spain, the wealthiest viceroyalty. The recent and rich historical literature on colonial taxes provides the foundation for this analysis of what Herbert Klein has described as one of the most complex and, in many ways, efficient tax machines of the eighteenth century.  

The emphasis in this chapter is on the anatomy of the fiscal system in the viceroyalty of New Spain in the final decades of colonial rule. The review of the trends of major tax branches raises many questions as to the relation between the fiscal and the general performance of the colonial economy. In order to obtain a more complete view of overall trends it is wise to recommend the reader to complement our analysis with the broad, historical, literature on the Mexican economy in the eighteenth century. While major overviews have been published by such historians as John Coatsworth, Eric Van Young and particularly Richard Garner, researchers have not yet reached a consensus

view on the nature of economic growth in this era. It is clear that Mexico then experienced the greatest silver boom in colonial history, but that the colonial economy modernized slowly in a period that one historian has baptized the “age of paradox”. What our first two chapters do demonstrate is the enormous weight of the official extraction of silver from economy and society and the large percentage shipped abroad.

The remaining chapters are devoted to analysis of two major questions: (1) How many loans and donativos (forced contributions) were raised in Mexico to assist in the finance of the wars of the Spanish crown in the second half of the eighteenth century? These financial instruments gave rise to a steadily rising volume of colonial debts that have been seldom analyzed in depth. (2) How important were the Mexican silver remittances in the wars between Spain, Britain and France in the final decades of colonial rule? Silver was a crucial means of payment for armies and navies and therefore all the European powers were acutely interested in these flows of coins and precious metals, the greatest amounts coming from New Spain.

Chapter three focuses on the first issue, namely the methods by which the Spanish imperial administrations were able to raise an astonishing volume of donations, forced loans and interest-bearing loans in Mexico to pay for successive wars in the 1780s and 1790s. Fundamental in this strategy of raising

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28 See E. Van Young, La crisis del orden colonial, first subtitle of chapter 1.
loan capital for the crown wars was the collaboration of colonial privileged corporations: wealthy merchant guilds, the silver miners, royal officers, landowners and rentiers. The loans reflected the increasing sophistication of colonial financial markets but at the same time proved to be essentially a mechanism of extraction of funds for the royal coffers rather than a method of establishing a new public credit system.

Surprisingly, neither Spanish nor Mexican historiography has paid much attention to the problem of colonial debt despite its importance. In a classic study of the economy of colonial Mexico in the eighteenth century, Richard Garner stated: “The history of the colonial public debt remains to be written”.29 In the present work we have attempted to remedy this situation by providing the essential data on the royal loans issued in the viceroyalty as can be seen in text and in greater detail in the appendix of the present book. But the analysis of colonial loans is not only of interest for the history of colonial Mexico: it is fundamental to the broader historiographical debate on the relation between state finance and war in the eighteenth century.30 In this regard, it is important to keep in mind that historians working on the eighteenth century have devoted much time and energy to compare the different financial policies that the two leading powers of the era, Britain and France, adopted to deal with the huge

30 Some illuminating pages can be found in the classic work by Lucas Alamán, Historia de México, Mexico, Fondo de Cultura Económica/Instituto Cultural Helénico, 1985, [facsimile of the first edition of 1849-1852], particularly volume 1, pp.304-344. The founding father of Mexican historiography reviewed a few of the loans raised between 1808 and 1810, but, significantly, he did not mention the numerous royal donations and loans obtained in New Spain between 1780 and 1808. A major, recent work that reviews many of the loans managed by the Mexico City Merchant Guild in the eighteenth century is Guillermina del Valle, “El Consulado de Comerciantes de la Ciudad de México y las finanzas novohispanas, 1592-1827”, P.h.D. thesis, Mexico, El Colegio de México, 1997.
accumulation of war debts.\textsuperscript{31} The discussion can be enriched by consideration of the case of the Spanish empire, which presents the peculiar case of a monarchy which raised loans not only in the metropolis but also in the colonies for the prosecution of wars with its rivals, especially at the end of century.

While colonial loans rose in the early 1780s, the debt explosion came later. The multiplication of wars in both Spain and the Caribbean led to the transfer of almost ten million pesos per year from the treasuries of Mexico in the 1790s. As a result of the war launched against Spain by the revolutionary French Assembly (1793-94), the Madrid government faced a much graver challenge as military expenditures in the land war in northern Spain increased exponentially. After the conclusion of this major conflict, there came a brief peace but by 1796 the Spanish monarchy was at battle again with Britain, in what is known as The First Naval War (1796-1802), causing a steep increase in expenditures of dense expenditure in both Atlantic and Caribbean.

As military expenditures and debts spiraled upwards, the demands for Mexican tax silver increased year by year although, inevitably, the colonial administration was hard pressed to meet the growing demands of the crown only with ordinary tax receipts. When the regular tax resources of Bourbon Mexico were found inadequate to finance both defense in the Americas and war in the metropolis, the Madrid government instructed successive viceroys of New Spain, Revillagigedo (1791-1794), Branciforte (1796-1797), Azanza (1798-

1802) and Iturrigaray (1803-1808) for new combinations of voluntary and forced loans to be raised from the population of the viceroyalty.\footnote{See our appendix for a chronology of the viceroys of New Spain and their administrations between 1763 and 1810.} Chapter four illustrates the fact that the financial collaboration of the Catholic Church proved to be special importance in the financial campaigns both by providing great amounts of money in the way of donations and loans to the crown and by convincing the population at large to also do so. Among the most important contributors to state loans were colonial convents and monasteries, bishops and cathedral councils and even the fiscal branch of the Inquisition.

The Second Naval War against Britain (1805-1808) accentuated the financial difficulties faced by the treasuries of the Spanish empire, particularly after the decisive naval battle of Trafalgar, as royal transatlantic transfers hence were abruptly reduced. New, indirect methods had to be implemented to sustain the financial machinery of the empire and avoid total bankruptcy. Among these was a radical, financial reform adopted by the ministers of Charles IV, known as the Consolidation Fund, which led to the first process of disentailment of church assets and properties both in the metropolis and the colonies. Inevitably the tensions between church and state increased acutely.

While the intensification of the Napoleonic wars had a serious impact on the Spanish empire, equally grave financial problems were faced by Britain and France as the army and navy expenses of these two great contenders rose spectacularly. Chapters five and six explain why the leaders of the two leading powers of Europe looked to Spanish America and especially towards silver-rich
Mexico to obtain sources of hard currency with which to finance war. Napoleon Bonaparte and William Pitt each authorized a set of extraordinary stratagems aimed at procuring Mexican silver in the midst of Atlantic war during the years 1804-1808.

Even after the invasion of Spain by Napoleon in 1808, the colonial administration in Mexico continued to send an astonishing volume of tax funds and silver loans to Spain. These flows are analyzed in chapter seven. The Mexican silver was destined to support the patriot armies and the Cadiz Parliament (1810-1812) in the prolonged struggle against the French invaders. As a result, however, the colonial government in Mexico became ever more indebted. By early 1812 colonial debts had surpassed 35 million pesos and weighed heavily on the local exchequer. The largest debts were owed to many of the wealthiest members of colonial Mexican society and to the most powerful and privileged corporations, including the Catholic Church. Estimates of the loans outstanding by sector presented in chapter eight offer new material for researchers interested in the subject of the financial costs of colonialism.

The colonial debts taken between 1780 and 1810 constituted something quite different from domestic public debts and must be considered a special category of finance since the loans raised in the New Spain were not used to cover deficits generated inside the viceroyalty. What took place was different and more complex: the metropolis transferred a part of its deficits to the richest colony. The Madrid government did not promise to pay back the loans. On the contrary, Mexican tax branches were mortgaged indefinitely to pay the king’s debts. The
same occurred in the case of loans raised in other viceroyalties in Spanish America, although on a smaller scale, all of which be considered examples of almost *pure financial colonialism*.

At the same time, it is important to keep in mind that colonial elites, led by the privileged corporations, collaborated in all the royal financial campaigns. In this regard, it should be noted that the debt policies applied in the Spanish American empire had no counterpart in the British colonies in North America. In the case of the thirteen colonies, for instance, it would have been unthinkable for the British Parliament to demand the colonists to provide loans to cover deficits of the metropolis. The degree of power exercised by the British authorities in North America was but a pale shadow of the fiscal control and financial influence of the Bourbon administration in Spanish America.

**Comparative issues in colonial finance in the eighteenth century**

Exploring fiscal and financial dynamics in the colonies can help in evaluating whether empires provided fiscal costs or benefits to the respective metropolis, and vice-versa. However, most recent historical studies on the major European powers of the eighteenth century— in particular Britain and France— have tended to focus quite strictly on success or failure in *domestic* tax reforms and their impact on the fiscal military state. According to a large number of historians, for example, the success of fiscal and administrative reforms put

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in place in Britain during the long century from 1688 to 1815 were key to the military and naval preeminence of the first industrial nation.\textsuperscript{34} Such an approach, however, tends to leave out a significant chunk of history, considering that Britain had an extensive if quite scattered empire. Similarly, French historiography has devoted insufficient attention to the costs of colonial wars in the gradual weakening of the finances of the absolute monarchy during the second half of the eighteenth century.

Our study suggests that it may prove useful to add a colonial dimension to this debate, developing comparative studies of the colonial finance of Spain, Britain and France in the eighteenth century. One clear contrast was the difference in tax reforms in the American colonies. British authorities faced stiff opposition to new taxes in the thirteen colonies in North America and to the expansion of the royal army forces there. As a result the defense of empire in North America proved to be a fiscal and political burden for Britain in the 1760s and 1770s.\textsuperscript{35} In contrast, the Spanish monarchy- major imperial rival of Britain in the western hemisphere- did not have to expend funds for overseas defenses as these were paid for almost entirely by colonial administrations in Spanish America. Modern historical research demonstrates that the tax burden was, in


\textsuperscript{35} Nonetheless, explaining the success of this tax rebellion presents a challenge to current historical interpretations which have drawn attention to the notable domestic success of the government in Britain in constructing a strong fiscal/military state during the eighteenth century Major studies by J. Brewer, \textit{The Sinews of Power} and P. O’ Brien, ‘\textit{The Political Economy of British Taxation}’ do not fully explain social response to taxation nor do they explore the contrast with the tax revolt in the United States.
fact, much lighter in the Anglo-American colonies: colonial Mexicans paid perhaps ten times more per capita than taxpayers in the thirteen colonies. Nonetheless, and paradoxically, it was in the lightly taxed Anglo American colonies that independence would triumph first, whereas in Spanish America the royal administration applied increasing fiscal and financial pressures until the critical year of 1810.

But what was the fiscal situation of colonies in other regions at the end of the eighteenth century? The questions are numerous and most still unanswered. How costly were the British colonies in the West Indies? Did they pay their way? Similarly, one may ask: how was the colonial administration financed in Canada in this period? Michael Bordo and Angel Reddish have provided some recent answers but many others remain open. And, finally, how fiscally profitable was British India as a colony in the late eighteenth century? Recent monographs by Esteban Cuenca have demonstrated that the financial contribution of India to the English balance of payments was critical and helped avoided bankruptcy of the British government during the Napoleonic wars, but more comparative research is needed.


38 Javier Cuenca Esteban, ‘The British balance of payments, 1172-1820: India transfers and war finance’, Economic History Review, liv,1 (2001), 58-86; by the same author,
And what of France? Its richest colony- Saint Domingue (Haiti) certainly required considerable military expenditures, particularly naval, but there were also indirect fiscal benefits for the metropolis. Nonetheless, we know little on this score because historians working on French finance have been perhaps overtly domestic in their research preoccupations. They have incisively explored the rising costs of the debt of the monarchy but only a few historians, such as James Riley, have paid sufficient attention to some of the external key causes of the deficits, which included colonial wars and the great expenses of the rebuilding of the French navy in the eighteenth century.

Our research and that of a score of other historians who have worked on royal finances in eighteenth century Spanish America, suggests the crucial importance of colonial taxes and loans for the resurgence of the Spanish empire as a whole in the decades 1760-1790 and then to finance the monarchy in its final wars. It is true that despite the enormous and sustained financial contributions of the colonies, these were not sufficient to avoid imperial collapse. This contradictory process is precisely the subject of the present book which focuses on a case study of New Spain, the most productive tax colony in the eighteenth century world. We do so by placing colonial Mexico in the context of the geopolitical and military conflicts of the age, as shifting alliances led the Spanish monarchy into an extraordinary sequence of wars with, alternatively, Britain or France. In sum, analysis of the finances of the

viceroyalty of New Spain in the last decades of the *ancien regime* is significant both for an understanding of comparative colonial history and of contemporary imperial rivalries among the European powers. And it is precisely for this reason that we are inclined to think that the view from the capital of colonial Mexico or from the port of Veracruz can prove to be singularly illuminating for an understanding of the increasingly complex nature of war finance in the age of Atlantic revolutions.
CHAPTER 1

Resurgence of the Spanish Empire: Bourbon Mexico as Submetropolis, 1763-1800

When the great explorer and scientist, Alexander von Humboldt, visited colonial Mexico in 1803, he was witness to one of the final and most brilliant periods in the history of the viceroyalty. Eloquent proof could be found in the capital of Mexico which, with its more than 100,000 inhabitants, was the largest city in the western hemisphere. It was also one of the most prosperous to judge by its many, magnificent palaces, by the display of luxurious carriages along its broad avenues, by the great number of mercantile establishments and by the activity of its popular markets. The heart of political, financial and social life revolved around the royal palace, cathedral and stores in the main square known as the zocalo. In the palace were the grand offices of the viceroy of New Spain and of many high-level functionaries, and there they received the members of the privileged corporations of colonial society: the ancient and venerable merchant guild, the miner’s association, the great landowners, the church prelates and military officers. But in late afternoons and evenings, the palace was also seat to a number of social events, including games of gambling.
Behind the royal palace there was a large building with patio which also had enormous economic and political importance: the royal mint. Humboldt noted in his classic work, *Political Essay on the Kingdom of New Spain* that it was the greatest and richest mint in the world, and added:

“It is impossible to visit this building...without recalling that from it have come more than two billion silver pesos in the space of less than three hundred years and without reflecting on the powerful influence these treasures have had on the destiny of the peoples of Europe.”

The well-informed German scientist emphasized the fundamental contribution of Mexican silver to the sustenance of the Spanish empire as a whole, providing large annual tax subsidies in silver to the Spanish colonies throughout the Caribbean, to the Philippines and to the metropolis itself. He added, that based on his detailed calculations, the Madrid general treasury received in net tax receipts from Mexico more than double what Great Britain received from India.

But for how long would it be possible for colonial Mexico to continue to export such a large amount of its tax revenues? Humboldt felt that the viceroyalty could continue to make its huge annual contributions to the empire without grave difficulties because of the great output of its silver mines and the

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40 Humboldt affirmed that in the year 1804 British India produced a net tax transfer of 3.4 million dollars to England, while in the years 1802-1804 Mexico transferred an annual average of 8 million dollars in tax funds to Spain (1 silver pesos = 1 dollar): A. Humboldt, *Ensayo político*, pp. 553-554. For recent estimates see J. Cuenca, ‘The British balance of payments’, pp.58-86.
considerable productivity of its economy, as a whole. This was an overly optimistic assessment, however, for as we now know, by the end of the eighteenth century both the public and private economy of New Spain were confronting severe strains. 41

The inordinate ability of the Spanish monarchy to extract fiscal revenues from its colonies had long been the cause of envy by its rivals. In his classic work on *The Wealth of Nations*, (published in 1776), Adam Smith underscored the extraction capacity of the Spanish empire, as compared to the pronounced failures of the British authorities to increase taxes in the thirteen colonies.42 Other contemporaries coincided with the famous Scottish economist. The fiscal surplus produced by the Spanish American colonies attracted the attention of the Spanish general, Francisco Saavedra, during a prolonged military mission to the Caribbean in the midst of war with Great Britain in the years 1780-1783. He wrote:

“Among the European possessions in the New World only those of the Spanish and Portuguese have contributed immediately to enlarge the public treasuries of their respective metropolises, aiding them in peacetime with sums of money more than sufficient to defray expenditures made on their behalf and maintaining in wartime the great armaments needed for their defence. The other nations (France and Britain) have required of their colonies only the necessary costs of sustaining their civil government and the small

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military establishments calculated as indispensable for their domestic tranquility.  

Saavedra noted that in all major inter-imperial conflicts in the Americas since mid century, the British and French metropolitan governments had been forced to expend huge sums on their overseas army and naval forces, transferring monies from metropolis to colonies. Spain, on the other hand, relied on American taxes to provide the bulk of monies for its military garrisons and fortresses throughout its vast empire. During the second half of the eighteenth century, for instance, the treasuries of colonial Mexico not only paid for the buildup of a large army and militia force in the viceroyalty but also transferred great amounts of tax monies to the Spanish colonial garrisons throughout the greater Caribbean. The annual silver subsidies sent from Mexico to Cuba, for example, paid for the construction of almost 100 warships between 1720 and 1790. Furthermore, during numerous European wars, the richest Spanish American colonies provided taxes and loans for defense of the metropolis, when the monarchy so required.

The tax funds transferred out of colonial Mexico between 1760 and 1810 surpassed 250 million pesos, which made it the true, fiscal jewel of the Spanish crown in this period. For comparative purposes it may be observed that the

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45 For data on tax remittances see sources cited in Figure I.1 and I.2. This estimate does not include loans and forced loans which are analyzed in subsequent chapters of the present book.
sum mentioned was huge, being equivalent to ten times the average annual peacetime expenditures of the Spanish government at Madrid in the second half of the eighteenth century; alternatively, this figure was equivalent to the total expenditures of the British government during three and half years in the same time period.\textsuperscript{46} It should also be noted that the silver peso was equivalent to one U.S. dollar as can be seen in the dollar bills issued from the early 1780s, which stipulated that they were payable in “Spanish milled dollars”, in other words, Mexican silver pesos. (For additional details see \textit{Summary of money equivalents} in our Appendix.)

In short, New Spain distinguished itself as a viceroyalty that produced an annual fiscal surplus in what we could call the consolidated accounts of the colonial royal treasury.\textsuperscript{47} Such a situation contrasted with other territories of the Spanish Empire such as Cuba, Puerto Rico, Santo Domingo or the Philippines, which- during centuries- were unable to produce sufficient internal tax resources to meet the total civil and military costs of their own administrations. To cover their considerable and regular deficits, the latter were obliged to rely upon remittances of silver from other parts of the empire, and most particularly from New Spain. The transfers of tax silver from rich to poor colonies were known as \textit{situados}, a term which usually referred to monies dispatched to cover the expenses of military or naval garrisons in different parts of the empire. The complex network of these tax transfers were one of the great fiscal secrets of the longevity of the empires in the

\textsuperscript{46} For comparative data on Spanish and British government expenditure between 1764 and 1799 see Rafael Torres Sánchez, Rafael “Possibilities and limits: testing the fiscal military state in the Anglo-Spanish war of 1779-1783,” paper presented at session 69, XIV International Economic History Congress, Helsinki August 2006: also see our Appendix 1.5.

\textsuperscript{47} In chapter 2 we explain this concept. For data from the 1790s see Table II.1.
Americas since the metropolis did not have to cover most overseas defense expenses since they were financed by the silver rich colonies.

The fact that colonial Mexico did count upon a plethora of fiscal income placed it in a special position within the global structure of Spanish imperial finance - as was also the case of the viceroyalty of Peru. 48 From the mid-16th century, the chief officers of the royal treasuries of New Spain and Peru had been instructed by the crown to send surplus funds abroad, in part to the metropolis, and in part to military and naval garrisons in the rest of the hemisphere that were of strategic importance to the crown but had insufficient funds for all their defense expenses. Both viceroyalties thus fulfilled the role of fiscal submetropolis. As Herbert Klein has demonstrated in a magnificent study, Peru was the leader in exporting silver revenues during the late sixteenth and early seventeenth centuries, while Mexico came to exercise a dominant role during the 18th century.49

During the years 1720-1800 there was a notable increase in (current values) of the remittances by the royal treasuries of colonial Mexico to both Spain and to military garrisons in the greater Caribbean. The funds were collected in

48 The extraordinary fiscal series collected by Klein and Tepaske for the viceroyalties of New Spain, Peru and Buenos Aires can be consulted in Excell format at the database “Estadísticas Históricas de México” in the general website of El Colegio de Mexico, www.colmex.mx where a link will be found in “Biblioteca” under “Bases de datos” from May, 2006.

numerous tax districts throughout the viceroyalty and sent to Mexico City, whence the bags of silver pesos were transported by mule to Veracruz, to be shipped abroad. Until 1740 these situados did not usually exceed two million pesos per annum, but subsequently they rose as a result of the outbreak of wars which impelled a surge of financial demands for the defense of the Spanish empire. The preeminence of New Spain as fiscal bulwark of the empire was reinforced after the Seven Years War (1756-1763), as can be observed in Figure I.1 and in our Appendix Table 1.1.] The statistics speak of certain peaks in the royal remittances from New Spain which correspond with periods of military conflicts: the Seven Years War (1756-1763), the war against Great Britain (1779-1783), and the war against the French Convention (1793-1795). It was in these times that the military and financial demands of the metropolis and of the empire, as a whole, intensified. Nonetheless, it should also be kept in mind that after the conclusion of hostilities, remittances to the metropolis did not necessarily diminish but could actually expand because of greater safety at sea. Hence, the years following armistices generally were witness to the shipment of large quantities of transfers of royal silver to other colonies as well as to the metropolis.

The contributions of the treasuries of New Spain to the rest of the empire rose most markedly in the final decades of the 18th century. Never in the history of New Spain or, for that matter of Spanish America, had so great a volume of monetary resources been extracted to assist in the defense and survival of the empire as a whole. By that time, the remittances exported by the royal treasury from Veracruz were equivalent to approximately 40% of the total annual silver
production of the viceroyalty, a clear indication of the enormous weight of the state within the economy.\textsuperscript{50}

In this chapter we explore the complex strategy of the administrators of the Spanish empire in exporting such voluminous tax resources from New Spain which, according to contemporaries, constituted “a river of silver” flowing from Veracruz to Havana and thence to Cadiz.\textsuperscript{51} By focusing on the richest Spanish American colony, we propose several explanations as to how the Spanish empire operated in military and fiscal terms during an age of Atlantic wars and revolutions. We begin with a summary of the impact of the defeats suffered by the Spanish empire in 1762 at the hands of the British, which led the Bourbon state to design and adopt a vast set of new strategies of overseas defense. How these were financed is the second major theme of this chapter, focusing on the fiscal logic of imperial expenditures and, in particular, on the key role of the situados of colonial Mexico, which came to operate financially as a kind of \textit{sub metropolis} of the Spanish empire in the last third of the eighteenth century.

\textsuperscript{50} The decennial totals of government fiscal silver exports are impressive from any point of view: in 1771-80 48 million pesos were exported by the royal treasury; in 1781-90 the figure rose to 75 million pesos and in the decade of 1791-1800 reached the extraordinary level of almost 90 million pesos.

\textsuperscript{51} This was an expression frequently found in contemporary Spanish documents and reports.
The military and financial consequences of 1762 for the Spanish imperial state

The occupation in 1762 of the port cities of Havana and Manila by British military forces was an event which shook the Spanish monarchy to its foundations. For over two and a half centuries, no foreign power had seriously attempted to take control of Cuba, fundamental locus of Spanish power in the Caribbean and the point from which all the great armadas had arrived and departed. The bulk of transatlantic Spanish American trade depended on Havana as entrepôt, the key port where the flotillas of both warships and private merchant vessels concentrated for the voyages in and out from the western hemisphere. When British troops seized this great Caribbean port city, the news spread quickly through Spanish America, provoking considerable commotion. Equally galling had been the occupation in the same year by British naval forces of the port city of Manila, the key outpost of the Spanish empire in Southeast Asia. Great relief was felt after the exit of the British troops, following the Treaty of Paris in 1763, but clearly the Spanish crown (and its ally France) had suffered a major setback in the international power struggle.

The effectiveness of the contemporary British military machine was based on its notable, amphibious capabilities. From early in the eighteenth century the British Navy had outdistanced all competitors in number of ships, firepower and skill of officers and mariners. In addition, it had the faculty of
being able to transport large numbers of troops to attack rival empires overseas. When the British Navy attacked Havana, over 12,000 infantry disembarked and, after two months of persistent siege, eventually overwhelmed the relatively small contingent of Spanish troops defending the Cuban port. Much as the American marines of the twentieth century, these amphibious British forces were capable of traveling long distances, disembarking and seizing key enemy fortresses and ports with considerable speed.

Historians posit that the conclusion of the Seven Years War (1756-1763) “marked a fundamental turning-point in the eighteenth century balance of power”. As a result of the war and the Treaty of Paris (1763), France suffered significant territorial losses, ceding complete control over Canada to Great Britain and temporary control of Louisiana to Spain. But the Spanish monarchy also was hard hit, losing Florida to the British and being put on the defensive in the Caribbean. The clear victor was Great Britain although, paradoxically, increased defense requirements in North America would generate fateful tensions with the thirteen colonies.


The classic work is Allan Kuethe, Cuba, 1753-1815, Crown, Military and Society, (Knoxville: University of Tennesese Press, 1986), particularly chapter 1.

The response of the two Bourbon monarchies to the defeats suffered in the Seven Years' War was to adopt a common set of defensive policies against Britain.\textsuperscript{55} The alliance between France and Spain is known in diplomatic history as the \textit{Third Family Compact} and would last for thirty years, until just after the outbreak of the French Revolution in 1789.\textsuperscript{56} Both monarchies based their alliance fundamentally on a joint naval policy, funneling huge amounts of money into the rebuilding and expansion of their sea forces. The results of such investments were not long in bearing fruit: as of 1765, the British Navy outdistanced the combined fleets of Spain and France in number of ships, but in the 1770s barely held parity; by 1780 the Bourbon navies had overtaken their great rival.\textsuperscript{57}

Less well known are the economic bases of the \textit{Family Compact} which underlay the alliance during wars but also in peacetime. A growing and perhaps dominant portion of the trade with Spanish America came to be managed by French trading firms, which exercised an increasingly preeminent role in the great port city of Cadiz, entrepôt for colonial commerce. The ties between the two monarchies were also strengthened by the increasingly active role of French merchants and merchant bankers in Spain during the second half of the

\textsuperscript{55} Perhaps the most perceptive analysis of the traditionally defensive strategy of the French and Spanish naval forces as opposed to the more aggressive British \textit{imperial navy} is that by John Robert McNeil, \textit{Atlantic Empires of France and Spain, Louisbourg and Havana, 1700-1763}, (Chapel Hill: University of North Carolina Press, 1985), pp. 75-78.


eighteenth century as they took a leading role in the financing of much Spanish foreign trade and an increasingly prominent role in Spanish government finance during the 1780s. ⁵⁸

Nonetheless, Spanish authorities were not willing to allow the French to have any say in direct, colonial rule. Quite to the contrary, Spain had the upper hand in the Americas. After 1763 France only retained control of three Caribbean islands, sugar-rich Saint Domingue (Haiti), Martinique and Guadeloupe. Spain, in contrast, continued to rule over a vast, continental empire, stretching ten thousand miles, from Texas and California to Cape Horn. Such extensive imperial responsibilities implied considerable costs for defense, but most especially after the defeats suffered at the hands of the British military forces. It was then that the government of Charles III decided to launch a set of major military, administrative and fiscal reforms which were intended to fortify the whole of the empire in Spanish America. ⁵⁹ While the reforms were eventually implemented in all the colonies, the costs were covered unequally. Those tax districts which produced most revenue- especially those in New Spain and upper Peru- were forced to cover deficits in other regions of the empire, ostensibly for military defense. ⁶⁰

⁵⁸ An outstanding study is Michel Zylberberg, Une si douce domination. Les milieux d'affaires français et l'Espagne vers 1780-1808, (Paris: Comité pour l'histoire économique et financière de la France, 1993).
⁵⁹ In a classic work, David Brading called the Bourbon reforms “A revolution in government”: David Brading, Miners and Merchants in Bourbon Mexico, 1763-1810, (Cambridge UK: Cambridge University Press, 1971), chapter 1. Most subsequent studies have followed his interpretation, in the sense of emphasizing the profound nature and impact of these reforms: much of the recent bibliography is reviewed in Alfredo Casillero Calvo y Allan Kuethe, eds., Historia General de América Latina, vol. 3, (Paris: UNESCO/Trotta, 2000).
⁶⁰ The royal treasury at Lima also produced tax surplus that was remitted to cover external military expenditures (mainly in Chile) or to Spain: and a couple of treasuries
Bourbon reforms and grand strategies of imperial defense

One of the most astonishing facts of imperial rule in the Americas was that for over two centuries the Spanish monarchy had not been obliged to cover major land expenses for the defense of its many colonies. The noted historian, John Parry, argued in a series of classic works, that prior to 1760s the Spanish royal administration kept remarkably small military forces in the western hemisphere. Subsequent research has demonstrated that the reinforcement of army forces began in the first half of the eighteenth century, but it is abundantly clear that the reforms adopted after 1763 were crucial in the establishment of a much larger military establishment throughout the colonies. Equally striking was the fact that most defense expenses were covered by local treasuries.

The army and navy buildup had begun in the metropolis in the 1760s but was promptly applied in Spanish America. The new military policies were based on a three pronged strategy: (1) building colonial armies and militias; 2) rebuilding the Spanish naval forces; 3) strengthening a great number of military fortresses in the Caribbean and, to a lesser degree, in South America. The emphasis clearly was on defense against attacks by the British Navy and/or possible invasions of key ports by British troops. Practically all these expenses were financed with colonial taxes: in the greater Caribbean mostly with Mexican

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in New Granada helped finance military and naval garrisons at Cartagena and Panama. See Herbert S. Klein and John TePaske, Las cajas reales de la real hacienda de la América española (siglos xvi a principios del xix) CD, (México, Asociación Mexicana de Historia Económica/El Colegio de México, 2004).

61 Parry wrote: It is curious that the Spanish Indies- reputedly so rich, so envied, so repeatedly attacked- possessed, until the Seven Years War, no standing army.”: John Parry, The Spanish Seaborne Empire, (New York: A Knopf, 1966), p.325.
silver remittances while in South America most were financed with fiscal funds from upper Peru.

The main objectives of the military reforms in Spanish America were designed by a secret committee of imperial defense, appointed by the monarch, Charles III, meeting in Madrid on a regular basis during late 1763 and early 1764 until they came up with a general plan. One of the first measures adopted was to send General Alejandro O'Reilly to Cuba to reorganize both the regular army forces and a new militia. The Spanish crown had established the first of the American fixed battalions in Havana in 1719, in Cartagena in 1736, in Santo Domingo in 1738 and in Veracruz in 1740, but after the military defeats of 1762, it had become clear that they were insufficient to meet the British threats of invasion. O'Reilly was successful in building up a relatively effective defense establishment in Cuba in the years following. Equally important, in 1767, Julián Arriaga, minister of the Indies, instructed a faithful but ambitious technocrat, José Gálvez, to travel to New Spain as royal envoy (Visitador General) with instructions to carry out a thorough report on the defense conditions and the fiscal administration of the viceroyalty. Not surprisingly, the viceroy, marquis de Cruillas, was surprised by the Gálvez mission as he arrived with extraordinary military and political powers. After Gálvez had presented his first reports, the crown authorized a broad-ranging set of administrative, fiscal and military reforms to be put in practice in New Spain. 62

The innovations of O'Reilly and Gálvez proved to be models for the rest of Spanish America in the last decades of the eighteenth century. Their introduction should not, however, be seen as positively modern nor as an undisputed success. They were based on a combination of traditional absolutist coercion and a series of complex negotiations with local elites. While formally proposing to eradicate fiscal corruption, the new Bourbon functionaries (many of whom arrived from Spain) did not overlook opportunities for enrichment and the forging of alliances with local, wealthy families. Nonetheless, the aim of the reforms was clearly to make for a more efficient fiscal machine and a larger and proficient army in each of the colonies.

Several historians have analyzed the army buildup in various colonies. Allan Kuethe has described in detail the military plans put in place in Cuba, which were perhaps the most successful. Initiated by General O'Reilly, they were continued by his allies, the O’Farrill clan of Spanish officers, who virtually came to rule the island in the second half of the eighteenth century and the first decades of the nineteenth century. Paradoxically, as historians Kuethe and Marchena have demonstrated, the Spanish army reforms led to an expansion of the number of native born Cubans who became officers. The new military elite, moreover, was closely bound to the rising sugar slave-owning oligarchy as well as to the wealthiest Havana merchants.

64 Allan J. Kuethe, Cuba, 1753-1815, Crown, Military and Society, Knoxville, University of Tennesese Press, 1986.
During the same decades, military reform proceeded apace in colonial Mexico. Christian Archer has analyzed the expansion of the Bourbon army in New Spain.\(^65\) The colonial forces grew to be a significant force: by the turn of the century they were composed by more than 10,000 regular infantry and perhaps 30,000 militia. The former were concentrated mainly in the region of Veracruz since this was considered the most likely zone for possible British invasions in the future. The militia forces, on the other hand, were organized in practically all cities of the viceroyalty, being financed mainly by local, commercial elites; actually, most of the officers of the militia were themselves merchants. Finally, under the careful and rigorous supervision of Gálvez, a special effort was made to reinforce military garrisons of cavalry and infantry in the garrisons (presidios) in northern territories, including Sonora, Chihuahua and Texas.

Also important was the growth of the regular army and the militia in the viceroyalties of New Granada and Peru as well as in upper Peru (modern day Bolivia), in the viceroyalty of the Río de la Plata (modern Argentina and Uruguay) and in Chile.\(^66\) At the end of the eighteenth century, the total strength of the Spanish royal armies in the western hemisphere surpassed 30,000 regular infantry and cavalry and there were perhaps as many as 80,000 men in the different colonial militias.

Simultaneous to the expansion of land forces was the launching of an ambitious and expensive series of investments in great fortresses in many Spanish American ports. The 1760s and 1770s were the greatest age of construction of major defensive works throughout the Americas, but particularly in the Caribbean. Huge amounts of tax funds were funneled into building of defensive walls and bulwarks as well as imposing fortresses at the entrance to the ports of Havana, San Juan, Cartagena, Santo Domingo and Veracruz. These were equipped with great numbers of cannon, placed strategically at the entrance to bays and ports in order to impede any new British invasions.  

Equally important was the process of rebuilding of the Spanish Navy, which soon became the third most powerful in the Atlantic, although this development has only recently begun to studied. Whereas British and French historians have devoted much time and energy to analyze the expansion of their navies in this “age of the admirals”, researchers have been slow to recognize the simultaneous and surprising renovation of the Spanish Navy. However, the recent monumental study by Jan Grete has forcefully demonstrated that, already quite early in the eighteenth century, the Spanish naval forces became the third most important in the world, after those of Great Britain and France. The maritime contest for world power intensified from the 1740s onwards as both France and Spain pushed forward with new construction of warships and

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67 The fundamental work is José Antonio Calderón Quijano, Las fortificaciones españolas en América y Filipinas, (Madrid: MAPFRE, 1996), but the bibliography on the subject is vast.

frigates. Although the Seven Years War led to major defeats at sea for both Bourbon monarchies, this did not discourage them. The Bourbon allies were bent on establishing parity with their more vigorous, naval rival, Great Britain. As a result, the French and the Spanish governments plowed enormous amounts of money into warship construction during the last four decades of the eighteenth century.⁶⁹

In the case of metropolitan Spain the three naval ports of Cartagena, Ferrol and Cadiz were sites of construction of a large number of warships, particularly in the second half of the century.⁷⁰ But, the most important naval shipbuilding arsenal was, in fact, that of Havana, where there were built a grand total of 114 ships for the Spanish navy during the eighteenth century, including 54 warships as well as sixteen frigates and many smaller, armed vessels. The Havana-built warships carried a total of 3,642 cannon and the frigates 684 cannon, altogether a formidable force.⁷¹ The enormously expensive naval construction program in Cuba, however, was not financed from Spain but mainly from colonial Mexico. A review of imperial finance demonstrates that it was New Spain that financed the bulk of construction of the great warships built

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⁶⁹ For data on construction of warships see numerous charts in J. Glete, _Navies and Nations_, vol.2.
⁷⁰ The essential study on building of warships in Spain is José Patricio Merino Navarro, _La armada española en el siglo XVIII_, (Madrid: Fundación Universitaria Española, 1981) but, unfortunately, this work provides no information on the Havana naval arsenal.
⁷¹ The detailed notes by J.S. Thrasher provide the information on each of the ships built in Havana. These notes are found in Alejandro von Humboldt, _Ensayo politico sobre la isla de Cuba_, Havana, Archivo Nacional de Cuba, 1960, pp.114-117. J. S. Thrasher was translator into English of Humboldt's essay which was published in New York in 1856.
in Cuba during the century by sending large annual silver subsidies to Havana as well as basic provisions.\textsuperscript{72}

All these military projects - army, navy and fortresses- were extremely costly and required the financial support that only a strong, \textit{tax state} could provide. The tax reforms (which financed the military buildup) are analyzed in detail in the next chapter, but here we wish to reiterate that the greater part of military and naval expenditures for the defense of empire was covered by the colonies themselves. Metropolitan Spain did not have to finance more than a fraction of the expenses in the Americas. The colonial administrations took charge of the military salaries of rapidly growing armies and militias in the western hemisphere, of the finance and building of the numerous great and small fortresses and of the construction of close to half of the warships of Spanish royal Navy. In addition, they provided victualling of the Spanish warships in American waters which included provisioning of ships in the greater Caribbean, in the River Plate, as well as the few warships on the Pacific coast and the famous Manila galleon that yearly crossed the largest ocean in the world. In order to understand how these vast requirements were financed it is essential to focus attention on the vast network of inter-imperial fiscal transfers. In the section that follows, particular attention will be focused on the contributions of the richest tax colony –the viceroyalty of New Spain - to the defense of the Spanish empire.

The fiscal logic of imperial expenditures

The fiscal and military system of the Spanish empire in the Americas was older, quite different and more complex than that of its imperial rivals. This vast imperial organization had its fulcrum in Spain yet spanned a great part of the western hemisphere as well as the Philippines and was based to a large degree on a complex network of tax transfers between the different treasuries of the different viceroyalties and captaincy generals. But how centralized was fiscal the fiscal administration in the empire? This is a hotly debated issue among historians today with a confrontation between two points of view. On the one hand, there is a traditional view which emphasizes the success of the Bourbon monarchy in establishing a professional fiscal bureaucracy, a modern accounting system and an increasingly centralized tax machinery. On the other, there is a growing school of historians that emphasize the active role of local elites in the control of transfers of silver taxes from one treasury to another and in management of supply contracts derived from much local expenditure in the military sphere.

74 Alexandra Irigoin has argued: “Thus, private merchants largely ran the system and made handsome profits out of it... But funds were also employed in various other purposes, in addition to the expected naval and military defense.” These ranged from funding shipbuilding or tobacco purchases in Cuba, to the support of religious missions or colonization ventures in other islands, to stipends for clergy and civil officials: Alexandra Irigoin, “Bargaining for Absolutism: a Spanish path to nation state and empire building”, unpublished manuscript, October 2005, p.16. Similar arguments have been advanced forcefully by Pedro Pérez Herrero, “Los beneficiarios del reformismo borbónico: metrópoli versus élites novohispanas”, in *Historia Mexicana*, xii: 2 [162], 1991, pp. 207-264; and by Allan Kuethe and Juan Marchena F., eds., *Soldados del Rey: El ejército borbónico en América colonial en vísperas de la Independencia*, Castellon, Universitat Jaume I, Colección América, 2005.
In any case, it is clear that the dynamics and logic of expenditure of funds in Spanish America were based on a secular three-tiered system of management of imperial finance. This system can be defined in terms of the operation of basic principles that explain the disbursement of public monies as well as the logic of expenditures of the multiple treasuries of the empire. A first, basic and secular principle of imperial finance (applied since the sixteenth century) was that the largest number of expenses should be covered in situ with the tax income collected on a regional level and accumulated in a local caja real (treasury). However, when a local treasury district produced a fiscal surplus, part of this money would be transferred to another tax district which had a deficit or, alternatively, to one of the principal treasuries of the respective viceroyalty. These remittances, nonetheless, were not necessarily limited to the viceroyalty, itself; they frequently were also shipped abroad to different points of the empire, as we will see.

In the case of New Spain we can observe the dynamics of this tridimensional fiscal system in the transferences regularly realized (in the late eighteenth century) among the different 24 regional treasury offices of the viceroyalty, in most cases to cover military expenditures. For example, certain regional treasuries such as that of Veracruz and Yucatán (that regularly accumulated fiscal surpluses) were responsible for the payment of a substantial part of military expenses of districts that had scarce tax income such as Campeche, located in the Gulf of Mexico, which had an important military and

naval garrison. Similarly, the revenue-poor military forts and garrisons (presidios) of northern Mexico depended heavily on the remittances of funds collected by the more proximate regional treasuries of Guadalajara and Bolaños that accumulated a regular surplus of funds from taxes on local silver production as well as on trade.

A second level of expenditures were the transfer of surplus fiscal funds from one colony to another which were known as situados, those from New Spain being directed principally to the Greater Caribbean, including Cuba, Santo Domingo, Puerto Rico, Florida, Louisiana and Trinidad. These constituted a broad network of tax transfers between the different colonies, the quantitative importance of which suggests that historians should rethink many fundamental aspects of the way that imperial finance operated in Spanish America. In addition, it should be noted that the viceroyalty of New Spain also provided regular fiscal subsidies for the Phillipines and occasional sums for Guatemala and Central America in times of emergencies.

A third and important set of intra imperial tax transfers were remittances to the metropolitan treasury. Analysis of shipments to Spain suggests that in the early decades of the century (1720s to the 1750s) the contribution of Mexican royal silver to the metropolitan fiscal regime was important but limited in scope. (See Figure I.1) During this thirty-year period fiscal transfers to Spain did not

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76 In the latter half of the eighteenth century, New Spain covered approximately 75% of the costs of administrative and military costs of the government of Cuba and a large portion of the other Caribbean colonies mentioned. For information and estimates see C Marichal and M. Souto, ‘Silver and Situados’, and Carlos Marichal, La bancarrota del virreinato (1999), chap.1.
ordinarily surpass one million pesos per year but in the 1750s average remittances rose to close to two million pesos a year.\textsuperscript{78} Then, after the two year war with Britain (1762-1763), royal remittances from Mexico to Spain declined as a result of the huge expansion of expenditures in reinforcement of the defensive infrastructure in the greater Caribbean. By the 1770s the shipments of royal silver from New Spain to Cádiz had returned to the levels of the 1750s, and from that date until the 1780s the fiscal remittances by Mexico and Peru provided an average of approximately 15\% of the ordinary revenues of the General Treasury at Madrid. \textsuperscript{79} Then, in the last quarter century of empire – 1785-1810- the percentages rose, reaching extraordinary levels, as is seen in Figures I.1 and I.2.

Whether we look at expenses within the viceroyalty or at fiscal transfers abroad (to other colonies or to the metropolis), the bulk were destined to cover military requirements. A recent monograph demonstrates with clarity that the expenditure of funds for military objectives in the viceroyalty of New Spain increased throughout the eighteenth century. \textsuperscript{80} Under Phillip V (1726-1746), total disbursements of the branch of the royal treasury of Mexico City known as “War” (\textit{Guerra}), increased from one million pesos a year in the mid 1720s to over three million pesos by 1745. Under the succeeding reign of Ferdinand VI (1746-1759) military expenditures rose to an average of almost four million pesos a year, and during the reign of Charles III (1759-1788), this level rose

\textsuperscript{78} Compare the Veracruz data in our Appendix I.1 and 1.3 with series in Jacques Barbier “Towards a New Chronology for Bourbon Colonialism: The "Depositaría de Indias" of Cádiz, 1722-1789”, in \textit{Ibero-Amerikanisches Archiv}, N.F. Jg. 6, H 4 (1980), 335-353.


\textsuperscript{80} Carlos Rodríguez Venegas, ‘La sociedad novohispana y las guerras imperiales a la luz del donativo y préstamos de 1781’, B.A. Thesis, (Philosophy and literature) Universidad Autónoma de Mexico, 1996, Figure 3.2 and Table 2, pp. 75-76.
again to reach an annual average of 6.3 million pesos a year, which represented over 60% of total disbursements of the Mexico City central treasury. These sums included both military expenses effected within the viceroyalty as well as certain transfers for the defense of other colonies. These transfers bespeak the highly complex nature of the financial integration of the empire and reflect the fiscal interdependence of its different parts.

A review of the long-term trends in the export of tax monies from Mexico, however, indicates that in toto more funds were actually shipped to other colonies than to Spain, itself, between 1720 and 1800. This phenomenon is relatively little-known and rarely appears in the traditional historiography but its analysis helps explain why we argue that New Spain operated as a fiscal submetropolis during the Bourbon era.

**The richest colony: Mexico as submetropolis**

It may be presumed that, as historians continue to work on the extensive statistical series of Spanish royal finance in the eighteenth century, a full description of the fiscal and financial geography and dynamics of the empire will eventually emerge. But such an ambitious purpose must be restricted at the present stage to more limited objectives. Our aim here is quite simply to demonstrate that during the eighteenth century a major part of the costs of maintenance of the Spanish civil and military administration in the greater
Caribbean fell upon large and rising transfers of silver from the royal treasuries of New Spain.\textsuperscript{81}

That these remittances could have increased so notably during the eighteenth century has drawn the attention of historians who have been struck not only by the great volume of tax silver exported but also by the quite close correspondence with the trends of silver production and mintage in New Spain.\textsuperscript{82} (See Figure I.3). Despite the close correlations, it would be a mistake to think that remittances were simply derived from the mines, for as we will have occasion to see in chapter 2, the tax system of the colonial regime in the late Bourbon period was quite broadly based, and only one quarter of the monies collected by the royal administration came from mining taxes. On the other hand, there is no question that without the great silver mining boom of the late colonial era, there would not have been possible such high volumes of fiscal transfers to the other Spanish American colonies and to Spain, itself.

The remittance of royal silver from the richest colonies to support military defenses in South America, the Caribbean and the Philippines was an old mechanism of imperial finance, although its significance increased enormously in the eighteenth century. During the reign of Philip II (1556-1598), when the basic legislation governing commerce and navigation within the empire was ratified, the practice of tax transfers became institutionalized and came to constitute a regular

\textsuperscript{81} The statistical series of the real hacienda of New Spain (and especially that of the real caja of Veracruz) published by Herbert Klein and John TePaske make possible a year-by-year reconstruction and analysis of the financial transfers from the viceroyalty to the metropolis as well as to different parts of the American empire. We have complemented this data with additional archival information on the "Situados" from New Spain, among the most important of which were financial remittances established from the end of 16th century for the support of military and administrative bastions in the Caribbean.

\textsuperscript{82} See, in particular, Garner, Richard, \textit{Economic Growth and Change in Bourbon Mexico}, chapter 7.
part of royal finance throughout Spanish America. Not surprisingly, most of the fiscal remittances (situados) were sent to key ports with fortresses and garrisons or, alternatively, to key frontier posts of the empire.  

The principal providers of these funds were the royal treasuries of New Spain and of Peru, although they were not the only ones. A lesser but still significant role in this regard was exercised by the treasuries of Tierra Firme and Caracas. Already in the year 1584 the Crown ordered that New Spain should send financial support to Cuba, Santo Domingo, Puerto Rico and Florida and hence Havana became the key redistributing point for the fiscal transfers sent from Mexico to the greater Caribbean. Since foreign shippers and pirates (particularly British, French, Dutch) also used the same sea-routes, the Spanish authorities found it necessary to create a defensive system that was based on the protection of the most vulnerable and strategic ports and channels of passage, and it was there that the major fortifications and garrisons were established.

The costs that such a defensive system required could not be covered by the Caribbean provinces and, as a result, recourse was had to remittances from

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83 Although the term "situado" means salary or rent paid or remitted, within the Spanish empire it was used specifically to refer to the remittance or transfer of royal funds from one "caja" of the royal treasury to another in order to cover expenses of strategic importance. For the early 18th century definition see Diccionario de la lengua castellana in its first edition of 1739, known as that of "Autoridades". For a later definition see José Canga Arguelles, Diccionario de Hacienda (Madrid: 1834), vol.2, 509: “Llevaban este nombre ("Situados") las cantidades que anualmente se remitían desde las cajas reales de América a otras provincias, para suplir con su importe la falta de los productos de sus rentas y atender al pago de las obligaciones del erario en ellas.”

84 Julio Le Riverend Brusone, ‘Relaciones entre Nueva España y Cuba (1518-1520)’, in Revista de Historia de América, nums. 37-38 (1954), 90. The exact date of the establishment of the first situados to the islands of the great Caribbean has not yet been established. According to the references cited by Le Riverend, more or less regular remittances were made to Havana from the 1570s. But the only precise date for a royal order in this respect -September 18, 1584- is that provided by Manuel Villanova, ‘Economía y civismo’, in Revista cubana, (1892), 157-190 (reprinted in Havana: Ministerio de Educación, 1945), 43.

85 A suggestive analysis is found in Paul E. Hoffman, The Spanish Crown and the Defense of the Caribbean, 1535-1585 (Baton Rouge: Louisiana State University, 1980).
the more prosperous American possessions of the Spanish Crown, a tendency that was accentuated progressively as military expenses rose over the seventeenth and eighteenth centuries. Thus, it became established practice that the viceroyalty of New Spain would send large, annual sums of royal funds to pay for a large part of the garrisons and fortifications throughout the greater Caribbean as well as in the Gulf of Mexico. Furthermore, New Spain was charged with the financial support of the *Armada de Barlovento*, a naval squadron created to protect the main sea-lanes used by Spanish shipping in the Caribbean.\(^8^6\)

The original objectives of the *situados* in the Caribbean were closely tied to naval priorities and especially to the need to defend the annual flotillas on the initial or final stages of their transatlantic journeys. The main predators in the Caribbean were pirates and privateers of different European nationalities that flourished in the mid and late seventeenth century. By the early eighteenth century it was British warships which came to represent the greatest danger. As a result, the Spanish monarchy reinforced its networks of intra-imperial financial transfers, the economic and strategic importance of which is essential to understand key aspects of the military and financial administration of the empire in the Americas.

But were the Mexican situados unique? Clearly not. While our focus is on the remittances from colonial Mexico, it should not be forgotten that both the viceroyalty of New Granada and that of Peru provided monies to a large number

of military garrisons and ports in South America. From the royal treasury at Santa Fé de Bogotá, capital of New Grenada, as well as from that of Quito, tax monies were sent to support the military garrisons at Cartagena, Santa Marta, Rio Rancha, Isla Margarita and a part of the costs of the Armada de Barlovento.  

The royal treasuries of Lima, for their part, annually sent monies to sustain the military and naval garrisons at Panama and Portobello as well as to Valdivia and Chilhoé on the southern coast of Chile. In addition, it should be noted that the great treasury at the silver-rich city of Potosi (in modern Bolivia) financed additional garrisons, including that of Buenos Aires and, through it, those of Montevideo, Patagonia and the Malvinas Islands.

The analysis of these remittances speaks to the complexity of intra-imperial tax structures and dynamics. Since the Mexican situados were the most important in the period under consideration, we now turn our attention specifically to the analysis of the problems associated with the financial transfers by the royal treasury at Veracruz for the sustenance of the civil and military administrations in Cuba, Santo Domingo, Puerto Rico, Florida, Louisiana and several other Spanish

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colonies in the Antilles. A brief review of the origins of the military objectives of this kind of intra-imperial remittances is followed by summary analysis of the volume of remittances to the different colonial territories. We underline the importance of the financial transfers in times of international war, and in particular the huge contribution of the royal treasuries of Mexico and Veracruz to cover the costs of the military operations conducted by the Spanish Crown in the years 1779-1783 against Great Britain throughout the greater Caribbean- including Florida and Louisiana- precisely as the war of independence of the thirteen colonies reached its apogee.

**Imperial expenses covered by the Mexican situados**

Military expenditures were the principal items financed by the situados, although they were not the only ones. The payment of salaries of troops and officers (infantry and artillery) stationed in the different garrisons, the costs of fortifications in the principal ports and of the various naval squadrons absorbed a large volume of funds, which tended to rise through most of the eighteenth century.

The strategic importance of these fiscal transfers in sustaining the naval "life-lines" of the empire in the Caribbean and the Gulf of Mexico can be judged by their contribution to the costly reinforcement of the great fortifications of Havana,

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89 To determine the levels of remittances on account of the royal treasury from New Spain to Spain and to the American situados we consider that the series from the "real caja" of Veracruz are the fundamental and most complete source of data. We follow here John TePaske in his essays 'New World Silver' and 'The Financial Disintegration'.
Cartagena, San Juan and Veracruz, as well as in the maintenance of the ships of the royal Armada (when on mission in the region) and the expenses of the Havana shipyards. While the construction of ships at the Cuban capital was financed mainly with the royal remittances from New Spain, there were also private contributions to the Armada. In the 1780s, for example, two of the largest battleships, the "Regla" and the "Mexicano" (both with 114 cannon) were built in Havana shipyards with a half million peso contribution by two of the wealthiest silver miners of New Spain.

During the reign of Carlos III (1759-1788) a considerable portion of the Mexican fiscal transfers was also used to reinforce fixed garrisons composed mostly of infantry in the principal Caribbean ports. These military forces grew in size as is confirmed by the increase in number of local units (both regular troops and militia), provoking a parallel rise in expenditures in salaries, provisions and equipment. Feeding thousands of troops as well as providing them with tobacco and alcohol, supplying them with uniforms, arms and munitions required considerable resources. To which was added the maintenance of the small and great fortresses with cannon and powder as well as materials for regular repairs.

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90 A description of the fortifications constructed during the colonial period can be found in José Antonio Calderón Quijano, Las fortificaciones españolas en América y Filipinas, Madrid, MAPFRE, 1996. Also by the same autor: Historia de las fortificaciones de Nueva España, (Seville: Escuela de Estudios Hispanoamericanos, 1953).

91 The silver miners in question were the Count of Regla and the Count of Valenciana. These donations were also common in France. See Martine Acerra and André Zysberg, L’essor des marines de guerre européennes, 1680-1790, (Paris: Editions Sedes, 1997), p. 71, which notes that 14 warships of the French Royal Navy were financed by donations from French wealthy contributors between 1763 and 1766.

Although the tax monies sent from Mexico were employed principally to cover costs of the defensive apparatus of the empire, this was not their only function. From an early date, funds were also used for additional purposes such as the support of religious missions charged with the submission and indoctrination of rebel Indian tribes, as was the case both in northern New Spain as well as in different parts of the greater Caribbean. In addition, the situados were not infrequently utilized to provide for salaries of civil functionaries and for ecclesiastical authorities on the frontiers of the empire. Occasionally they even were of assistance in financing certain specific colonization projects such as was the case in Santo Domingo, whence a considerable number of peasant families from the Canary Islands were transferred with support of the royal treasury, or the case of Trinidad, where the Spanish government promoted agricultural colonies.

Last but not least, important remittances not related to imperial defense were those managed by the royal tobacco monopoly. In order to help pay the costs of the annual tobacco harvests in Cuba, the Madrid Cabinet instructed the tobacco monopoly of New Spain to send a fixed annual sum to the royal treasury in Cuba to assist with annual payments due to local tobacco farmers. In 1723 the

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93 Engel Sluiter, *The Florida Situado: Quantifying the First Eighty Years, 1571-1651* (Gainsville: Florida, University of Florida Libraries, 1985), 5-6. As late as the 18th century the situados were used to cover these expenses as can be seen in the “reales cédulas” of Nov. 20, 1741; Oct. 13, 1756, and April 6, 1763: Archivo General de la Nación, México (hereafter AGN), *Reales Cédulas Originales*, v. 61, e. 91, f. 334, v. 76, e. 123, f. 290 and v. 86, e. 66.

94 See, for example, AGN, *Reales Cédulas Originales*, v. 62, e. 60, f. 185, v. 76 e. 144, f. 331 and v. 63, e. 60, f. 159, and Historia, v. 570, f. 57, and Archivo Histórico de Hacienda, leg. 1210, e.1.

sum sent to Havana on this account was of 200,000, but by 1744 the figure had risen to 500,000 pesos per year, at a time when the money destined for the military garrison of the Cuban port was but 400,000 pesos. Both the tobacco and military remittances were ratified in 1768 and continued to be sent annually from New Spain until the beginning of the nineteenth century.

The significance of the tobacco situado was underlined by Ramón de la Sagra in a classic study which pointed out the strategic importance of the Mexican silver transfers in greasing the wheels of the royal tobacco monopoly, probably the largest state enterprise in the eighteenth century world. According to De la Sagra, more than 100 million pesos worth of tobacco leaf were sent from Cuba to Spain during the five decades of 1760-1810. The Cuban leaf was processed by the great Seville tobacco factory, helping to generate almost 25% of total revenues of the metropolitan treasury by the end of the century. As a result, Mexican and Cuban fiscal subsidies were key factors for the solvency of the monarchy.

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96 Ramón de la Sagra, *Historia económico-política y estadística de la isla de Cuba*, Habana, 1831, pp.240-266. That the Spanish tobacco monopoly was an enormous enterprise can be judged from the fact that from 1770 its production sphere included factories in Spain (that at Seville employed over 5,000 workers in 1800), in Mexico City (over 8,000 workers in 1800), as well in many other parts of the empire. At the same time, thousands of persons were employed in official tobaccionist sales points throughout the empire. Finally, several thousand tobacco farmers in Cuba and Mexico as well as a lesser number in Louisiana, Puerto Rico, Santo Domingo, New Granada and the Philippines depended for their living upon the royal monopoly. For details see Laura Nater, “El tabaco y las finanzas del imperio español: Nueva España y la metrópoli, 1760-1810”, P.h.D. thesis, Mexico, El Colegio de México, 1998.


98 By the 1780s the tobacco monopoly was contributing close to a quarter of annual ordinary revenues of the Spanish treasury. The estimates are to be found in Carlos Marichal, “Beneficios y costes fiscales del colonialismo: las remesas americanas a España, 1760-1814” in *Revista de Historia Económica*, 1997, xv, no. 3, pp. 475-505. Also see data in Appendix I of this book.
Geographic distribution of the situados

The increase of the volume of tax remittances from colonial Mexico to the Spanish Caribbean during the eighteenth century was of such significance that the distinguished Cuban historian, Le Riverend, called this period the "golden age of the situados". As previously indicated, the bulk of the silver pesos were normally sent in ships of the Spanish Navy from Veracruz to Havana and hence redistributed to other points in the greater Caribbean, although some royal tax transfers were sent via other routes. (See MAP.) The amount of money sent annually to the diverse ports, fortresses and garrisons was, generally speaking, a function of the relative, strategic importance of each. Although fixed yearly amounts (to each destination) were ratified by different royal orders, the actual sums sent varied considerably from year to year, depending on a variety of factors. Variations in troop strength of the various garrisons as a result of deaths and desertions or, alternatively, as a result of the outbreak of military conflicts in the region had an impact on financial demands. Likewise, the requirements of naval squadrons could change dramatically as a result of battles or storms: the loss of a large number of ships, inevitably, implied extraordinary expenditures as much new ship construction became obligatory.

99 J. Le Riverend, ‘Relaciones entre Nueva España y Cuba’, p. 92 and 143-144, is one of the first historical studies to have underlined the significance of the situados; his estimates of remittances to Cuba from New Spain appear to be based on R. de la Sagra.
100 Each American province was obliged to send documents that justified the level of defense expenditures and this explains why in the Archivo General de la Nación of Mexico, (hence forward cited as AGN) there are numerous reports of the regiments in each garrison and of the number of deaths and deserters. See, for example, reports on garrisons in Puerto Rico, AGN, Archivo Histórico de Hacienda, leg. 1210.
Throughout the eighteenth century the Havana "Situado" was made up of three principal items: "tierra", "marina" and "tabaco", the former two categories being essentially defense expenditures. The first royal order which we have found that refers to the ordinary annual "Situado" to Havana is that of August 2, 1744 in which it was established that 500,000 pesos should be sent from New Spain to cover the annual expenses of the Cuba royal treasury offices in the acquisition of the tobacco harvest.\textsuperscript{101} Archival sources indicate that during the 1750s the remittances of Mexican tax funds for infantry in Havana averaged 400,000 pesos a year as well and additional 500,000 pesos for naval forces and shipbuilding.\textsuperscript{102}

After the British invasion and occupation of Havana in 1762, during which local shipyards and forts were seriously damaged, royal officers stationed in Cuba called for increased financial assistance. In 1765, orders were sent from Madrid instructing the treasuries of New Spain to annually send 300,000 pesos for fortifications in Havana and 100,000 pesos for those in Santiago de Cuba. Three years later in 1768 the remittances to Havana were increased, reaching the sum of 1,900,000 pesos, of which 700,00 pesos were to be used for naval purposes,

\textsuperscript{101} E. Arcila Farias, Comercio entre México y Venezuela, p.203, confirms the figure of 500,000 silver pesos, but J. Marchena, ‘Financiación military y situados’, pp. 271-73, registres only 400, 000 pesos. R. de la Sagra, Historia económico-política y estadística, p.277, indicates that in 1756, 436,000 pesos of the Mexican remittances were annually spent to maintain the four battalions of infantry, one of cavalry and one of artillery in Havana.

\textsuperscript{102} ‘Libro manual de cargo y data de la Real Caja de Veracruz’ for the year 1758, AGN, caja matriz; and J. Marchena, ‘Financiación military y situados’, pp.271-73. It should be noted that the category of "marina" is one of the most difficult to specify since some of the funds went for the salaries of sailors and officers, and other sums for provisions and ship repair or construction. For example, a report of October 19, 1758 indicated that of 1,016,094 pesos sent to Havana for "marina", 407,123 pesos were to be used for expenses of the naval squadron, 100,924 pesos for ship construction and 508,047 for urgent naval disbursements. AGN, Historia, v. 570, f. 204.
400,000 for army troops, 300,000 for fortifications and 500,000 for the tobacco harvest.\textsuperscript{103}

According to the expert statistician Ramon de la Sagra, between 1766 and 1788, Havana received 58 million pesos in fiscal transfers from Mexico, and another 57 million pesos in the years from 1789 to 1806.\textsuperscript{104} These figure must be considered estimates since there are considerable differences in the data provided by other contemporary sources but they suggest the enormity of the fiscal contribution of colonial Mexico to the Spanish colonies in the greater Caribbean.\textsuperscript{105} Significant differences are also found when comparing the extraordinary sums registered at times of war in the Caribbean, particularly in the 1760s, early 1780s and 1790s. In order to provide an idea of the complexities involved in these fiscal transfers we briefly analyze the remittances from New Spain during the war of 1779-1783 when the Mexican \textit{situados} to Havana and the rest of the Spanish Caribbean reached their highest peak in all of colonial history.

\textsuperscript{103} AGN, \textit{Reales Cédulas Originales}, v. 92, e. 48, f. 88.
\textsuperscript{104} R. de la Sagra, \textit{Historia económico-política y estadística}, pp.280-281.
\textsuperscript{105} The eighteenth century administrative experts, Fonseca y Urrutia calculated the average annual value of Mexican remittances for military expenses to Havana at 1,285,000 pesos between 1785 and 1789 (this obviously did not include the tobacco subsidy) whereas their equally expert colleague, Maniau, proposed a figure of 2,674,213 pesos as the average between 1788 and 1792. On the other hand, the accounting book of the royal treasury of Veracruz for the year 1791 gave a total of 1,050,000 pesos but did not include the category of naval expenses. See: Fabián Fonseca y Carlos de Urrutia, \textit{Historia general de la Real Hacienda} (Mexico: Imprenta de Vicente G. Torres, 1845-1853), XIII-XXVII; Joaquín Maniau y Torquemada, \textit{Compendio de la historia de la Real Hacienda de Nueva España escrito en el año de 1794}, notes by Alberto María Carreño (Mexico: Sociedad Mexicana de Geografía y Estadística, 1914), 43-46; AGN, caja matriz, \textit{Libro Manual de cargo y data de la Real Caja de Veracruz para el año de 1791}. 
The financial contribution of New Spain to the war against Great Britain, 1779-1783

Both the French and the Spanish monarchies took advantage of outbreak of the war of independence of the thirteen North American colonies (1776-1783) to launch their own offensives against Great Britain both in Europe and in the Caribbean. The central objectives of the military campaigns initiated in the western hemisphere by the Spanish crown in 1779 included the reconquest of Florida, the reinforcement of Spanish positions in Louisiana, (mainly along the southern Mississippi) and attacks upon British positions in the Bahamas, Jamaica and Honduras. The costs of the war implied great expenditures. These were incurred by Spanish military forces operating in various points in the greater Caribbean, although the requirements were greatest in Havana where the bulk of troops and ships were concentrated from early 1780 onwards. In order to finance this great military effort, the crown made demands on the treasuries of New Spain that went far beyond the standard levels of remittances to Cuba. So considerable were these charges that by the early 1780s they surpassed the capacity of the tax structure of New Spain to provide sufficient funds and obliged the viceroy to call for a series of forced and voluntary loans from all sectors of the Mexican population.

106 The first three objectives were successful, whereas the raids on Honduras were a failure and the naval campaign of Jamaica proved a major failure as a result of the sea victories obtained by the British Navy under the command of admiral Rodney. On the Bahama campaign see James A. Lewis monograph The Final Campaign of the American Revolution. Rise and fall of the Spanish Bahamas (Columbia: University of South Carolina Press, 1991).

107 A previous study of these loans can be found in Carlos Marichal, ‘Las guerras imperiales y los préstamos novohispanos’, 1781-1804 in Historia Mexicana, xxxix: 4 [156], 881-907.
The official correspondence between Viceroy Martín de Mayorga from New Spain and military commanders in Havana illustrates the extraordinary volume of financial support and other types of assistance sent to Havana from Veracruz, including large amounts of provisions and manpower.\textsuperscript{108} As historian Melvin Glascock argued, during the war (1779-1783) New Spain "was virtually the sole support of Spanish arms in the Americas... and made for the mother country and her allies a contribution unmatched in the history of colonial Spanish America." \textsuperscript{109} The estimates by Glascock and fellow historian James Lewis of the huge shipments of silver from Veracruz to Havana during the war are similar despite the fact that they used different primary sources: Lewis estimated that 34 million silver pesos were sent from Mexico as situados to the Caribbean during the military conflict, while Glascock argued that these remittances reached 37 million pesos (or dollars) in the same five years.\textsuperscript{110}

The contribution that these remittances represented for the overall war effort of the Spanish Crown can only be judged indirectly, but their importance is

\textsuperscript{108} The information on the shipments is found both in a variety of sources in the Archivo General de la Nación as well as in two excellent and infrequently cited doctoral theses by James Lewis and Melvin Glascock which provide an abundance of data on the crucial role of New Spain in the war. See: Melvin Bruce Glascock, ‘New Spain and the War for America’, 1779-1783 (Ph. D. diss., Louisiana State University, 1969) and James A. Lewis, ‘New Spain during the American Revolution, 1779-1783: a Vicerroyalty at War’, (Ph. D. diss., Duke University, 1975).


\textsuperscript{110} The source used by Glascock is a very detailed document titled "Decretos, Planos Certificaciones sobre el Costa de la Guerra", Archivo Histórico Nacional (Madrid) Consejo de Indias, leg. 20721, cuaderno v., ff. 77-109, cited in M. Glascock, ‘New Spain and the War’, pp. 265-74. The estimates of J. Lewis, ‘New Spain during American Revolution’, p.146, are from AGN, Hacienda, vol. 395, exp 7. Despite being derived from different archival sources, these figures also agree with those in the treasury summaries of Veracruz published by Klein and TePaske: the total amount registered as leaving Veracruz for Havana between 1779 and 1783 is 37.8 million pesos See Veracruz data in J. TePaske and H. Klein, Ingresos y egresos de la Real Hacienda: these can be consulted in Excell format in the website “Estadísticas Históricas de México” in the website of El Colegio de Mexico, www.coltmex.mx where a link will be found in “Biblioteca” under “Bases de datos” from September, 2006.
manifest. This financial subsidy was worth over 750 million reales (one silver peso was equal to twenty reales de vellón, the monetary unit most used in the treasury accounts in Spain). This was an extraordinary sum for the period if we consider that it was equivalent to twice the annual peacetime defense expenditures of the metropolitan treasury at Madrid.¹¹¹

A difficult problem is to find out exactly how these monies were spent since only a part remained in Cuba while the rest was remitted for various military operations throughout the greater Caribbean. It should be noted, however, that the majority of the funds went to finance three types of military expenditures: (1) the expeditionary army under the command of Bernardo Gálvez, the headquarters of which was at Havana, but operated in the Floridas and Louisiana; (2) the Armada, under the direction of admiral José Solano, that carried out various naval operations against the British throughout the greater Caribbean; (3) the military garrisons in Cuba, headed by captain general Juan Manuel Cacigal, which included thousands of Spanish, Cuban and Mexican troops. While there are a number of historical studies that analyze aspects of the military campaigns undertaken by these forces, there are only a few studies of the precise disbursement of funds.¹¹²

¹¹¹ This estimate is based on the exchange rate of 20 reales vellón to each silver peso. For comparative financial data on metropolitan finance see Pedro Tedde, 'Política financiera y política comercial en el reinado Carlos III', Actas del Congreso Internacional sobre Carlos III y la Ilustración, (Madrid: Ministerio de Cultura, 1989) vol.2, p143.

¹¹² An exception is Johanna von Grafenstein Gareis, Nueva España en el Circuncaribe, 1779-1808: revolución, competencia imperial y vínculos intercoloniales, (Mexico, UNAM, 1997), which provides excellent data. Also very useful is J. A. Lewis, New Spain during the American Revolution, pp.130-159.
The financial documents generated by the war are abundant but dispersed and sometimes contradictory. The official correspondence of the viceroys in the Mexican archives includes the confidential reports sent by Viceroy Martín de Mayorga to the minister of Indies, José de Gálvez, including much information on the silver remittances sent to Havana on Spanish warships. Mayorga frequently complained that the Cuban functionaries rarely acknowledged receipt of the shipments and that he therefore had insufficient information on effective disbursements in the island; he even went so far as to suggest to Gálvez that he believed that important sums were used for illicit purposes. In October, 1781 the viceroy informed Galvez that he should not pay attention to the complaints of the top royal official at Havana who said that he had not received enough money. Mayorga added that, in fact, enormous sums had been sent in the previous months from Veracruz to Cuba to assist in the war-effort: Mexican tax remittances had surpassed 12 million silver pesos, plus 1.5 million pesos in provisions (flour and hard tack, ham, bacon, salt meat, powder, etc.) and the transfer of a force of 1,913 Mexicans who were to be employed by the Spanish naval squadrons operating out of Cuba.\(^\text{113}\)

That the viceroy of New Spain was responsible not only for sending funds and supplies but also for evaluating the scale of the financial effort required to sustain the war in the Caribbean is confirmed by his correspondence with a variety of royal functionaries. In October 1782, the chief treasury officer of New Spain informed Mayorga that he had constructed a provisional estimate of war expenditures in the previous year and was using it to calculate future

disbursements. On the basis of the correspondence between admiral Solano, general Bernardo Gálvez and the Intendant of New Spain, Pedro Antonio de Cosío, he able to calculate that the Armada operating out of Havana had absorbed 5,600,000 pesos in the last three years whereas the expeditionary armies in Florida and Louisiana as well as the garrisons in Cuba had required 7,000,000 pesos.114 The same treasury officer noted that all of these funds had been sent punctually to Havana on various warships, surpassing all previous expectations of the financial resources that could be obtained in New Spain for this costly war.

Despite assurances from Mexico, the minister of the Indies at Madrid, José Gálvez, remained profoundly concerned that all military expenses be covered punctually as the war intensified. In 1780 he had dispatched a high-ranking official, general Francisco Saavedra (later minister of Finance under Charles IV) to supervise and speed up the remittances of funds from Veracruz to Havana, as well as to coordinate the provisions of additional funds and supplies to the allied French fleet in the Caribbean. In a letter to Gálvez dated September, 1782, viceroy Mayorga made a point of noting that when Saavedra arrived with royal orders to remit ten million pesos for the war, everyone had thought this impossible. Nonetheless, the task had been fulfilled as one warship after another left Veracruz carrying silver for Havana. The first to leave was the battleship "San Francisco de Asis" which carried Saavedra on board and one million pesos to Havana, followed by another ship with two million pesos a few days later. Subsequently, the "San Agustín" took more than four million pesos to Cuba and,

114 AGN, Marina, v.12, f. 144-149.
on a second journey, the "San Francisco de Asis" loaded another two million pesos. Mayorga argued that this effort constituted "an increase never before seen in shipments of silver on account of the royal treasury" and he added that this had been possible in part because of his success in raising a combination of forced and voluntary loans from all sectors of the population of the viceroyalty.

Although the transfer of silver was the most valuable contribution of New Spain to the war waged in the Caribbean against Great Britain, other important contributions included food provisions for the troops and other war supplies. Large amounts of gunpowder from the royal powder factory in Mexico City were sent to military forces at Havana, New Orleans, Campeche, Tabasco and El Guarico. Other important war supplies sent from Veracruz were copper sheets for ship repairs and cargoes of lead. Food provisions sent from Mexico included flour, dried vegetables and ham. The amount of flour (from the region of Atlixco/Puebla) was considerable, totaling 3,983,400 pounds sent to Havana between 1779 and 1783.\textsuperscript{115} On the other hand, it is also important to note that even larger quantities of supplies (particularly flour) came from the United States, as Philadelphia shippers plied their wares most actively and were paid in return with Mexican silver.\textsuperscript{116}

\textsuperscript{115} M. Glascock, ‘New Spain and the War’, pp. 265-273, provides detailed lists of provisions sent year by year.
\textsuperscript{116} Linda Salvucci has written extensively on this subject: see, for example, “Atlantic Intersections: Early American Commerce and the Rise of the Spanish West Indies (Cuba), Business History Review, 79 (Winter 2005), 781-800. For additional analysis of this see essays in Jacques Barbier and Jacques y Allan J. Kuethe, eds., The North American Role in the Spanish Imperial Economy, 1760-1819, Manchester, Manchester University, 1984.
The provisions sent out from Mexican ports to Cuba were destined not only for the sustenance of the Armada and for the garrisons at Havana but also to supply the several thousand troops operating out of Mobile and Pensacola which successfully carried out the reconquest of Florida and reinforcement of Spanish garrisons in New Orleans. It is interesting to note that a considerable portion of the soldiers and sailors who participated in the diverse battle campaigns in Florida and Louisiana were Mexican: in 1780 some two thousand seamen were sent from Veracruz to reinforce the naval squadrons at Havana, and in 1782 three thousand men of the Crown Regiment from Mexico City and one thousand troops of the Puebla Regiment were incorporated into the infantry in Cuba, Louisiana and Florida. Finally, hundreds of Mexican convicts were sent out each year to fulfill their sentences, doing forced labor in Cuban shipyards and fortresses.\textsuperscript{117}

Apart from covering strictly military expenditures, the remittances of Mexican silver to Cuba also were used to cover a set of international debts of the Spanish government of Charles III. For example, a total of three million pesos were paid at Havana between 1781 and 1783 to the agents of the French-Spanish syndicate of bankers headed by Francisco de Cabarrús, who was instrumental in the establishment in 1782 of the Bank of San Carlos.\textsuperscript{118} This bank was charged with handling the new Spanish internal debt ("vales reales") of the administration of Carlos III and with service of the external debt, mostly held in Amsterdam. The

\textsuperscript{117} For information on the soldiers of the Mexican Crown Regiment see C. Archer, *Ejército en el México borbónico*.; M. Glascock, ‘*New Spain and the War*, pp. 265-273, provides annual information on the transfer of seamen from Veracruz. Finally, according to Lucas Alamán, Historia de México, vol.1, appendix, document 1, the principal police court of New Spain, the Tribunal de la Acordada, condemned 10,244 men as convicts to do hard labor at military garrisons between 1782 and 1808.

\textsuperscript{118} This operation is reviewed in detail in Pedro Tedde “Los negocios de Cabarrús con la Real Hacienda, 1780-1783”, in *Revista de Historia Económica*, v. 3, 1987, pp. 527-551.
Mexican silver constituted repayment for loans advanced to the Madrid administration to guarantee the success in issue of government bonds, known as "vales reales", and for the launching of this first Spanish banking institution.

Last but certainly not least, Mexican funds delivered to Cuba indirectly contributed to the most important military victory of the thirteen colonies against the British in 1781. This little known chapter in the early history of the United States merits more research but can be briefly summarized. As of early 1781 a great French naval flotilla, headed by Admiral Count De Grasse, was stationed in the port of Cap François in Saint Domingue (Haiti) in the spring of that year but needed one million silver pesos from their Spanish allies. The money was to be used for sailors’ pay but more importantly to pay the thousands of French troops, led by Count Rochambeau, who were already heading with American forces under George Washington to blockade Cornwallis in the Chesapeake. The viceroy at Mexico, Martín de Mayorga, received orders to send the silver at all speed. On July 11, hundreds of bags of silver were loaded on mules and wagons and “moved from the capital to Veracruz by forced marches to be loaded on two warships from Havana.”\textsuperscript{119} The treasure ships traveled to Havana where they were instructed to rendezvous with the French naval forces under De Grasse off the coast of Matanzas, at which point the treasure was transshipped on August 17. The French Armada then immediately headed north and on August 31 arrived in Chesapeake Bay and successfully cut off Cornwallis from a sea exit. In this way, Mexican silver contributed to the decisive surrender of the British Army at

\textsuperscript{119} M. Glascock, ‘New Spain and the War’, p.187.
Yorktown and the victory of the American and French land forces under generals Washington and Rochambeau.

In summary, during the war years of 1779-1783 the fiscal contributions of New Spain proved to be of strategic importance for imperial policy for a combination of military and financial reasons. Our study indicates that the administration of Carlos III was able to meet rising expenditures in the 1780s without risking bankruptcy in large part because the remittances of Mexican silver. This suggests that it is necessary to refine the hypotheses of researchers such as historian Pedro Tedde who has argued that the Spanish financial success in the 1780s (in striking contrast to the financial failure of its ally France) was due to the ability of the government of Charles III in covering steeply rising wartime expenditures by intelligent handling of the debt policy of the Spanish monarchy.\textsuperscript{120} Our analysis, however, indicates that such an argument—focusing almost exclusively on the metropolis—tends to leave the contributions of colonial Mexico largely out of the picture, and therefore makes it virtually impossible to understand the complex course of imperial finance. The fact is that the bulk of the war expenses in the Caribbean and North America were not covered with funds from Spain but by Mexican silver.

Both during the war and after the conclusion of hostilities, the remittances of silver—raised by taxes and loans in Spanish America—proved to be essential pillars of the fiscal and debt policies of the administration of Charles III as well as of his son Charles IV, who became monarch in 1789. In the last years of the eighteenth century, however, as war became an almost permanent state of

\textsuperscript{120} P. Tedde, ‘Política financiera y política comercial’, pp.139-217.
affair, large military deficits became a characteristic feature of royal finance. The Bourbon monarchy therefore required more and more money both to pay army and navy as well as to cover service on the ballooning public debt. As a result, the fiscal and financial demands of the metropolis upon the Spanish American colonies and, in particular, upon Mexico increased dramatically. In the chapters that follow we focus, first, on the analysis of the colonial tax system which provided the greatest volume of revenues for the empire and, secondly, on the increasing number and complexity of colonial loans for the metropolitan government.
Chapter 2

An Imperial Tax State: the Fiscal Rigors of Colonialism

The colonies of Spain and Portugal only have contributed any revenue towards the defense of the mother country, or the support of her civil government. The taxes which have been levied upon those of... England in particular, have seldom been equal to the expense laid out upon them in time of peace, and never sufficient to defray that which they occasioned in time of war.

Adam Smith, Wealth of Nations IV. 7. 9.9

In the summer of 1763, the British Cabinet, headed by Lord George Grenville, announced the introduction of the first of a series of new taxes in the thirteen British colonies in North America. After signing the Treaty of Paris, the British government had resolved to assure its multiple victories by increasing its standing military forces in North America, a strategy which inevitably implied considerable expenditures. According to Richard Bonney, “the need after 1763 for a permanent military establishment in the American colonies at a likely cost of some £ 224,000 per annum (civil administration had cost a mere £50,000) meant that new tax revenues had to be found in the colonies to meet the bill.” The fiscal innovations were soon confronted with...

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122 The Treaty of Paris was signed on February 10, 1763 between Great Britain, France, Spain and Portugal.

123 Early in 1763, it became known that it was the intention of the British government to keep an army of ten thousand men in America, and that the colonies were expected to contribute to its support. For an overview see Nester, William R. The First Global War: Britain, France, and the Fate of North America, 1756-1775. Westport: Praeger, 2000.

strong protests. The rejection of the Navigation Acts, the Sugar Act and the Stamp Act by the colonists was one of the major catalysts of revolution and of the war of independence (1776-1783) by the new United States, according to most standard historical interpretations.

The protests and political conflicts provoked by imperial taxes in the thirteen colonies were not unique. In Spanish America, tax reforms introduced from the 1760s also spurred a series of popular revolts, some of which eventually became major social and political rebellions. In Mexico, a series of localized protests were repressed quickly and bloodily: over 80 men were executed by royal officials in the late 1760s and many hundreds deported or imprisoned and forced to do hard labor for life. In Peru and New Granada resistance to fiscal reforms translated into massive mobilizations and the formation of informal armies that threatened colonial rule in both viceroyalties during the years 1780-1782. In Peru the repression of these movements led to imprisonment and execution of thousands of peasant Indians, who had risen in arms to follow their leaders Tupac Amaru and Tupac Catari. In New Granada, in contrast, church officials were able to negotiate a settlement with the rebels, known as comuneros, avoiding the fall of Bogotá by means of a series of political and fiscal concessions.

Tax revolts in Spanish America therefore did not lead to independence as in the emerging United States, and the viceroyalties remained under control.

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125 For details on tax revolts and repression in Mexico in the 1760s see Felipe Castro Gutiérrez, Nueva ley y nuevo rey: reformas borbónicas y rebelión popular en Nueva España, Zamora, El Colegio de Michoacán, 1996.
of the Spanish monarchy for almost another half century. In this sense, the Spanish empire in the western hemisphere proved surprisingly durable. Clearly, the persistence of the colonial regime implied high fiscal, political and economic costs for the inhabitants of Mexico, Peru, New Granada, Chile, Buenos Aires, Venezuela and the other territories under the sway of the Catholic monarchy. At the same time, there is no doubt that social elites and corporations –such as the church and merchant guilds- benefited from the stability and from the maintenance of their secular economic privileges and control over official appointments. Indeed, whether one looks to the monarchy or to colonial elites, it would appear that the introduction of new taxes, a more rigorous state administration and the expansion of colonial armies during the second half of the eighteenth century contributed to a conservative revolution in government.126

In short, it is our argument that the durability of the Spanish empire was due, in great measure, to the success of Bourbon reformers in reforging an "imperial tax state", albeit of a quite complex character. By the decade 1790-1800, the Spanish colonies generated more revenues than any other colonies in the eighteenth century world. The joint tax income of all colonial administrations in Spanish America at this time can be placed in the range of 30 to 35 million pesos a year.127 This figure was somewhat more than the total ordinary income of the government in metropolitan Spain: adding them together made for a total of close to 60 million silver pesos.128 As a result, circa 1790, the Spanish

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126 See D. Brading, Miners and Merchants, chapter 1, titled ‘Revolution in Government’.
127 Our estimates are considerably lower than those proposed in H. Klein, The American Finances, p.28.
128 The ordinary tax income of the Spanish government in the year 1790 was 516
imperial state—metropolis plus colonies—produced a sum total of tax income which was equivalent to approximately 70% of peacetime revenues of the metropolitan government of Great Britain and also almost 70% of the taxes collected annually by the government of France, the largest and richest nation in continental Europe, at the end of the old regime.\footnote{129}

Furthermore, as Herbert Klein has demonstrated, the growth rates of tax receipts throughout Spanish America were among the highest in the world between 1760 and 1790.\footnote{130} The establishment of new fiscal monopolies, the rise in tax rates, the elimination of most tax farming and the establishment of a proficient tax accounting system throughout the vast empire bespoke considerable state dynamism under the administration of Charles III (1759-188).

The introduction of such policies which implied a degree of modernization of the state bureaucracy would appear to be comparable, in many regards, to those underscored for other eighteenth century European nations: numerous parallels can be found with the studies by historian Patrick O’ Brien and John Brewer which have demonstrated that the British state increased its revenues with great rapidity as a result of a combination of tax reforms and the growth of a more efficient and rigorous administration of thousands of clerks and tax collectors.

\footnote{129} For French and British tax revenues in 1785 see Eugene White, ‘France and the failure to modernize’ in R. Bonney, ed., \textit{Economic Systems and State Finance}, p. 64. By 1790-1794, British tax income had reached a level of around 17 million pounds sterling per year, equivalent to more than 85 million silver pesos (or dollars). For Spanish revenues see annual series in J. P. Merino, \textit{Las cuentas de la Administración}. For the Spanish American treasuries the most important source is J.TePaske and H. Klein, \textit{Las cajas reales de la real hacienda} and J.TePaske and Herbert S. Klein, \textit{Royal Treasuries of the Spanish Empire in America, 1580-1825}.

\footnote{130} Herbert S. Klein, \textit{The American Finances of the Spanish Empire}, chapter 2.
These fiscal improvements provided the funds for a striking increase in the size and strength of the British Navy and of the armed forces, in general. A similar set of fiscal, administrative and military reforms were applied by the Spanish crown in the metropolis and extended to all its colonies; but what made this strategy distinctive is that it could have been carried out so systematically by the absolutist regime of Charles III throughout his vast overseas domains, stretching from California to Patagonia and Cape Horn.

That the Bourbon monarchy of Spain should have been able to reforge a fiscal military state on an imperial scale and obtain a growing amount of tax revenues from its colonial subjects despite the lack of representative political institutions may seem surprising. Such a capacity to raise taxes in an absolutist regime seems to run counter to the idea - prevalent in much current historical and political science literature - that representative governments are the best at raising taxes, as well as in contracting public debt. Much has been made of the fact that some of the greatest absolutist monarchies - such as that of France - particularly in the eighteenth century - faced severe problems in expanding tax revenues on a sustained basis. Actually, the same problems besieged the Bourbon monarchy inside Spain, itself, since attempts from the 1730s to

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modernize the tax regime in the metropolis met with rather limited success.\textsuperscript{134} However, history offers many examples of authoritarian regimes—whether imperial or not—that were able to extract great amounts of monies from their subjects.

Recent historical research has demonstrated, in fact, that the implementation of Bourbon tax reforms was more effective in the Spanish American colonies than in the metropolis.\textsuperscript{135} Coercion was an indispensable tool to increase extraction of monies from colonial subjects but other instruments were also used to improve collection and diversify tax resources. Bourbon administrative reform proved fundamental in this regard as an empire-wide campaign was launched to increase the number, professionalism and efficiency of fiscal bureaucrats. The detailed studies by Luis Jáuregui and Linda Arnold, among others, illustrate the increasingly professional character of the colonial fiscal administration—branch by branch—transforming it into a complex and highly structured state apparatus.

But to collect more taxes without generating major protests it was not enough to have a more professional and more rigorous bureaucracy. As we have already mentioned, in the viceroyalties of Peru and New Granada, royal officials initially provoked extreme reactions by tens of thousands of irate mostly, poor taxpayers, although eventually the new taxes were put in place. In New Spain, on the other hand, royal functionaries were more careful in dealing


\textsuperscript{135} The fundamental reference work is H. Klein, \textit{The American Finances}. 
with the privileged corporations that characterized the colonial *ancien régime*. They negotiated specific terms of fiscal innovations with the great miners and merchants as well as the church- and after 1770 managed to avoid major conflicts with the artisan guilds and the Indian peasant communities (known as *repúblicas de indios*).

From a geopolitical perspective, it is clear that the colonial fiscal regime had a differential impact in the various regions of Spanish America, as we have already suggested in our analysis of tax transfers: for example, the silver rich colonies tended to subsidize other colonies which benefited from the considerable transfers of funds. But overall, the fiscal statistics suggest a general rise of government income as a result of the introduction of new taxes and fiscal monopolies in all the viceroyalties, New Spain, Peru, New Granada and the Río de la Plata, as well as in the captaincy generals of Chile, Venezuela, Guatemala and Cuba, particularly during the reign of Charles III.

**Tax reforms and the construction of an imperial tax state**

The historical reconstruction of royal income in the different regions of colonial Spanish America has advanced leaps and bounds in the last two decades. The statistical sources collected by Herbert Klein and John TePaske and other historians provide basic guidelines. The detailed series of tax receipts in almost one hundred royal treasuries in Spanish America demonstrate a rising trend from mid eighteenth century onwards. In the early 1780s, there was a temporary drop in tax income in much of the empire as a result of agrarian and demographic crises and popular revolts, but from the latter part of that decade,
a general recovery of receipts can be identified, with the result that the 1790s were witness to the age of greatest fiscal revenues in the history of Spanish America.  

In terms of ordinary income there were vast differences from one colony to another. Further research is necessary to be able to have a detailed evaluation of the fiscal accounts of each of the many treasuries of the Spanish empire, but general estimates can be offered that suggest some problems of scale. Three viceroyalties led the way: circa 1790, colonial Mexico produced between 18 and 20 million pesos annually in ordinary revenues, New Granada approximately 3 million, Peru and Upper Peru together more than 6 million, while the other colonies produced somewhat lesser sums: Cuba close to 2 million pesos, Venezuela, between 1.5 and 1.8 million pesos, Guatemala and Chile each with over 300,000 pesos and the viceroyalty of the Rio de la Plata with a regional tax collection of perhaps one million pesos. 

This is the conclusion of H. Klein, *The American Finances*, chapter 1. Much of the data can be found in an Excell format in H. Klein and J.TePaske, *Las cajas reales de la real hacienda.*, which can be consulted in the website at El Colegio de México, “Estadísticas Históricas de México”. There are numerous accounting problems in this data (particularly after 1787) and it is therefore obligatory to confront with many other primary sources in the Spanish and Spanish American archives.

The most successful case of fiscal reform was unquestionably that of New Spain which experienced the greatest increase of tax income. The question is how and why this was so. As already established in chapter one, colonial Mexico produced such large revenues that it could export a great portion to cover the administrative and military costs of empire in the western hemisphere as well to Spain, itself, in the second half of the eighteenth century. According to Herbert Klein, by 1800 residents in Bourbon Mexico paid 70% more taxes per capita than Spaniards in the metropolis. While this is evidently an estimate, it would appear to be pretty much on the mark, as we shall see. There is no doubt that Mexican taxpayers were making a striking contribution to the imperial administration.

If we extend the comparisons further, the high levels of fiscal pressure in New Spain are confirmed. By 1790 colonial Mexicans were paying a yearly average of 3.6 pesos (3.6 dollars) per capita in taxes to the royal government, which was more than the average tax payer in absolutist Spain (approximately 2.5 pesos per annum) or in pre-Revolutionary France (3.2 pesos per capita). On the other hand, Mexicans paid less than taxpayers in Great Britain who

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138 J. P. Merino, Las cuentas de la Administración, by 1790 the ordinary revenues of the Spanish government were averaging 520 million reales (26 million silver pesos), which divided by a population estimated at 10.2 million, (Floridablanca Census of 1787) gives us a figure of 2.5 pesos per capita per year. On the other hand, in Mexico the ordinary income of the colonial administration was close to 20 million pesos per year which, divided by a population of approximately 5.5 million, gives us a figure of 3.6 pesos per capita per annum, 69% more than the Spanish figure.
provided their government with the equivalent of 9.5 pesos per capita, but this was in the richest nation of Europe and that with the highest tax rates in the late eighteenth century world. 140

The Bourbon fiscal regime was certainly rigorous, considering the poverty of the majority of the population of New Spain but estimating the burden of taxation is not any easy task. To begin with, it is important to note that the colonial tax system was quite broadly based: taxes on silver directly produced close to one quarter of total revenues, but the remaining three quarters came from a fairly wide range of exactions, of which sales taxes, Indian tribute and the receipts from state produced monopoly goods were most important. For comparative purposes one possibility would be to calculate tax payments in relation to average, individual income. According to Richard Salvucci, a review of the existing historical estimates indicates that two thirds of Mexican families (mostly peasants) received no more than 60 pesos in income at the end of the eighteenth century. 141 If we calculate that each average working family had four members, we can estimate that their tax burden may have been as high as eight pesos per year. 142 That would imply that they would have to contribute to the state close to 15% of their

140 The data for France and Britain is in current prices of 1790. See Peter Mathias, and Patrick O'Brien, ‘Taxation in Britain and France, 1715-1810. A Comparison of the Social and Economic Incidence of Taxes Collected for the Central Governments’, Journal of European Economic History, 5:3 (Winter), (1976), p.611. The silver peso was worth between 5.6 and 6 French livres. However, an accurate comparison would require comparison of real per capita income in each country as well.


142 We here use an estimate of 2 pesos taxes paid per capita, a lower figure than the 3.6 pesos per capita (which is the result of dividing total fiscal income by total population) for several reasons. In the first place, it is extremely difficult to calculate average tax payments because it is necessary to differentiate between peasants of Indian towns (repúblicas de indios) who paid tribute but were exempt from the alcabalas, and other workers who did not benefit from exemptions. Moreover, any calculation should eliminate silver taxes which did not directly affect workers.
extremely limited income, a high level for an ancien regime society.143

What were the reasons for extraordinary efficiency of the tax machinery in New Spain in terms of extraction capacity? To answer this question it is necessary to turn attention first to the overall fiscal strategy and secondly to the precise nature of tax reforms. This can help us understand how Bourbon reformers extracted money from all sectors of colonial society, both rich and poor.

**Bourbon fiscal strategies in the Americas: reforms and varying degrees of resistance**

Despite the changes that were introduced in the second half of the eighteenth century, the colonial tax structure in Spanish America was not a modern fiscal system for it retained many typical features of secular European regime tax structures. It was modeled in part on the old fiscal regime of Castile but also had pronounced differences as is demonstrated by the fact that there existed a number of direct taxes which were not applied in the metropolis, in particular Indian tribute and taxes on silver mining. Generally speaking, the tax system in the Americas was oriented towards revenue-raising, since the colonial administrations were not as inclined as the government in the metropolis to offer much flexibility with regard to the interests of tax-paying groups. It is true, of course, that there were some significant exemptions for

143 According to Brewer, in Great Britain, the most advanced economy (and the most heavily taxed) of the eighteenth century, “the share of per capita income appropriated as taxes reached 23% in 1783… almost twice the comparable French figures…”. J. Brewer, *The sinews of power*, p.91.
privileged groups (landowners, churchmen, military officers) which might suggest that the fiscal system was regressive. Nonetheless, a number of taxes—such as those on silver mining—were not regressive, a fact which suggests that the interpretation of the entire range of taxes should be analyzed with attention to nuance. Fiscal administration was also a matter of political negotiations between the state and diverse social corporations, as can be also observed in the case of the Indian communities that also received certain fiscal exemptions.

From the mid-eighteenth century, Bourbon reforms made for a more centralized and efficient tax machine throughout Spanish America. The basic model was that established by royal envoy, José de Gálvez, during his mission in New Spain (1765-1771). His vigorous reform campaign consisted in the introduction of a complex set of administrative, accounting and tax instruments aimed at increasing revenues. Gálvez also proceeded to eliminate most tax farming in the viceroyalty, particularly that exercised by the powerful Mexico City Merchant Guild, which had become accustomed to administering extremely profitable contracts for the collection of sales taxes (alcabalas) throughout the viceroyalty. The result of greater state control was to generate a great increase in the revenues generated by these indirect taxes which were collected in every rural and urban market in the viceroyalty.

At the same time, Gálvez and a generation of high-level functionaries of the Spanish monarchy pressed for the establishment of a larger, more
hierarchical and professional fiscal administration.\footnote{L. Jáuregui, \textit{La Real Hacienda de Nueva España} and L. Arnold, \textit{Burocracia y burócratas en México, 1742-1835} provide the essential analysis and description of the Bourbon fiscal bureaucracy.} This was not a unique trend. As John Brewer has demonstrated in the case of eighteenth century Britain, the activity of thousands of well-trained clerks was key in improving state administration.\footnote{J. Brewer, \textit{The Sinews of Power}, particularly chapter 3.} In the case of Spanish America this is also verified by the high quality of the Bourbon accounting records of taxes and expenditures from 1760 onwards.\footnote{Scores of historians who have worked in the archives of Bourbon Mexico and Spain attest to the high quality and detail of the colonial fiscal accounts. For detailed observations see the introduction to J. TePaske and H. Klein, \textit{Royal Treasuries of the Spanish Empire}.} The improvement was visible in the accounting records of the majority of the regional colonial treasuries and the principal branches of the royal tax administration, including the state monopolies and the royal mints. But it should be noted that since the colonial regime was absolutist and there were no local legislatures, there was little publicity given to the tax records. In fact, the summaries of the revenues of the colony were normally known only by the viceroy and his closest advisers, as well as by the Spanish cabinet. The original documents were kept in the government archives in each colony and copies of most of the documentation were remitted annually in warships to Cadiz and Seville.\footnote{The enormous volume of documents have proved invaluable for scores of contemporary historians. The richest sources are to be found in the Archivo General de Indias in Seville and in the Archivo General de la Nación in Mexico, but there are also major repositories in all the capitals of the Spanish American nations.}
Another innovation of the Bourbon was the reinforcement and modernization of fiscal monopolies.\textsuperscript{148} The production and sale of key commodities tobacco, powder and mercury was now thoroughly controlled by the royal administration. This was accomplished by the transformation of the old monopolies into large and relatively efficient state companies, as we shall have occasion to comment in greater detail in pages following. At the same, an additional revenue source - state lotteries - were introduced in the Spanish American colonies, following in the steps of the ancient lottery of the Kingdom of Naples, where Charles III had been monarch previous to assuming the Spanish throne.\textsuperscript{149}

The Gálvez tax reforms as applied in New Spain were extended to the rest of the Spanish American empire and the Philippines in the 1770s with considerable speed and homogeneity. Other \textit{visitor generals} (royal inspectors with great powers) were sent from Madrid to Peru, New Granada and other parts of the Spanish American empire with the same end. However, opposition to tax reforms in the diverse colonies varied notably. In colonial Mexico, for example, the visitor general, Gálvez, responded to initial tax protests by summary executions of almost a hundred workers in the late 1760s and the imprisonment of many more; afterwards, there were few protests.

\textsuperscript{148} A thorough analysis of the administrative innovations in the fiscal regime of New Spain can be found in L. A. Jáuregui, \textit{La Real Hacienda de Nueva España}.

\textsuperscript{149} The Real Lotería de la Nueva España, began operations in 1771 and was used to obtain funds for the government as well as to finance poorhouses, including the Hospicio de Pobres de la ciudad de México. Subsequently, lotteries were established in the late eighteenth century in Peru, Chile and Cuba.
Royal functionaries found greatest resistance in the Andes. The most extensive and violent opposition in the early 1780s to the tax reforms took place in two viceroyalties, New Granada and Peru. According to numerous historians, the catalyst of rebellion in 1780 and 1781 in many towns and cities in the valleys and mountains of southern Peru and, later, in upper Peru (modern day Bolivia), were “the fiscal reforms initiated by the visitor-general, José Antonio de Areche and implemented in the viceroyalty from 1777 onwards.” The popular disturbances that broke out in early 1780 in Arequipa, Huaraz, Cerro de Pasco, La Paz and Cochabamba were the prelude to full-scale social rebellions headed by Indian nobles Tupac Amaru and Tupac Catari. Soon, tens of thousands of inhabitants of the Peruvian sierra – rich and poor - were engaged in a revolution which devolved in a regional civil war. The internecine struggle among the leaders of rival Indian lineages contributed to the final defeat of the rebels by Spanish forces. The repression was fierce as thousands were persecuted and executed.

Although much traditional historiography has tended to focus attention on the great Peruvian revolts of 1780 and 1781, more recently researchers have argued that there were many important antecedents that demonstrate the resistance to tax reforms, long before the arrival of Areche to Peru. The magnificent book by Scarlet O’Phelan Godoy on the successive eighteenth century rebellions in the viceroyalty of Peru clearly demonstrates the long-standing opposition of great swaths of colonial Andean society to fiscal

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innovations that negatively affected local trade and also weighed heavily on peasant towns.\textsuperscript{151}

Almost at the same time as the Peruvian rebellions were being bloodily dissolved, in the viceroyalty New Granada a revolution broke out that also was spurred by rejection of the Bourbon tax reforms. Colonial elites allied with popular sectors and organized a rebel army in central regions of the viceroyalty that marched by stages to the capital to protest the increase in sales taxes, the imposition of new duties on alcoholic beverages (\textit{aguardiente}) and the imposition of the tobacco monopoly. The visitor-general, Juan Francisco Gutierrez de Piñeres was forced to flee from Bogotá to the coastal port of Cartagena. Eventually, the rebels (known as \textit{comuneros}) put down their arms in exchange for a wide range of concessions, including temporary reductions in certain taxes.\textsuperscript{152}

In colonial Mexico, as we have noted, initial social protests in the late 1760s were rapidly crushed and, subsequently, there is little documentary evidence of tax rebellions before 1810. Why this was so is a major question

\textsuperscript{151} The resentment was directed at the \textit{mita}, the traditional form of forced labor recruitment imposed by the Spanish regime in the Andes, against hikes in the rates of \textit{alcabalas}, \textit{aguardiente} (alcoholic beverages) and tobacco as well as opposition to reforms of the \textit{repartimiento} system of trade. Details on the many rebellions of the eighteenth century can be found in Scarlet O’Phelan Godoy, \textit{Un siglo de rebelioners anticOLONIALES. Perú y Bolivia, 1700-1783}, (Cuzco: Centro Bartolomé de las Casas, 1988). An excellent analytical discussion can be found in Juan Garavaglia and Juan Marchena, \textit{América Latina: De los orígenes a la independencia}, (Barcelona: Crítica, 2005), vol. 2, pp.132-143.

\textsuperscript{152} The standard study is John L. Phelan, \textit{The People and the King: the Comunero Revolution in Colombia, 1781}, (Madison: University of Wisconsin Press, 1978). For more recent contributions see essays in J.Fisher, A. Kuether and A. Mcfarlane, eds., \textit{Reform and Insurrection}. 
which historians have not yet resolved since the intensity and breadth of the Bourbon fiscal offensive in colonial Mexico was unmatched. There was undoubtedly much disguised local resistance to hikes in taxes as is confirmed by archival research on the numerous protests to be found in the alcabala (sales tax) documentation every time rates were raised or the base extended. But it is also true that there is scarce testimony of full-blown tax riots in the late colonial period in the viceroyalty. Indeed, the lack of systematic opposition to the tax reforms surely contributed to the extraordinary large volume of receipts from virtually all taxes and state monopolies. The result was that New Spain became the tax jewel of the Spanish empire during its final decades, and more specifically between 1780 and 1810.

3) The Tax structure of New Spain: microcosm of the Spanish empire in the Americas

The tax structure in colonial Mexico was made up of a combination of direct and indirect taxes. As can be seen from Table II.1, there were four main sources of fiscal income: taxes on trade, taxes on mining, Indian tribute and state monopolies. Close to a quarter of the royal receipts came from sales taxes (alcabalas) and a series of port taxes (avería and almojarifazgo) which had long been applied by the monarchy in both Spain and in the colonies. 

Equally important were the fiscal monopolies, which also had their origins in Spain, such as the mercury, tobacco and powder monopolies as well as that of playing cards. On the other hand, the direct taxes applied in the colonies had

153 I thank Richard Salvucci for drawing my attention to this point.
154 For a complete list of all tax branches see H. Klein, The American Finances, Appendix 3. For Mexico see Archivo General de la Nación, Caja Matriz, Libro Común de la Tesorería de Ejército y Real Hacienda año de 1810.
no counterpart in the metropolis, the most notable being the taxes on silver mining (which provided around 25% of net fiscal receipts) and the Indian tribute tax (which contributed somewhat less than 10%).

Another distinguishing feature of the tax regime in colonial Mexico was that it was more homogeneous than tax systems in the different regions of Spain where fiscal diversity was common, particularly in Navarre, the Basque country and Aragon. In the viceroyalty of New Spain the same set of taxes were levied throughout the realm and accounting methods tended to be more consistent, particularly after the mid eighteenth century when the farming out of taxes was eliminated. Nonetheless, there were marked differences in the productivity of diverse taxes according to each region of Mexico. Hence, the only adequate method to understand the functioning of the colonial fiscal system is to review the productivity of different tax branches overall and then to do so on a regional basis.

One important propertied sector that had to pay direct taxes was that composed by the owners of silver mines. The tax rates on silver production had fallen from 20% in the sixteenth century to 10% in the eighteenth century, but still represented a most, significant portion of royal revenues in Mexico. While the direct tax on mine production (known as the mining diezmo) was the single most important item among the varied list of exactions which fell upon silver, a close runner-up was income derived from seigniorage, as shown by the data on minting revenues (amonedación de oro y plata). [See Table II.1.] Additional income was derived from the sale of the products of the state-owned mercury...
monopoly, an essential ingredient for colonial silver refining processes, but the bulk of the income thus generated could not be disposed of by the local treasuries: it was shipped off to Spain to buy more mercury. The net annual revenues obtained from mining taxes- directly and indirectly- approached 4 million pesos in the 1790s, approximately a fourth of total net income of the viceregal government.\textsuperscript{155}

The mining guild fought for some reductions and exemptions, but these were established only in some regions. Most significant was the struggle by the corporation of silver miners (known as the Tribunal de Minería) to obtain preferential prices on mercury, which was a state monopoly. Regular shipments of mercury from the Almaden mines of Spain were indispensable for an efficient process of silver refining. Throughout the eighteenth century silver miners fought to obtain more and cheaper supplies and in this they were largely successful: as economic historian Rafael Dobado has demonstrated, the extraordinary boom in silver mining in Bourbon Mexico was closely correlated with the rise in imports of mercury supplies.\textsuperscript{156}

Richard Garner has demonstrated that the increase of silver production - as measured by the data of the Mexico City mint – approached 1.3% a year during the eighteenth century, a figure superior to all other economic sectors.\textsuperscript{157}

\textsuperscript{155} These calculations are higher than the relevant percentages offered by Klein (1995), but it should be noted that Klein did not use consolidated accounts nor did he discount costs of fiscal administration nor does he take into account seignorage of the mint. Our source is Memoria instructive del estado comparativo de los productos de la Real Hacienda (México, 1813), ms. 1282, Biblioteca Nacional (México).


\textsuperscript{157} R. Garner, Economic Growth and Change in Bourbon Mexico, p.109.
This has led other authors to speak of the phenomenon of “mining-led growth” in colonial Mexico. The real and relative increase was notable: “By 1800, New Spain’s production represented almost two thirds of world silver output.” But silver mining was not simply an extractive sector: it was the most modern sector of the colonial economy in terms of technology, finance and labor relations, production in the mines being exclusively based on free labor. Moreover, it stimulated innumerable backward linkages to a notable variety of manufacturing and agricultural enterprises. In any case, we have already remarked on the fact that there was certainly a close correlation overall during the eighteenth century between the production of silver and tax receipts.

The most archaic and "sui generis" of the colonial fiscal exactions was the tribute tax ("tributo") levied on all heads of households in the Indian towns (the so-called Indian republics or communities). The rate was slightly more than two silver pesos (two dollars) to be paid yearly by every "tributario", being charged uniformly on Indian peasants who lived and cultivated their own land and only occasionally on peasants who worked on haciendas or plantations. In the 1790s the annual income generated from this source was slightly over 1

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159 The classic study on this subject is Carlos Sempat Assadourian, El sistema de la economía colonial: el mercado interior. Regiones y espacio económico, México, Grijalbo, 1983.
160 See Appendix 1.3 and the correlations, based on a methodological proposal communicated to the author by Richard Garner.
161 This tax was originally derived from the tribute paid to the Aztec emperors by all subject peoples and therefore can be considered to be an "American" tax with no European legacy. For detailed information on the institutional description of each of the taxes the fundamental source is the multivolume work by the functionaries of the colonial treasury F. Fonseca y C. de Urrutia, Historia general, a work originally written in the late 1780s.
million pesos, making up approximately 7.6% of net income of the viceregal government.

The tributo was levied on the heads of each Indian peasant households in each of the 4,400 Indian towns (designated as repúblicas de indios) that existed in late eighteenth century Mexico. ¹⁶² This head tax was generally collected by local authority figures or, in some cases by the local parish priests or a royal functionary. The governors of each peasant village or town took charge of receiving funds and depositing them in the local communal treasuries (cajas de comunidad).¹⁶³ These monies were later handed over to the royal functionaries who visited each village and town annually to ensure collection of the tribute. As can be seen in Figure II.1, there was a marked trend upwards in total revenues, a fact which essentially bespoke the demographic recovery in most of the century. While the amounts exacted were considerable for a poor peasantry, they remained stable and there were relatively few major protests against this poll tax, perhaps because it was seen as payment for royal protection of Indian townships and communal lands. In this regard, it should be noted that the payment of tribute had long been linked to a still viable and, for the most part, effective if paternalistic judicial system that had its axis in the

¹⁶² See the extraordinary atlas by Dorothy Tanck de Estrada, Atlas ilustrado de los pueblos de indios : Nueva España, 1800, (México, El Colegio de México, 2005).
¹⁶³ The fundamental studies are by Dorothy Tanck de Estrada, ‘Escuelas y cajas de comunidad en Yucatán al final de la colonia’, Historia Mexicana, xliii: 3 [171], (1994), 401-449; and ‘Protesta indígena al rey en contra de las cajas de comunidad, 1793-1806. Cultura política en torno a los reglamentos para los pueblos de indios’, ms., (México, El Colegio de México, 1995).
General Indian Court, as can be seen in the magnificent study by Woodrow Borah on this body.\textsuperscript{164}

A third branch of income was that derived from taxes on trade, most of which were duties on internal commerce ("\textit{alcabalas}") and on native alcoholic beverages ("\textit{pulques}"), producing 24\% of net receipts in the 1790s. The \textit{alcabalas} were actually a medieval fiscal instrument of Arabic origin, which was introduced into Spanish America from early in the sixteenth century. These sales taxes were levied in the colonies in almost identical form to counterparts in Spain and France.\textsuperscript{165} The entire population of New Spain normally paid the \textit{alcabalas} at all local markets and fairs as well as in urban stores at a rate of 6\% on the market value of most products sold; but during times of international wars rates were frequently jacked up. These taxes were popular with royal administrators largely because of the large volume and relative stability of their yield, although in times of agrarian crises (like the terrible calamity that devastated rural Mexico in 1784/85) revenues fell drastically. (See Figure II.2)

According to the detailed studies of Garavaglia and Grosso, the gross product of the sales taxes increased from the 1760s until the mid 1780s because of growing commerce in countryside and in towns but also as a result of increasing pressure exerted by collectors.\textsuperscript{166} A complement to the \textit{alcabalas}


\textsuperscript{165} In Spain these sales taxes were known as "\textit{consumos}" but figured under the fiscal category of "\textit{rentas provinciales}": For a precise discussion see Miguel Artola, \textit{La Hacienda del antiguo Régimen}, pp.336-355.

\textsuperscript{166} On \textit{alcabala} trends see Juan Carlos Garavaglia and Juan Carlos Grosso, \textit{Las \textit{alcabalas} novohispanas, 1776-1821}, México, Archivo General de la Nación, 1987.
was the *pulque* tax, charged on the most popular alcoholic beverage consumed by the Indian and popular sectors. The impact of a severe agrarian crisis such as that of 1785—which caused an estimated 300,000 deaths—was translated directly into in decline in revenue collection; in fact, after the crisis, pulque tax receipts never recovered previous levels, but rather tended to decline. (See Figure 3.)

Another set of indirect contributions were port taxes, paid on warehousing of imported goods and other port services, although these were generally set at low rates and were apparently not considered extortionate. While there existed specific taxes on external trade and such as the "*almojarifazgo*" (a toll on ships using the harbor), port customs were not of great importance. Merchants who imported goods did not have to pay customs duties in the colonial era although as in the case of domestic commodities, they were obliged to pay the *alcabala* at rates that ranged from 6% in the 1770s, 8% in the 1780s, 6% in the 1790s, rising subsequently during the wars of independence (1810-1820) to as much as 15%.

The highest growth in revenues in late eighteenth century New Spain came from various state monopolies, the most important being the tobacco monopoly. Established in New Spain in 1767, it had become the single largest source of public revenues by the end of the century, then providing almost 30% of the viceroyalty’s net income.\(^{167}\) Sales of tobacco increased prodigiously in

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On pulque collections see José Jesús Hernández Palomo, *La renta del pulque en Nueva España, 1663-1810*, (Sevilla: Escuela de Estudios Hispanoamericanos, 1980).\(^{167}\) Also important were the powder and salt monopolies as well as those on playing cards and on cockfights. The state lottery also provided additional income. A detailed
the second half of the century and so did monopoly receipts. The state-owned tobacco factory in Mexico City employed over 8,000 workers by 1800 although this was only a part of the total number of people who depended on the monopoly for their livelihood: these also included some two thousand administrative and commercial employees and several thousand tobacco farmers. However, net income tended to stabilize at around 3 million pesos a year in the 1790s as a result of the increasing costs of key imported supplies such as paper. (See Figure II.4).

The tobacco monopoly was the greatest individual enterprise in New Spain but it was not autonomous: it maintained close financial, commercial and productive links to the tobacco monopoly in Cuba, Louisiana and Spain. More tenuous were relations with the state tobacco establishments in other colonies of the empire, including Venezuela, Peru, New Granada, Costa Rica and the Phillipines. In any case, this extended royal firm was a vast and

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168 Susan Deans-Smith, Bureaucrats, Planters and Workers: The Making of the Tobacco Monopoly in Bourbon Mexico, (Austin: University of Texas Press, 1992) is an excellent study of the Mexican state tobacco enterprise in this period.


multiregional royal company, perhaps the largest of its kind in the eighteenth century world.

Other public revenues were obtained from a mosaic of fiscal instruments. For instance, the colonial government received a number of ecclesiastical fiscal transfers, including the *media anata*, *bulas*, and a percentage of the tithes collected from peasants and landlords. These arrangements, dating back to the sixteenth century, bespeak the fact that the Catholic Church was closely linked to the crown not only ideologically but also in fiscal terms.

In diverse and complementary essays, Herbert Klein has described the fundamental trends of tax income in eighteenth century colonial Mexico: tribute tended to move with population, increasing or falling as demographics did. Mining taxes diminished in relative importance because of lowered rates but were still enormously important.\(^{171}\) Alcabalas and port taxes tended to increase regularly until the 1790s, and came to provide approximately 25% of total income. Tobacco revenues grew steadily until right down to the wars of independence and also contributed around a quarter of the colonial administration’s ordinary revenues. But was there a direct relation between economic growth and tax receipts? Mathematically inclined economic historians raise grave doubts about the possibility of proving this proposal.\(^{172}\)

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\(^{171}\) For tax trends see H. Klein, *Las finanzas americanas*, chap. 5 and C. Marichal Bancarrota del virreinato, chap. 2.

\(^{172}\) The arguments of Herbert Klein may be found in *The American Finances of the Spanish Empire*. A very strong logical critique is Mónica Gómez, “El debate sobre el ingreso fiscal y la actividad económica. El caso de la Nueva España en el siglo XVIII,” in C. Marichal and D Marino, eds., *De colonia a nación*, pp.115-134.
For a more nuanced view of tax trends, it is worthwhile taking a brief look at regional revenues in the second half of the eighteenth century. Such a perspective allows us to see that tax revenues reflected some aspects of the varied structure of regional economies. In this regard it is necessary to be cautious rather than deterministic. In order to grasp the difference in dynamics of revenue collection on a regional basis, a summary review of the regional tax evolution can prove instructive: we focus on the royal treasuries at Guadalajara, Zacatecas, Mérida (Yucatán) and Veracruz between 1760 y 1810.\textsuperscript{173}

In the case of Guadalajara a predominantly agricultural and ranching zone with a fair number of small silver mines, the latter still produced most state income (54% of total) in 1760. In contrast, by 1810 mining taxes represented only 17.6% of total receipts. The bulk of receipts now came from taxes on trade, mainly alcabala on agricultural and manufacturing commodities plus duties on mezcal (a popular alcoholic beverage), together providing 46% of gross royal income of the regional treasuries.\textsuperscript{174} [See Table II.2] The reasons for the shift from mining taxes to sales taxes can be found in changes in the regional economy. The research of both Eric Van Young Antonio Ibarra demonstrates that the growth of capital of Guadalajara and secondary cities stimulated an increase in rural production while

\textsuperscript{173} The tax categories increased in the respective intendancies as follows: in Zacatecas from 6 main branches in 1760 to 15 in 1810; in Guadalajara from 12 in 1760 to 25 in 1804; in Mérida from 11 in 1760 to 22 in 1800.

\textsuperscript{174} Our estimates are based on fiscal series in J.TePaske and H. Klein, \textit{Ingresos y egresos de la Real Hacienda}. For purpose of obtaining net income we eliminated the categories of existencias, depósitos, otras tesorerías y extraordinario.
mining stagnated. As a result, the expansion of rural and urban markets offered excellent opportunities for increased taxation.

In contrast, in a mining region such as Zacatecas, the relative changes in tax revenues were almost imperceptible during the second half of the eighteenth century. In 1760, of 19 tax categories, those on silver mining produced 83% of the total; half a century later, in 1810, there were 30 fiscal branches but mining still contributed 75% of gross income. [See Table II.3] The continuity in the tax base was also visible in the tax records of the royal treasury of Mérida, Yucatán, where the largest source were taxes on Indian peasant communities. In 1760, Indian tribute produced 43% of total receipts while in 1808 the local treasury continued to rely mainly on this source, receiving 35% of its income from contributions of the peasant communities. [See Table II.4]

A quite different fiscal structure can be observed in the case of Veracruz, a region which had the largest port in the viceroyalty and much commercial agriculture. In 1760 net tax income was 265,000 pesos but by 1810 the total had climbed quite spectacularly to 1.5 million pesos: much of this was derived from expansion of external trade. Duties on imported goods, known as alcabalas del mar, provided 32% of total revenues, while harbour duties on ships known as almojarifazgos supplied of 36% of total fiscal receipts. [See Table II.5] These

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176 If we deduce income obtained in Yucatán through the war donation of 1808, the proportion of the Indian tribute in Merida remains the same as in 1760. For details see D.Tanck, ‘Protesta indígena al rey’.
177 Our estimates are based on fiscal series in J.TePaske and H. Klein, *Ingresos y
figures indicate that the liberalization of commerce impelled by the Bourbon reforms successfully stimulated the expansion of both internal and external trade and thereby provided new sources of tax revenue.

The analysis of regional fiscal trends suggests that royal administrators were well aware of both continuity and change in local economies. When the traditional bases of a regional economy did not change, the old, direct taxes remained the source of most revenues, as can be seen in the case of silver mining in Zacatecas and peasant agriculture in Yucatán. On the other hand, in regions which experienced more rapid economic transformations such as Guadalajara or Veracruz, tax dynamics shifted quickly and indirect taxes came to the fore. In a word, the fiscal system managed to capture the essential trends of economic expansion without trying to measure or assess it directly, a near impossibility at that time. An additional aspect that underlines the fiscal ingenuity of the royal officials was their emphasis on taxing tobacco and alcohol: this was indicative of an awareness of the positive returns to obtained from taxing goods for which demand was relatively inelastic but not compulsory. In any case, the high growth rates of tax revenues throughout the viceroyalty was most visible in the period 1760-1785, being followed later by a slower expansion in the two following decades.

egresos de la Real Hacienda. We do not include in local Veracruz income the transfers from other treasuries such as that of Mexico which were to be remitted abroad.

178 I am grateful to Richard Salvucci for this and several other observations on the implicit logic of the Spanish fiscal system at this time.
4) The fiscal costs of colonialism for the inhabitants of New Spain

Beyond measuring revenue trends over time, it is also important to raise the issue of impact and incidence of taxes although this is a subject that awaits much future research. In recent years a few studies have begun to probe into some aspects of the social consequences of tax policies in colonial Mexico, analyzing tax shifting and incidence and also the economic effects of the Bourbon monarchy’s efficient but heavy tax machinery.\textsuperscript{179} Such analysis can prove of interest for an evaluation of the costs of colonialism for specific social groups but also sheds light on future debates on what may be termed the fiscal constitution of the colonial regime in Spanish America.\textsuperscript{180}

In the case of Indian tribute for example, the burden for Indian peasant families in Mexico was significant since it represented 2 and a half pesos on a small income (which would be, at best, some 20 to 25 pesos a year for a nuclear family).\textsuperscript{181} It was also hard on those Indian peasant families which produced little in the way of agricultural or ranching commodities that could be

\textsuperscript{179} See C. Marichal, \textit{La bancarrota del virreinato}, chap. 2 and Carlos Marichal and Daniela Marino, eds., \textit{De colonia a nación: la transición fiscal en México, 1750-1850}, Mexico, El Colegio de México, 2001, chapters 1-3.


\textsuperscript{181} The estimate of 25 pesos would be wage earnings of an Indian who had regular work on a ranching or agricultural "hacienda". For estimates of rural wages and income: see Richard Garner and S. E. Stefanou, \textit{Economic Growth and Change in Bourbon Mexico}, Gainesville, University of Florida Press, 1993, pp.81-84. However, many Indian peasants simply lived off a small piece of their own land and their income was largely non-monetary, consisting basically of subsistence food products, mostly maize and beans.
exchanged for money, and particularly hard on those who had no land or were in dire poverty, of which there were many. On the other hand, it is also true that Indian peasant communities were largely exempt from other taxes such as the alcabalas on the maize and beans that they produced mostly for sustenance but a small percentage of which they regular marketed.\textsuperscript{182}

A very different case was that of taxes on silver mining, a tremendously important economic sector. This direct tax of 10\% on the production of all silver fell directly on the mine owners. It does not appear that there could be much shifting forward of this tax, although some shifting backwards was possible insofar as miners might pay less for certain inputs of essential supplies, but this subject has not been studied in depth. In any case, the complaints of miners with respect to rising costs were sufficiently strong from the late 1770s as to force the Crown to reduce various taxes related to mining, including mercury prices (a state monopoly) and alcabalas on key supplies for the mining sector such as mules and horses, leather, salt, and powder.

The alcabalas, which were the most important of indirect taxes, affected all consumers, rich and poor.\textsuperscript{183} The sales taxes fell clearly on the final consumer who bought food or textiles. However, it is hard to evaluate exact incidence because it is necessary to study different types of commodities as

\textsuperscript{182} Juan Carlos Garavaglia and Juan Carlos Grosso, “Estado borbónico y presión fiscal en la Nueva España, 1750-1821”, in Antonio Anino, coord., \textit{América Latina: del Estado colonial al Estado nación}, Turin, Franco Angeli Libri, vol.1, p. 92-93.

\textsuperscript{183} An excellent case study which analyzes local sales taxes is Juan Carlos Garavaglia y Juan Carlos Grosso, \textit{Puebla desde una perspectiva microhistórica. La villa de Tepeaca y su entorno agrario: población, producción e intercambio (1740-1870)}, (México: Claves Latinoamericanas, 1994).
well as taxpayers. Since the alcabalas were charged on the basic staple goods acquired by a majority of the population (food, textiles, alcohol) it was a clearly regressive tax, although the wealthier sectors paid more alcabalas per capita because of greater consumption. It may be calculated that average urban Mexican working families paid in indirect taxes somewhere between 8% and 15% of their income, whereas propertied groups generally contributed a marginal percentage of their income on this account. 184

Many unanswered questions remain. First, was there a clear perception that the taxation had become a greater economic burden than in the past? The impression gained from a review of studies by Klein and Garner is that the multiplication of new taxes and the more rigorous collection resulted in a greater tax burden in colonial Mexico from the time of the reforms of Gálvez. However, this impression must be treated with caution, for there are indications that from 1785 several important sources of tax income stagnated, such as the sales taxes known as alcabalas and pulques. It is also possible - as historians John TePaske and John Coatsworth have suggested - that inflation might have reduced the impact of the Bourbon state’s fiscal offensive and diminished their effects.185 If price increases were greater than tax contributions and

184 While much additional research is needed on consumer trends in eighteenth century Mexico, Van Young has opened the field. He offers various estimates on income by different social groups and argues that, circa 1800, poor Mexicans spent close to 63% of their total income on corn (basically for tortillas), a substantially higher percentage than European working poor spent on bread, their staple of life. See Eric Van Young ‘Los ricos se vuelven más ricos y los pobres más pobres’ in a book by the same author, La crisis del orden colonial: Estructuras agraria y rebeliones populares de la Nueva España, 1750-1821, (México: Alianza Mexicana, 1992), pp.51-123.
accompanied by stagnation in wage levels (as argued by Van Young), then it is possible that the tax system might not have been considered as the principal cause worsening the economic situation for the lower strata.\textsuperscript{186} There may have been greater discontent at price increases and the relative fall in wages, although there is a scarcity of historical monographs on popular response to these trends. Instead of a fiscal rebellion, it would appear that discontent led colonial Mexican taxpayers to carry on what one author has described as disguised resistance to tax payments.\textsuperscript{187}

**Fiscal pacts in colonial society**

In all discussion of tax systems, a major issue concerns the contemporary social perception of the relative fairness of the fiscal charges. Today tax systems are described as regressive or progressive: in the former case, exactions fall unequally on sectors with less income, while with the latter taxation rates increase proportionally with income. New Spain’s tax system was, in many regards, regressive since the preponderance of indirect taxes – especially on *pulque* and the sales tax – fell heavily on items of popular consumption; furthermore, certain direct taxes like the tribute were only paid by the poorest social groups. However, these terms and concepts were not used in the *ancien régime*; the underlying idea was that of fiscal justice.

\textsuperscript{186} E. Van Young, *La crisis del orden colonial*, chap.2, offers the most complete and penetrating discussion, to date, on income levels and wage trends in Bourbon Mexico. \textsuperscript{187} See the suggestive essay discussing disguised opposition to taxes at a time of growing fiscal pressure by Ana Lidia García Peña, ‘El impacto popular de las reformas fiscales en la ciudad de México, 1780-1820’, in Carlos Marichal and Daniel Marino, eds., *De colonia a nación: la transición fiscal en México, 1750-1850*, pp.85-133.
Fiscal justice was associated with tax exemptions or immunities granted to specific social groups. When New Spain is compared to a number of European societies, it becomes clear that tax exemptions were more common in European Catholic monarchies than in Spanish America. In the Spain of Charles IV, for example, the greatest fortunes rarely paid taxes; while in New Spain significant proportion of the richest men – among them the owners of silver mines – were obliged to make important payments to the government. In fact, most individuals in colonial Mexico had to contribute taxes to the colonial administration, a fact which tends to reveal a degree of fiscal uniformity even though tax rates proved markedly different for different social groups.

The regressive character of New Spain’s fiscal system was possibly reduced by this greater uniformity and by relative efficiency in collection of revenues. When compared to Spain’s disjointed tax system at the end of the eighteenth century (with very marked differences in terms of norms and collection methods) or the French fiscal system, which offered a great many selective exemptions to privileged corporations, that of New Spain appears more transparent. It may be an exaggeration to claim as Herbert Klein that the Bourbon reforms had achieved “perhaps the most modern tax system in the

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189 R. Pieper, *La Real Hacienda bajo Fernando VII*, provides the best analysis of Spain’s tax system in the decades 1760-1790.
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Atlantic world”, but his argument calls attention to the considerable efficiency in tax collection in New Spain during the late Bourbon regime. On the other hand, Humboldt, himself, considered that there were too many corrupt tax collectors in colonial Mexico. But, possibly, these features caused less rejection than the traditional tax systems in Spain or France where the continuous use of tax farming submitted taxpayers to multitudes of small injustices that were considered as injurious as the tax collection itself.

In any case, it is worth rethinking how the tax system functioned in legal and political terms in a colonial society. The fact that there was neither legislature nor popular press in colonial Mexico implies that discussions about the tax system were limited. This situation clearly contrasts with the intense debates on taxes in societies with a parliamentary tradition. It is for this reason that it is important to keep in mind that in New Spain the juridical formulation of many taxes responded to a Corporate Concept of the functioning of colonial society. Quite a number of traditional taxes were applied to a group, guild or corporation and these were considered to be the counterpart for some type of legal concession. For example, tribute were only collected from Indian

191 This view is found in A. Humboldt, Ensayo político, p.545.
193 Particularly the English and Anglo-American cases: see the discussion in H. Root, The Fountain of Privilege, chap.8, and more recently D. Stasavage, Public Debt, passim.
communities, in return for which they had been granted a series of legal and territorial concessions from the sixteenth century. So too, the mining tax (diezmo minero) applied only to silver producers as a concession for the right to exploit the viceroyalty’s rich mines, which in principle belonged to the Spanish crown, according to regalist tradition. Similarly, from 1783, certain taxes collected by the Mexico City Mining Tribunal also reflected a corporative character. Other examples of this interchange of taxes for privileges are found in the case of the merchants: the collection of the avería tax by the Mexico City Merchant Guild, for example, was a contribution with a specific purpose: it was used to support the mercantile Tribunal del Consulado, an organization that ratified the exclusive jurisdiction of the great merchants of the capital over all commercial disputes as well as their oligopolistic control over a great number of commercial transactions in the viceroyalty. Finally, it can also be argued that the taxes paid by the Church were conceived as instruments that guaranteed the traditional legal autonomy of ecclesiastical institutions.

All this suggests that the functioning of the New Spain’s tax system was not equivalent to that of parliamentary regimes, such as those of the Anglo-American colonies. The Spanish American colonies -which paid a far greater level of

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194 Key were guarantees to communal land and the protection of General Tribunal of the Indians. See Woodrow Borah, *El Juzgado General de Indios en la Nueva España*, (México, Fondo de Cultura Económica, 1985).
197 In a classic study George Beer emphasized that the English colonies in North America, "were expected to provide the funds for their own local, public affairs and to a
taxes than their northern neighbors were obliged to adhere to the rules of an absolutist government that severely limited political autonomy and excluded all possibility of legislatures in the different viceroyalties. Taxes in colonial Spanish America were key elements in the functioning of a complex hierarchy of traditional corporations and social groups that operated within an equally complex judicial structure with secular roots. And it is precisely for this reason that we use the term ‘colonial fiscal constitution’, suggesting that despite the harshness of the regime, over the long run there appears to have existed a certain consensus in New Spain with regards to the legitimacy and functionality of the colonial tax system.

Such an implicit political/fiscal agreement would, perhaps, help to explain how it was possible that the numerous reforms of the fiscal system, including the multiplication of taxes at the end of the eighteenth century, did not produce generalized rebellions in New Spain. But it does not fully explain the extraordinary degree of compliance with the Spanish crown that demanded ever greater contributions in the last decades of that century with relatively scant local recompense. For it should be recalled that almost half of all taxes paid in New Spain were not spent within the viceroyalty but rather were exported abroad (as a kind of tax surplus) to support empire and metropolis.

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Although it may be anachronistic to say that the crown provided few “public goods”, it is well known that the colonial administration invested very little in education, health or other social services, which were assumed basically by local institutions and the church.
Fiscal benefits of empire for the metropolitan treasury

Although our analysis has so far concentrated on the fiscal burden that the inhabitants of New Spain were obliged to cover during the last half century of the colonial era, it is also important to underline what we may term the fiscal benefits derived by the metropolitan government from the colonial tax system. The overseas remittances of precious metals and coin on account of the royal treasuries of Colonial Mexico and the rest of Spanish America represented a "unilateral" contribution of New Spain to the empire.\textsuperscript{199} During each successive decade a huge volume of royal silver left the viceroyalty with a remarkably low degree of recompense.\textsuperscript{200} Of all the income received from the Indies by the General Treasury in Madrid, the viceroyalty of New Spain alone contributed with more than 60% in the period 1780-1810 as we have seen in the first chapter of this book. (See Figure I.3.) These transfers clearly represented costs for the colony but even more clearly benefits for the metropolis.

Following a secular tradition, the Spanish crown expected local taxes to cover local expenses (administrative and military), but also pressured the high income treasuries of New Spain and Peru to remit significant amounts of silver coin to other colonies and to the metropolis, itself. The sums remitted were extremely large. (See Appendix 1.1 and 1.2.) According to various authors, in the last fifteen years of the eighteenth century approximately 20% of total income registered by the General Treasury of Madrid can be attributed to American silver.


\textsuperscript{200} John Coatsworth, Orígenes del atraso, pp.108-109, presented the first estimates of this drainage and of possible effects on the colonial economy.
Historians Barbier and Klein have argued: "When the related receipts from the Cádiz royal treasury are added in, American-related funds may have accounted for one-fifth of total Madrid treasury revenues in this period, making the Indies the largest ultimate source of Madrid income". Their estimates are based on the sum of remittances of tax silver from the Americas plus revenues obtained from trade taxes at Cadiz derived Spanish American trade. But the Klein/Barbier figures are probably too low since recent research has demonstrated that much of the tobacco monopoly’s income in Spain was also derived from colonial inputs.

Most of these transfers sent to Spain were covered with ordinary tax revenues obtained from the colonial treasuries of Spanish America. However, from the 1790s the enormous increase in the demands of imperial finance led to the ratification of a long list of loans and donations which were raised from crown subjects abroad. This new colonial debt policy was directly related to increases in military and financial expenditure by the Spanish government as a result of new wars, first against revolutionary France (1793-1795) and then the

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203 On this subject also see Leandro Prados de la Escosura, ‘La pérdida del imperio y sus consecuencias económicas’ in L. Prados de la Escosura, and S. Amaral, eds. La independencia americana: sus consecuencias económicas, (Madrid: Alianza Universidad, 1993), pp.253-300.

naval wars against Britain (1796-1801 and 1805-1808) which impelled a formidable increase in the debts of the monarchy.

Once again- and as in the case of the tax regime- silver from New Spain was the linchpin to much of the new financial policy. An example of the importance of American remittances to cover imperial debts can be found in the case of the foreign loans taken by the Spanish government in Amsterdam from the 1780s. All such loan contracts specified payment with Mexican silver. (See Appendix 3.3) Hence, as soon as news was had of ships arriving to Cádiz from Veracruz, Dutch bankers immediately pressed for the shipment of the precious metals to Holland to cover the debt service. The importance of Mexican silver for the Spanish internal debt was equally marked. The majority of authors who have dealt with "vales reales" (a new kind of public bond that began to be issued in 1781), the receipt of American silver was the determining factor in the quotation of their market values. These bonds became the favorite instrument of extraordinary finance of the latter years of the reign of Carlos III as well as of the administration of Carlos IV. News of the arrival of important shipments of silver to Cádiz would spur a sharp rise in the value of the "vales", while news of suspension of shipments from Spanish America would provoke an equally abrupt fall in prices. What is less known is that much of the silver shipped was raised by a combination of forced donations and voluntary loans applied in the

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206 The most detailed analysis of these operations is found in Pedro Tedde’s monumental Historia del Banco de San Carlos (Madrid, Banco de España/Alianza, 1987) and in his essay ‘Política financiera y política comercial’, pp.139-217.
colonies but with greatest vigor and frequency in the viceroyalty of New Spain. It is to this subject that we now turn.
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