

**PART. 2: EUROPEAN**  
**ECONOMIES**  
**IN THE FIRST EPOCH**  
**OF IMPERIALISM**  
**AND MERCANTILISM,**  
**1415-1846**



# «TO HAVE AND TO HAVE NOT». THE ECONOMIC CONSEQUENCES OF EMPIRE: PORTUGAL (1415-1822)

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## SOME GENERAL INTRODUCTORY REMARKS

The assessment of the economic consequences of empires from the fifteenth century to the present raises a set of problems which should not be concealed, if we are to provide any meaningful answers to the questions implied in such a survey. First, it is useful to remember that these questions, as so many addressed by social scientists, are immersed in the interminable ideological debate about the development of nations. For example, it is not easy to avoid the judgement of empires as inherently good or bad, and to evade the prevailing notion that they are evil structures resting on some kind of violence, on which consequently it is not decent for any nation to have built its wealth. Anyway, even if we could easily do away with ideological controversies, and we cannot, we would still lack the appropriate statistical data, at least for most of the period under examination, which could support an accurate evaluation of the true economic consequences of empire. In fact, since we may never construct a plausible cost-benefit matrix or an acceptable estimate of the relative significance of imperial ventures<sup>1</sup>, controversy will always continue, not only about the interpretation of the effects of imperialism, but about the facts and figures themselves.

There is of course much to gain from comparative analysis. The contrast between different empires should enable us to impose some general order, however loose, onto the diversity of historical patterns, thus setting the standard to which each individual case can be compared. In this way, it may elucidate their specific characteristics as well. Since absolute conclusions are not at hand, then relative assertions, grounded on a comparative survey, will have to do. However, the variety of imperial

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<sup>1</sup> P. K. O'Brien (1991), p. 304.

ventures, which lends itself to that sort of inquiry, calls for a specifically historical and cross-national scrutiny. Such a scrutiny must account for both the changing contexts in which successive or concurrent paths of empire building take place, and for the complexity of the relations between empires within the European state system and the world-economy (for instance in terms of competition, warfare, trade and investment).

Further difficulties arise from the fact that it is virtually impossible to separate the benefits from empires themselves (meaning some form of political or military rule over territories, trading posts or commercial routes), from the profits generated by the operation of purely economic forces, engaged, for instance, in the extension of trade. In effect, it should be noted that, although the two undertakings are closely interrelated, to determine the economic consequences of empires and to estimate the contribution of the periphery to the economic growth of Western Europe are not one and the same thing, the former task being surely more difficult than the latter<sup>2</sup>. In alerting my fellow researchers to the complexities of the job facing them, it is not my purpose to discourage them from tackling the issue. Big questions are hard to answer, but this does not mean they should not be asked, for they are unquestionably the most fascinating. There is no reason why social scientists should not be bold when asking their questions, if they bear in mind the difficulties they will meet in their inquiry and as long as they are prepared to content themselves with more cautious answers than they would have contemplated at the beginning of the quest.

## THE PECULIARITIES OF PORTUGAL, PIONEER IN THE CONSTRUCTION OF EMPIRES

In Portugal, a country which was the first to embark in the overseas expansion in the early-modern times, but was unable to follow the most progressive European countries in their way to modern economic growth, the controversy over empire displays peculiar features. With some variations, the debate, which finds its roots in some sixteenth-century concepts<sup>3</sup>, revolves around this alternative: did Portugal not develop

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<sup>2</sup> I. Wallerstein (1974) and (1983); P. K. O'Brien (1982) and (1991); H. Pohl (1990).

<sup>3</sup> The notion *decadence*, one of the most compelling ways of representing Portuguese history, originates in the sixteenth century itself; see V. M. Godinho (1982), p. 13 and (1990), pp. 520–23.



because, in building the empire, the true bases on which national wealth could be built were disregarded, or rather because the vast resources generated by the empire were not put to proper use? The causes of economic backwardness undoubtedly constitute one of the most discussed historical issues in Portugal, and it is inevitable that the appraisal of the consequences of empire would be related to this issue.

Along with the singularities of the controversy come the historical peculiarities themselves. The empires built by Western European states in the early modern period display striking similarities in their history and their structures. However, there are also some features which differentiate them from one another, and which may explain to some extent why some were more successful than others. In the first place, the singularity of Portugal comes from precedence. When Columbus set off on his voyage of discovery of America, Portuguese imperial endeavours already had an history of more than three-quarters of a century. These exploits had begun in 1415 by the seizure of Ceuta, a town in Morocco, just across from Gibraltar. The Portuguese proceeded with the discovery and peopling of the Atlantic islands of Madeira and the Azores, with the conquest of other towns in Morocco and with the exploration along the West Coast of Africa, until in 1487 they reached and turned the Cape of Good Hope, thus opening the way for the voyage of Vasco da Gama. In 1500, they discovered Brazil. By then, the scope of their economic ventures had been notably enlarged. In Morocco, they traded in Moorish textiles, corn and horses; they grew wheat in the Atlantic islands, and sugar-cane on Madeira; they captured Negro slaves along the West Coast of Africa, from Cape Branco (where a fort was built in the island of Arguin) and Guinea to Sierra Leone and beyond. Down the Grain Coast, further south in West Africa, they traded in malagueta pepper and slaves, and they finally reached the trans-Saharan lands where caravans took Sudanese gold and ivory, which were formerly and more expensively obtained in Morocco, to where it was carried across the desert. At the Portuguese trading posts and fortresses (the most important established in São Jorge da Mina or Elmina) in the Gold Coast, gold was obtained in exchange for Moorish textiles, slaves and some European goods, an enterprise which formed a crown monopoly<sup>4</sup>. In the second half of the fifteenth century Portugal held the

<sup>4</sup> For the understanding of the workings of the Portuguese empire until the eighteenth century, the works of Vitorino Magalhães Godinho are absolutely indispensable. See, especially, Godinho (1962) and (1981-83).

undisputed command over this trade <sup>5</sup>. In the process, the Portuguese much extended the area for their fisheries in North Africa and then in Newfoundland <sup>6</sup>.

Long before the voyage of Columbus, then, an empire overseas had been built by the Portuguese. An empire which already displayed a variety of structures and models of organisation later to be found in the other European empires: from the Moroccan strongholds to the settler colonies and plantations of the Atlantic islands; and, down the West Coast of Africa, from plunder to slave trade and from the commerce in luxuries (malagueta pepper and ivory) to the procurement of bullion. Moreover, some significant interconnections had already been established between the several parts of the empire. The Moorish textiles bartered for slaves and gold on the West Coast of Africa were acquired in the Moroccan fort-towns, which also served as bases to fend off the pirates who used to assail Portuguese vessels. Wheat of southern Morocco helped to feed the settlers in Madeira, where slaves from Africa were employed to grow sugar-cane. Slaves, ivory and malagueta pepper obtained in Guinea and the Grain Coast were exchanged for gold at São Jorge da Mina; and, of course, Portugal received the commodities procured in these various regions, to which it exported some of her own merchandise (mostly wine and olive oil), along with goods obtained from other European countries (mainly textiles and metals) <sup>7</sup>.

Most of this structure was to persist after Vasco da Gama's voyage, but the direct trade to India, which became a Portuguese monopoly until the late sixteenth century, soon overshadowed all other commercial and military endeavours. A new empire was built which was based upon the trade in luxuries (spices, drugs, jewels, silks and furniture). These commodities, which for the most part were paid for in bullion (silver) <sup>8</sup>, were brought to Lisbon and distributed across Europe through the Portuguese factory in Antwerp. To take part in the Indian trade, which they tried to control, the Portuguese sustained a long war against their rivals (mostly Muslim states and merchants), and so they found it necessary not only to keep a strong fleet in the Indian Ocean but also to establish forts and strongholds at strategic points <sup>9</sup>. It was not just a matter of trade.

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<sup>5</sup> C. Rahn Philips (1990), p. 48.

<sup>6</sup> Godinho (1950), p. 33.

<sup>7</sup> The works of Vitorino Magalhães Godinho are of paramount importance for the understanding of the workings of the Portuguese empire until the eighteenth century. See, especially, Godinho (1962) and (1981–83).

<sup>8</sup> Godinho (1978a) and (1981–83), i, 219–55 and ii, pp. 115–41.

<sup>9</sup> Godinho (1978b); M. N. Pearson (1987), ch. 2.

An imperial structure, the *Estado da Índia*, had been built, which extended from the East Coast of Africa to China. Portuguese policy in the East aimed at mastering and taxing the trade and navigation in the Indian Ocean. The Portuguese tried to impose the use of the trading posts under their control (where customs duties were collected) and a rent was produced (both for the state and for crown officials, either through legal means or through corruption<sup>10</sup>) from selling protection to all ships cruising the Indian Ocean<sup>11</sup>. Furthermore, they also tried to reap the fruits of Asian carrying trade by organising commercial voyages along established routes (*carreiras*), for instance from Goa to Macao and Nagasaki<sup>12</sup>. After the mid sixteenth century, the crown took a lesser part in intra-Asian trade. Beside the imperial organisation (the military-bureaucratic apparatus dominated by crown officials), Portuguese merchants and adventurers launched their own speculations, which became more independent from state controls in the Far East.

Despite all their efforts, the Portuguese could not completely close the Levant spice route. In the last third of the sixteenth century, the Mediterranean spice trade began to flow again and the Portuguese monopoly of the sea route to India came under attack from Dutch and English interlopers and privateers<sup>13</sup>. Heavy losses at sea, increased transaction costs, which had always been high, and the competition from the more efficient and trade-oriented Dutch and English East India Companies all joined in reducing to less than a third the spice trade by the Cape route<sup>14</sup>. Private trade, both on the Cape route (mostly dealing in textiles and jewels) and in intra-Asian circuits, fared far better, but the decline of the Portuguese Eastern empire was under way<sup>15</sup>.

Meanwhile, another empire was already under construction. It was meant to form a completely different model of imperial organisation: not

<sup>10</sup> N. Steensgaard (1973), pp. 81–95; Pearson (1976), p. 56.

<sup>11</sup> Godinho (1978b). The concepts of protection costs and protection rent developed by F. C. Lane (1966) are particularly useful to analyse the economic system of the Portuguese empire in the East. See Lane (1966), pp. 395–6; Steensgaard (1973); Wallerstein (1974), pp. 334–5; P. D. Curtin (1984), pp. 141–2 and Pearson (1991), p. 74.

<sup>12</sup> Godinho (1978b) and (1981–83), iii, pp. 135–44; Subrahmanyam and Thomaz (1991), pp. 311–15.

<sup>13</sup> Lane (1966), pp. 31–33, 290–2; Godinho (1981–83), iii, pp. 81–94; Steensgaard (1973), pp. 168–9; C. H. Wake (1979), pp. 361–403; D. Lach (1994), pp. 127–31; Godinho (1978a), pp. 308–10.

<sup>14</sup> Godinho (1978a), pp. 306–6; Steensgaard (1973), pp. 81–95.

<sup>15</sup> A. R. Disney (1978). Other studies have emphasised the persistence of the Portuguese Eastern trade in the seventeenth century, against the more pessimistic views. See, for instance, Subrahmanyam (1985) and J. C. Boyajian (1993). See also Godinho (1990), pp. 345–50.

based on trading posts and the marketing of luxuries, but on territorial occupation, settlement, plantations and trade in groceries. For more than half a century after an early discovery, Brazil was a neglected colony, providing almost nothing except dyewood (brazil-wood). The cultivation of sugar-cane, which started around the mid-sixteenth century, spread after 1570. Since the enslaving of Indians met with so many difficulties, the shortage of labour was solved by importing slaves from Africa. In 1570, there were two to three thousand Negroes in Brazil. Anticipating better conditions, planters from São Thomé moved to Brazil. Sugar plantations, later to be complemented by tobacco and cattle raising, and slave trade soon provided the foundation of the new Portuguese Atlantic Empire, which united Brazil to Guinea and Angola<sup>16</sup>. Through war and crisis (in the 1630's the Dutch seized a significant part of northern Brazil and the two Portuguese sources of African gold, Arguin and Mina), this empire consolidated and expanded. However, the demand for tropical groceries on which the empire now rested proved to be somewhat unstable, and it produced sharp fluctuations, like the long recession from 1668 to 1690<sup>17</sup>. In the very last years of the seventeenth century, the recovery of trade along previous lines was supplemented by the discovery of gold and diamond mines in Brazil. To be sure, Brazil never ceased to be a plantation economy (growing sugar, tobacco, and later cotton and coffee), but during the first half of the eighteenth century gold became by far the most vital resource of the Portuguese empire. Brazilian gold, legally traded or smuggled into Europe, was certainly of paramount importance to the European (and especially to the British) supply of bullion in this period<sup>18</sup>.

However, the course of history was to change dramatically again for the Portuguese empire, when the consequences of diminishing gold and diamond resources started to be felt in the 1760's. After a period of crisis and uncertainty, the recuperation of the economy was partly based upon the growth of trade with Asia but fundamentally on the renewal of trade with Brazil. Portugal profited from a new expansion in the European demand for cotton and sugar<sup>19</sup>. This expansion in turn stimulated exports of Portuguese products to the colonies. In order to obtain the tropical

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<sup>16</sup> F. Mauro (1956) and (1983); P. Verger (1970).

<sup>17</sup> Godinho (1950a) and (1970).

<sup>18</sup> Godinho (1950a), pp. 192-3, V. N. Pinto (1979); Michel Morineau has proposed a more modest evaluation of the economic effects of Brazilian gold remittances to Europe, Morineau (1985), pp. 190-7.

<sup>19</sup> J. B. Macedo (1963), pp. 197-8; J. M. Pedreira (1994), pp. 263-70.



commodities, Portuguese merchants not only re-exported foreign manufactures and foodstuffs, but they also shipped national commodities, both industrial and agricultural. In the last years of the eighteenth century, the neutrality of Portugal in the French Wars proved to be particularly rewarding and created a period of prosperity for the Portuguese empire. Gaining from the crisis facing other colonial empires, Lisbon again became one of the most important trading ports for East Indian products. The demand for Brazilian commodities increased substantially and this in turn stimulated the growth of slave trade. Asian cotton textiles found their way to the expanding Brazilian market and to the African coasts, where they were exchanged for slaves. Brazilian, Asian and African trades were reunited in the process<sup>20</sup>. However, this was to be a short-lived prosperity. The Portuguese colonial trade (thriving on neutrality) operated on a very delicate balance. Facing contradictory demands from France and England, Portugal was eventually invaded and occupied by French troops in 1807. During the next few years, struck first by the British blockade at sea and then by the calamities of war, the Portuguese-Brazilian empire collapsed. The royal family, having fled to Brazil, suspended the colonial system in 1808 as a measure of necessity, but it was never reinstated. Under the new commercial structure, Portugal could no longer serve as the mandatory *entrepôt* for the produce of Brazil, and although a brief and partial recovery set in between 1814 and 1818, the alienation between Portugal and Brazil was then inevitable: the empire had come to an end<sup>21</sup>.

Portugal was still to build another empire in Africa, but this is another, later, story. It nonetheless confirms the peculiarity of the Portuguese path: the role of pioneer generated a changing pattern for the empire or rather an ability to build new imperial structures without completely destroying the older ones. These part consecutive, part concurrent, structures worked in different geographical settings and institutional contexts (from war and plunder, to settlement and plantations, from the organisation of luxury trades to the extraction of gold), and successive transitions certainly entailed multiple adjustment costs. In the case of Portugal, then, the assessment of the long term consequences of empire must take into account that the economic implications of each of these historical experiences are rather different from one another.

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<sup>20</sup> V. Alexandre (1993), pp. 25–75; Pedreira (1994), pp. 261–78.

<sup>21</sup> Alexandre (1993), pp. 767–92; Pedreira (1993), pp. 232–40 and (1994), pp. 317–76.

## THE OPENING OF NEW MARKETS AND THE DEVELOPMENT OF ECONOMIC INTEGRATION

The succession of imperial structures, with different historical and geographical settings, had one major economic consequence: it extended the basis for economic integration. Portuguese voyages opened vast new markets and gave access to untapped sources of bullion, luxuries, tropical groceries, raw materials, and slave labour. As well as providing new outlets for Portuguese traditional exports (wine, salt, olive oil, dried fruit, fish)<sup>22</sup>, the growth of market opportunities allowed for the development of the seaborne trade (by means of the exchange of merchandise obtained or produced in one region for those acquired in another) and it established the foundation for a vast re-export traffic of overseas goods to the other European nations and of European products to the overseas. In this way, the procurement of colonial commodities amplified chances for the integration of Portugal within the Western European economic space. Portugal provided Western Europe with an array of non-European goods and in turn obtained European manufactures and foodstuffs both for home consumption and for the overseas trade.

The benefits of this development of trade are obvious. The acquisition of merchandise at lower costs represented a net economy of resources, and the opening of new markets and opportunities for economic integration allowed for the development of the division of labour and specialisation. However, over the whole period under consideration, the promise of specialisation was largely left unfulfilled. Although some merchandise and information flowed easily between cities, countries, and even continents, free trade took a long time to emerge, and circulation was subjected to political controls and to the interference of the state and other powers. Institutional as well as structural factors combined to hinder specialisation. Such was the case of the shortage of business and technical skills and of the deficiency of transportation services. Such was especially the case of the host of restrictions imposed on the free use of land, on admissions to the industrial crafts and on economic enterprise in general. Administrative controls and economic interference from the state, which held monopolies of the more opulent trades (gold, spices, salt, tobacco) for long periods of time, may have hindered specialisation and the growth of productivity.

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<sup>22</sup> C. Rahn Philips (1990), p. 57.

The direction of the state did not preclude the interest of crown officials, aristocrats and sailors (besides merchants) in commercial undertakings and plundering expeditions in the capacity of both sponsors and direct participants. This amplified the weight of the military factor (both in the actual process of empire building and at the symbolic level), which in turn produced a new type of social character, the «merchant-knight» or the «nobleman-trader»<sup>23</sup>. The social differentiation of economic agents, incomplete as it was, did nothing to encourage pure merchant enterprise and may have even narrowed the scale to which the opportunities of specialisation were taken up<sup>24</sup>. To be sure, many people were drawn to new endeavours, and merchants, which especially in the later period engrossed both the capital and the business skills, even became excessively specialised in the pursuits the empire most favoured (mostly colonial trade). Thus, they became very vulnerable to the vicissitudes of the imperial organisation. More than once, the merchant communities were stricken to the point of disintegration, when the sudden changes in the course of the history of the empire made adjustment costs almost unbearable<sup>25</sup>. Most of the time, however, social and economic agents lacked the information, the means or the chance to change their occupations for more rewarding ventures, and they of course could not benefit from hindsight and elect the correct path to follow. Accordingly, a large part of the population (exactly how large it is impossible to determine) pursued their traditional and unproductive activities in agriculture and the handicrafts and they were only marginally affected by the construction of the empire.

## BUILDING AND SUPPORTING THE STATE

The whole population could not help to be somehow affected by state-building, and the empire played a decisive role in this process. It may even be said that, at least after the Restoration of independence in 1640, it was the empire that largely secured the survival of Portugal as an independent state<sup>26</sup>. At any rate, in the early-modern period the construction of the state and the rise of the seaborne trade were closely

<sup>23</sup> Godinho (1981–83), i, pp. 51–62 and (1978c), p. 268.

<sup>24</sup> This idea was originally suggested in 1873 by the Portuguese historian Oliveira Martins. On the question of the imperfect social differentiation of merchants see Pedreira (1995), pp. 11–20; see also Curtin (1984), pp. 138–9.

<sup>25</sup> J. Gentil da Silva (1956), Boyajian (1983), Pedreira (1995), pp. 14–5, 140–2.

<sup>26</sup> C. R. Boxer (1961), p. 90.

intertwined. After the earlier stages (when the house of Prince Henry, the so-called Navigator, played a leading role), the state became the driving force behind the overseas territorial and commercial expansion. The military and bureaucratic apparatus set up and accomplished this expansion, which in turn supplied the means to strengthen the political centre. This is particularly apparent in the structure of public finance. Under the government of John II, in 1490-96, the state revenue collected in metropolitan Portugal totalled some 170 thousand *cruzados*, the receipts from African gold reached some 120 thousand and the crown obtained additional funds from the trade in spices and slaves in Guinea (since 1445) and sugar from Madeira (since 1460). Later, in 1506 and 1518-1519, maritime trade generated about two-thirds of state resources<sup>27</sup>. To be sure, part of this income did not derive, directly or indirectly, from the empire (coming from European and coastal trade), but Asian spices and African gold nevertheless accounted for more than half the crown's receipts. The general structure of Portuguese public finance remained virtually unchanged for almost a century, but the share of the Eastern Empire increased to more than 40 per cent<sup>28</sup>. However, in the 1620's, a severe crisis seriously reduced receipts, in particular those coming from trade with the dominions and the foreign nations. Despite attempts at the procurement of new sources of income, a necessity the War of Restoration made imperative after 1640, the receipts collected in the kingdom were still a lesser fraction of public revenue, although their share may have increased (in particular after the institution of a new direct tax especially levied to fund the war effort).

From the second half of the seventeenth century onwards, Brazil became the major source of income for the Portuguese monarchy, and then came the Golden Age of Brazil, in the first half of the eighteenth century. Despite the plague of smuggling, gold and diamond remittances supplied the crown with ample fresh new resources until the 1760's. In 1716 the tax on gold accounted for some 10 per cent of the public revenue, and just before the gold and diamond mines started to drain, they provided a fifth of state receipts<sup>29</sup>. It has been estimated that at the time of Pombal, the intercourse with Brazil supplied in one way or another almost 40 per cent of state exactions. As a result of the crisis of the 1760's and 1770's

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<sup>27</sup> Godinho (1978), pp. 56-7.

<sup>28</sup> Godinho (1978), p. 56 and (1962a). On the structure of public finance, the work of Godinho is again invaluable.

<sup>29</sup> Godinho (1978), pp. 71-2 and Tomaz (1988), p. 362.

this share may have marginally decreased, but this did not transform the fiscal structure. The critical importance of the colonies and the overseas trade in supporting the state persisted until the end of the Portuguese-Brazilian empire.

This enduring financial organisation supplied the means for the rise of a strong political centre, which concentrated power without being drawn into extensive bargaining or heading for a clash with its more prominent subjects and powerful institutions. As a result, the political system had comparatively few representative institutions and secondary organisations<sup>30</sup>. In the fifteenth century, while other European countries were plagued with domestic strife, Portugal enjoyed a fairly peaceful period<sup>31</sup>. The relative internal stability allowed the state to improve its distributive functions and enhance its entrepreneurial capacity, and to put some order into the host of rules, statuses and laws and reform the provision of justice as well<sup>32</sup>. The development of the state and the part it played in the commercial endeavours also favoured the introduction of new means of administration, which required calculation, and the spread of mercantile attitudes into broader circles of the Portuguese society.

If the construction of the modern state is to be regarded as a positive factor for the long run development of an economy, the empire, by sustaining the state, certainly helped the modernisation of both the economy and the political structure. Yet, in Portugal, the government did not perform this role to perfection. It did restrain private violence and established the foundations of a legal and judicial system (which must have helped the enforcement of private contracts<sup>33</sup>). It also set up some basic infrastructure (shipyards, ports, storehouses, manufactories) and introduced a certain predictability into economic agency, inasmuch as it instilled trust in the

<sup>30</sup> C. Tilly (1992), p. 62.

<sup>31</sup> C. Verlinden (1953) and Boxer (1961), p. 6. In 1438–48 there was however a bitter conflict between houses of the royal family, which led to the death of former regent, Prince Pedro, in the battle of Alfarrobeira (1448). King Afonso V also tried to secure the regency of Castile and interfered in Castilian affairs until his pretensions were permanently thwarted after the battle of Toro (in 1476).

<sup>32</sup> The first comprehensive collection of laws was prepared in the mid-fifteenth century (under the regency of Prince Pedro). Under the government of king Manuel new collections were arranged (one of them regarding expressly the empire) and the royal courts were also reformed, thus forming a judicial, administrative and political structure which established the basis for the system of government in Portugal during the *Ancien Regime*; see J. Subtil, (1993), p. 79; A. M. Hespanha (1991).

<sup>33</sup> On the economic significance of the enforcement of legal contracts, see North and Thomas (1973), pp. 126–7.

economy by sticking to its engagements (contrasting with Spain, in Portugal the state never really went bankrupt in the sixteenth century, it merely determined the conversion of the floating debt in 1560<sup>34</sup>). Nonetheless it did not or could not restrain the interference of the Inquisition, which persecuted merchants from Jewish extraction and often seized their assets, forcing many more to emigrate. The Portuguese government also failed to clear away impediments to private enterprise, a design to which it was never really committed. For instance, the laws against usury were reiterated in 1570. Moreover, the fact that the state itself worked as an entrepreneur and monopolised some of the more profitable trades in no way promoted the spread of independent merchant ventures.

The scale and consequences of government control over the imperial economy are open to discussion. It has been widely assumed that the organisation of crown monopolies seriously hampered private merchant enterprise<sup>35</sup>, that, to put it in Weberian terms, bureaucracy killed capitalism. However, management and operation of such monopolies were not entirely left to royal officials, who (as even contemporary commentators pointed out) lacked the necessary skills to run them. Merchants, both foreign (Italian and German) and national, took part in the funding and organisation of these ventures. They shared in the marketing of the products under royal monopoly and engaged in various contracts with the crown (including the chartering of the monopolies). They obviously collected large benefits from this participation. The Portuguese «merchant-state» or «monarchical capitalism» did not engross the imperial endeavour to the exclusion of all others, although it did expressly exclude some, and its influence even started to wane after the second half of the sixteenth century<sup>36</sup>.

Anyway, the involvement of the crown, crown officials and the aristocracy certainly enhanced the role of conquest and plunder in empire building<sup>37</sup>. Conquest and trade were not always easy to reconcile, and it might even be said that, at least in the Eastern empire, too much was put into the building of a vast military-bureaucratic system but, bearing in mind the hostile circumstances under which that empire was built, it is difficult to imagine that the military factor could have been of only

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<sup>34</sup> Godinho (1962a), p. 114.

<sup>35</sup> Diffie and Winius (1977), p. 312; A. K. Smith (1991), p. 87.

<sup>36</sup> Godinho (1981-83), iii, pp. 77-69, 190-214; Lach (1994), pp. 109-12, 121-6.

<sup>37</sup> Lane (1966), pp. 401-2, 426-7.

secondary importance<sup>38</sup>. In fact, after the more precocious pioneering ventures, the state, and only the state, could organise the construction and the defence of the empire. Accordingly, patterns of public expenditure reveal the requirements of the armadas, the army and the colonial administration.

There were however other less beneficial overtones to the structure and the financial arrangements of the Portuguese state. This is not so much the fact (as has been suggested) that the availability of commercial revenues precluded any push for institutional and structural reform, for it must not be taken for granted that such reforms would actually take place had those revenues not been available. It is just as plausible to imagine that a strong and efficient political centre would simply fail to develop. In fact, the more detrimental aspects of the financial structure rested on the very character of the Portuguese early-modern state, which made it unsuitable to perform the distributive role in a way conducive to economic growth. Portugal certainly developed a solid institutional centre, capable of organising the imperial enterprise, but in a sense it was a capstone government, not so much because it enjoyed arbitrary domination (which it did not), but because it lacked in infrastructural power and could not fully penetrate the society (although it did not meet with strong opposition from the peripheries)<sup>39</sup>. This circumscribed the possible positive effects of fiscalism, that is of the crown's undertakings to raise funds. Moreover, by placing the fiscal burden on the more dynamic ventures, the government could restrain their development.

The structure of national budgets brings to light the underlying political models<sup>40</sup>. Thus, the complex nature of the Portuguese «merchant state» showed in the way in which the imperial revenue was allocated, namely in the importance of extravagant expenses, such as the building of convents and churches, royal marriages, pensions and grants to the aristocracy, which had obviously nothing to do with maintaining the empire or fostering economic improvement. Therefore, the financial structure supported by

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<sup>38</sup> The contention of Michael Pearson to the contrary, as far as the Eastern empire is concerned, is not at all convincing. See M. N. Pearson (1976), p. 78. Although Asian trade used to be peaceful before the arrival of the Portuguese, they found almost immediately a hostile environment, and the fierce competition from Muslim merchants soon turned into warfare. Furthermore, the comparative advantage the Portuguese enjoyed rested not so much on shipping itself but on firepower at sea.

<sup>39</sup> On the notions of capstone state or government and infrastructural power see J. A. Hall (1988), pp. 33–34 and (1994), pp. 1–26, M. Mann (1986), pp. 477–83.

<sup>40</sup> A. M. Hespanha (1991), p. 123; Godinho (1978).

the empire had ambivalent consequences as far as long term economic growth is concerned. But the question is: in the historical context of a pioneering empire and mercantilist competition, could it have been otherwise?

## POPULATION GROWTH, MIGRATION AND URBANISATION

One of the most puzzling questions in the history of European overseas empires is how a small country with just a fraction over one million people in the early fifteenth century could launch the voyages of discovery and build an empire which encompassed every known continent, with domains in Morocco, the Atlantic islands, both coasts of Africa, South America, India and the Far East. In 1527-1531, at the height of her power, Portugal had still no more than 1.4 million people, numbers similar to those of the mid fourteenth century, before the Black Death<sup>41</sup>. During the fifteenth century, the empire was not too demanding as far as demography was concerned. Colonising the Atlantic islands (Madeira, the Azores, and then Cape Verde and São Thomé) and supplying the garrisons and officials of the forts and factories of Morocco and the West Coast of Africa did not require very significant demographic outflows. No more than 50,000 people left Portugal for places overseas before the voyage of Vasco da Gama (an average of some 500 every year), and many did of course return<sup>42</sup>.

In the sixteenth century migration increased. In 1540, the fort-towns of Morocco contained some 25,000 to 30,000 people (5,000 of which were soldiers). By then, there were some 17,000 Portuguese nationals in Madeira and another 10,000 in the other Atlantic islands. In the East, the Portuguese population did not reach this number, more than half (5,000 to 6,000) lived in the city of Goa and the rest were scattered over countless towns, from Abissinia to Japan. In Brazil white people still numbered only 2,000. Every year, from 1500 to 1580, 3,000 to 5,000 Portuguese quit the country for its overseas territories (in the thirty years after the Cape route had been discovered, the lavishness of the Eastern empire alone enticed about 2,000 emigrants annually). It has been estimated that during that period 280,000 people departed, the equivalent to a yearly average of 3,500. Over the next sixty years, these numbers increased to 300,000 to 350,000 and

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<sup>41</sup> A. H. Oliveira Marques (1987), pp. 291-307; T. Rodrigues (1993), p. 211.

<sup>42</sup> On emigration see Godinho (1978d) and Rodrigues (1993), pp. 236-41.



5,000 to 6,000, respectively. Brazil, which counted 20,000 Portuguese in the 1580's and 50,000 in 1610 (beside 120,000 Negro and Indian slaves), already attracted the largest part of the migration flow, while the Spanish possessions (Rio de la Plata and Peru) also tempted many Portuguese. After Portugal regained independence in 1640, emigration slowed: until the end of the century some 120,000 people (or 2,000 annually) set sail, bound primarily for Brazil. The Brazilian gold rush raised this number to 600,000 over the next sixty years. Migration must have eased off in the 1760's and 1770's, but, at the turn of the century, commercial prosperity spurred it again. The retreat of the royal family and the court to Rio de Janeiro in 1807 formed a further encouragement. But then war became an obstacle to mobility. Emigration to Brazil was not inhibited by the collapse of the old colonial system and not even by the secession of political ties. After the independence in 1822, some 4,000 to 5,000 Portuguese departed every year to the former dominion, a stream which more than doubled in the last quarter of the nineteenth century.

Although the Portuguese did not build their empire alone, and found support, from the very beginning of their overseas expansion, from Italians, Flemish, Germans and Castilians, migration certainly affected population growth in Portugal, but not to the point of generating a peculiar pattern of demographic development. There is no evidence to support the more pessimistic assumptions. Even in the peak years, emigration did not exceed 0.5 per cent of the population<sup>43</sup>. Furthermore, many of those who left would later return. It has been estimated that only about a third of the Portuguese who arrived in Asia until the end of the sixteenth century did not come back to the motherland<sup>44</sup>. At that time, expatriate Portuguese numbered 100 to 150 thousand, that is 7 to 10 per cent of the metropolitan population<sup>45</sup>.

As it was, Portuguese population grew at virtually the same rate of the French population and faster than the Spanish (to be sure, not the more demographically dynamic European countries) from the sixteenth and

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<sup>43</sup> For instance, A. K. Smith suggests that Portugal started to loose population in the sixteenth century, before the other European countries, which only suffered losses in the following century; Smith (1991), p. 88. This cannot at all be confirmed. Until the end of the sixteenth century, the gross rate of emigration has been estimated at 1,5 to 3,5 ‰. In the seventeenth century the available estimate puts it at between 3 and 3,5 ‰ (see Rodrigues, 1993, pp. 236–7). From a demographic perspective, the damages inflicted by the War of Restoration after 1640 and the crises of the seventeenth century were far greater.

<sup>44</sup> Subrahmanyam and Thomaz (1991), p. 319.

<sup>45</sup> Godinho (1978d), pp. 8–9.

the early nineteenth century. This may in part be explained by the fact that, from the second half of the fifteenth century onwards, departures were partially compensated for by the import of slaves. In that period, slaves arriving in Portuguese seaports numbered around 700 each year, and it has been calculated that over the next century this figure went up to between 2,000 and 3,000, totalling some 250,000<sup>46</sup>. Although present in most areas of the country at the end of the sixteenth century, slaves only formed a sizeable portion of the population in certain towns and regions (up to 10 per cent in Lisbon and the Algarve). These ratios subsequently declined. Slave labour was primarily employed in the domestic services, but also in transportation and urban crafts, and even, on a smaller scale, in agriculture (particularly in Southern regions). The benefits from its use were mostly indirect. Slaves counterbalanced the loss of population and they allowed for the Portuguese to take up more skilled and productive activities. Most of all, they secured the manpower for the construction of the empire. In Madeira, São Thomé and Brazil, and still in other parts of the empire, in the plantations and in the mines, slaves discharged the heavier services and became the backbone of the primary sectors of the economy. From the mid sixteenth century onwards, slave trade formed an essential component of the Portuguese empire, but it was more and more a matter of supplying labour to the overseas possessions (and to Spanish America as well), rather than meeting the needs of metropolitan Portugal.

In general, emigration may have deprived the country of manpower, skills and entrepreneurship, because emigrants, as a rule, were young males, more literate and ambitious than the whole population, and some of them had even learnt some trade. On the other hand, emigration made possible the colonisation of new territories, opening new markets and providing luxuries and tropical groceries at lower costs. Migration eased economic conditions in the more densely populated areas, especially in the Northwest. In the eighteenth century, Brazil became something of a *frontier* (a role the Eastern empire had had more difficulty in performing). A lengthy sojourn in the colony secured one of the easiest means to climb up the social ladder. Many of those who crossed the Atlantic in search of fortune failed. Others never returned, but some did succeed and came back with their wealth, acquired in business (mining, plantations, commerce) and in the civil service. The Portuguese economy certainly benefited from this

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<sup>46</sup> Godinho (1981-83), IV, p. 168.

movement, to an extent which is impossible to determine. This pattern of emigration, although it changed over the years (poor peasants and workers replacing literate ambitious people), persisted throughout the nineteenth century, and the inflow of remittances, of profits and assets from the colonies certainly helped the Portuguese economy. It might be said that the availability of such resources postponed structural change, but then again, it is far from certain that such a change would have occurred anyway.

Perhaps still more important than the consequences of emigration, were the changes introduced to the patterns of settlement within Portugal. Before the seaborne expansion started, the Northwest was already the more densely populated region, but the towns (with more than 500 people) concentrated in the inner parts of the country. Even in 1527, after one century of overseas expansion, the coast line, except for the Northwest and for some especially favoured locations (along rivers), was underpopulated<sup>47</sup>. Nevertheless, Lisbon which had become the centre of administration and the chief port of the African and Asian trades, was already a very large city, with some 70,000 residents. At that time, it was one of the largest cities in Europe, outnumbered only by Paris, Naples, Milan and Venice (and on a par with Granada and Prague). Since it kept growing steadily (100,000 inhabitants in mid century, 120,000 in 1590, 165,000 in 1620, and 180,000 in 1700 when no other city in Portugal reached 25,000), it is not surprising that it figured among the top ten cities of Europe until the early nineteenth century<sup>48</sup>. As a matter of fact, the empire set in motion two mechanisms which were to shape the distribution of the population in the centuries to come: demographic growth now converged in the seashore (north of the Tagus and in the Algarve) and the urban population concentrated in Lisbon to an exceptional degree.

The empire stimulated urbanisation predominantly in the growth of the capital. Only in the eighteenth century did Oporto exceed 20,000 inhabitants (when Lisbon approached 200,000), and just before the loss of the Brazilian empire, no other town yet topped that mark. In fact, apart from Lisbon and Oporto, there were no other true cities: medium-sized urban centres (with more than 20,000 people) were lacking altogether. Low agricultural productivity restrained the growth of provincial towns, which never reached the scale required to promote functional specialisation.

<sup>47</sup> T. Rodrigues (1993), pp. 207–8, 230–3.

<sup>48</sup> P. Bairoch, J. Batou, F. Chèvre (1988), pp. 276–80.

Strong regional centres were virtually non-existent, with the important exception of Oporto (which in the eighteenth century became the capital of an economic region not particularly dependent on the colonies)<sup>49</sup>. The highly asymmetrical urban structure was not particularly helpful for economic development. Urbanisation, then, meant the expansion of Lisbon, and was largely precipitated by the construction of the empire. But, for all its growth and urban supremacy, Lisbon, which vitally depended on maritime trade, did not build an integrated national market on the strength of its consumption needs and distributive capacity, unlike other European cities, such as London and Amsterdam, which also enjoyed primacy in the respective national urban systems. In fact, the primacy of Lisbon is both modern and pre-modern in character<sup>50</sup>. On the one hand, it accumulated urban functions and the respective infrastructure, as a commercial and administrative centre; but, on the other hand, its growth was disproportionate to the functions it actually performed in the national economy (naturally this disparity is in part explained by the position it held in the imperial system). So, in the long run, the concentration of wealth and population in only one city, which played the roles of political capital and chief port-town at the same time, appears to have been more harmful than propitious for the economic development of Portugal.

## AGRICULTURE, INDUSTRY AND INDUSTRIALISATION

Portuguese urban structure may suggest that except for Lisbon and Oporto, the country was left untouched by the overseas expansion. This is not however the case. To be sure, the more inner regions did not take an active part in the development of the empire and their economies were certainly not affected in the same way as that of these larger port-towns. Apart from some indirect consequences which have already been mentioned (for instance those deriving from the structure of public finance), the new opportunities for economic integration had nonetheless some effects on the more traditional occupations.

In Portugal, corn imports, coming both from the Mediterranean and northern Europe, originated in the Middle Ages. Early in the overseas expansion, new sources of supply were found in the Atlantic islands (where

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<sup>49</sup> Pedreira (1994), pp. 391–5.

<sup>50</sup> On modern and pre-modern primacy in urban systems, see C. Smith (1982), pp. 79–96 and J. de Vries (1984), pp. 89–90.



initially wheat was cultivated) and in the plains dominated by the fort-towns of southern Morocco<sup>51</sup>. Furthermore, the colonial trade provided the means to increase importation from foreign nations, which became all the more necessary to support the growing population of Lisbon. Easier imports of wheat from the more productive regions of Europe certainly did not favour national production, but Portuguese agriculture was not too distressed, because of the protection accorded by the state and the local authorities and of the narrow scope of domestic markets<sup>52</sup>. However, these developments were not entirely determined by the expansion of the imperial economy, because integration into European trade also relied on such Portuguese commodities as salt and wine, and had similar economic consequences (thus, in exchange for the salt they took from Portugal, the Dutch brought corn, textiles and timber, along with silver). In the long run, foodstuffs (grain, fish, butter, cheese) formed the largest part of Portuguese imports, and this exposed the deficiencies of national food production<sup>53</sup>. At the same time, Portuguese wine and olive oil found new outlets in the overseas markets, but increased demand (although it encouraged the extension of production) did not bring about vast structural changes. In fact, one of the most significant innovations, the extension of vineyards in the Douro valley, took place much later, in the second half of the seventeenth century, as a result of a straight connection with a European country (England), and owed nothing to the empire, which until the nineteenth century had a very small share in the Port-wine market.

On the other hand, there are links relating the empire to the major structural change to Portuguese agriculture in the sixteenth century, namely the introduction of maize in the Northwest, where it benefited from propitious natural conditions. Contrary to the widely accepted notion that the introduction of maize in Europe did not initiate economic innovations<sup>54</sup>, in north-western Portugal it has been called a revolution, because it allowed for more fruitful cultivation cycles and for a swift increase in basic food production, sustaining higher levels of population density in the region and then feeding emigration<sup>55</sup>. This pattern survived until the twentieth century. The new crop undoubtedly came from the overseas.

<sup>51</sup> Godinho (1981–83), III, pp. 217–67.

<sup>52</sup> The idea, advanced for instance by A. K. Smith (1991), p. 88, that some productive soils finds no support whatsoever in the existing evidence.

<sup>53</sup> D. Justino (1988–89), II, p. 60; Alexandre (1993), p. 74; Pedreira (1994), pp. 389–90.

<sup>54</sup> P. Hohenberg (1977); W. Reinhard (1990), p. 33.

<sup>55</sup> O. Ribeiro (1985), pp. 294–8; Godinho (1981–83), IV, pp. 23–38.

Maize may have been brought directly from Africa by the Portuguese explorers and merchants, but it may as well have come from Spanish America. Therefore the connection with the empire is not at all certain, and even if it could be ascertained, it is perfectly plausible to imagine that, had Portugal not embarked in the overseas expansion, maize could still have been introduced from Spain. Apart from the introduction of maize, Portuguese agriculture was not much changed by the new setting created by the overseas expansion, into which it was only partly integrated. Easier imports of corn, a moderate extension of cash-crops (wine, olive oil and fruit), and the marginal employment of slave labour could not really recast the most traditional of occupations.

The effects of empires on industry lie at the core of the controversy about their role in the long term economic development of Europe<sup>56</sup>. Since industrialisation is regarded as the lever of modern economic growth, this is scarcely surprising. Although Portugal did not develop a fully industrialised economy until well into the twentieth century, industry was certainly more affected than agriculture by colonial trade. From the very early stages, some industrial activities provided indispensable equipment for overseas expansion. For example, the system of plunder, conquest, and trade was built, to a large extent, using guns and sails. Most of the larger manufacturing units were connected to the imperial endeavour. In the royal storehouses, workshops were established to make the guns and other weapons which secured the military pre-eminence of the Portuguese, and shipbuilding, supplying the celebrated caravels, was no less important than the artillery. Although shipyards existed in several ports, the royal workshops of the *Ribeira das Naus*, in Lisbon became the most important, particularly after the inauguration of the Cape route to India, because they made the larger ships required by the trade to the East. Shipbuilding promoted the growth of ancillary industries, such as hemp spinning and sail weaving, which developed in different parts of the country. Finally, large furnaces were erected to provide biscuits which used to feed the crews and the soldiers while on board. All these manufacturing enterprises, were either initiated or animated by the expansion of the empire. Innovation was nevertheless restricted to the kinds of products they supplied (for instance some varieties of ships and textiles), although the large royal manufactures may have promoted the development of more centralised modes of production and the advancement of certain skills (especially in

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<sup>56</sup> O'Brien (1982) (1990) and (1991) and Wallerstein (1974-89) and (1983).

shipbuilding). A few private businessmen benefited from the orders placed by the royal shipyards and the arsenal and worked as contractors for them<sup>57</sup>. However, this did not enhance the country's industrial potential very much. Part of the raw materials and semi-manufactured inputs were imported (iron, timber for ship-poles, pitch, hemp, textiles), and improvements in production techniques were kept to a few large units, state-owned or strongly protected by the state, and did not spread to the rest of the industrial sector, in which basic skills were lacking.

Thus, for a very long time, the benefits the industrial activities derived from the overseas expansion were restricted to the firms and sectors which provided some of the basic inputs for the very construction of the empire. The opening of new markets and the fresh opportunities for economic integration had a very limited impact on the manufacturing sector. Traditional sectors, such as salt production, benefited from the integration into larger markets. Exports grew because the Dutch demand for salt was matched by the Portuguese demand for silver, on which the trade to Asia so vitally depended. However, until the Portuguese-Brazilian commercial system had been consolidated, domestic manufactured goods formed a small part of the cargoes of the Portuguese ships taking part in the long distance trade. Cloth, weapons and metalwork, paper and powder in small quantities, made up the commodities exchanged for the exotic goods from the colonies. National industrial articles had a smaller share in the overseas markets than the foreign manufactures re-exported from Portugal. Returns from the empire, particularly those coming from the transshipping of colonial goods to European *entrepôts*, provided the means for the Portuguese economy to import these manufactures both for home consumption and for marketing in the empire. It has even been suggested that in early-modern Portugal industry and trade operated in countercycles, and industrial spurts occurred only during commercial crises and downswings, when imports became much more difficult to procure, for, as a rule, the profits from trade in tropical groceries and bullion made industrial policy superfluous<sup>58</sup>. In fact, major government-driven attempts at industrial development, in the late seventeenth century and again in the 1770's, under Pombal, took place when the imperial economy was in distress<sup>59</sup>. However, these were

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<sup>57</sup> On the royal manufactures which supplied equipment to the imperial ventures, and especially on shipbuilding and the shipping industry, see L. F. Costa (1993) (1996) and (1997).

<sup>58</sup> Godinho (1950a).

<sup>59</sup> Godinho (1970) and (1955); Macedo (1989), ch. 5.

mercantilist state-driven efforts, the impact of which is difficult to assess and, in any event, this is not a general pattern. In the late eighteenth and early nineteenth centuries commercial prosperity and industrial progress go hand in hand<sup>60</sup>.

What part did the empire play in this industrial development? Industrial exports were almost entirely sent to the colonies and only very small portions of linen cloth and leather goods were sold to Spain and Italy. In the closing stages of the colonial system, Brazil took 94 per cent of the exports of Portuguese manufactured goods. The significance of colonial demand varied from one particular industry to another. Most important among manufacture exports were printed calicoes and linen cloth (a little under 60 per cent of the total). In the early nineteenth century, cotton-printing, a new industry concentrated in a few factories and large workshops around Lisbon, exported a substantial share of its output (60 or 70 per cent), while the linen and lace manufacture, a purely domestic industry, which employed a large part of the population of the north-western districts and used both local and imported raw-material, shipped to Brazil the equivalent to 15 to 30 per cent of its production. At this time, colonial markets were also important to some other industrial branches: silk, woollens, hat-making and workshops producing nails and agricultural tools from iron. Both in the scattered looms, workshops and factories in the north-eastern districts, and in Lisbon and Oporto, silk manufacturing was a very important industrial sector, and colonial markets played a significant role in its development. A role which was not so important for the vast woollen proto-industrial areas, for these only exported a small share of their output, which was basically sold at home. On the other hand, hat-making sold a sizeable part of its production to Brazil, both the coarser articles to be worn by slaves and workers (provided by the town and cottage workshops in the Northwest) and the finer hats, produced in Lisbon. For other important industrial branches, however, such as leather-making, ceramics and glass-making, the colonies were only marginal markets<sup>61</sup>.

There can be no doubt that colonial prosperity, generated by a new expansion in the European demand for cotton and sugar and profiting from the crisis that beset the other colonial empires, was a major driving force for the development of the manufacturing sector. The export of industrial goods then became one of the more dynamic branches of

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<sup>60</sup> Pedreira (1988) and (1994), ch. 1.

<sup>61</sup> Pedreira (1993), pp. 228–32 and (1994), pp. 278–306.



Portuguese foreign trade, growing at a higher rate than gross exports and increasing its share in the commodities sent to Brazil to 35 per cent. This spurt, in the closing stages of the eighteenth century, had some structural consequences. New industrial units were founded. The geographical location of industrial activities changed and the coast was hence preferred as a site for the manufacturing enterprises. Domestic industry as well as small workshops developed. Some technical innovations were introduced and a new industrial business (cotton-printing) emerged. Alas industrial growth soon ran into obstacles not only within the Portuguese economy, but in the system of trade itself. The true lever of the prosperity that the Portuguese merchant economy enjoyed was its position as an *entrepôt* between the foreign nations and Brazil. At the end of the Atlantic empire, between 1796 and 1806, national manufactures and foodstuffs accounted for only 48 per cent of all shipments to Brazil, meaning that re-exports accounted for more than half the traffic. Exports to the foreign nations consisted of 27 per cent of Portuguese and 62,7 per cent of Brazilian goods. Marketing of Brazilian sugar, cotton, hides and tobacco formed the most important branch of this system of trade, and foreign merchandise (foodstuffs, raw materials and industrial commodities) had to be accepted in exchange. In this way, although they made some progress, Portuguese manufactures never displaced large imports of textiles from Europe and Asia, which supplied more than half the shipments of cloth to Brazil. It must be emphasised that the development of Portuguese industry in the later stages of the old colonial system did not bring Portugal to the verge of modern industrialisation. Therefore, the breakdown of that system, serious as it was, cannot be blamed for the country's failure to join the first comers to industrialisation<sup>62</sup>.

## LIMITATIONS AND SPILLOVERS

The empire most certainly changed Portuguese economy and society. Changes did not affect the entire country in the same way. Some parts had virtually no direct relations with the empire and were almost left untouched by the overseas expansion. For the rest, however, economic life became transfigured. In the long run, the empire determined some very momentous transformations: for instance, the levels of public and

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<sup>62</sup> Pedreira (1993), pp. 251–2 and (1994), pp. 365–75.

family consumption surely increased; a more centralised state was built (a development which was not free from economic reverberations); the commercialisation of the economy spread; new patterns of population settlement appeared; Lisbon grew into a very large city (even by European standards); and some industries developed.

In its final stages, the colonial system fulfilled six main functions for the Portuguese economy: (a) it supplied the mainland with foodstuffs (sugar, coffee and rice) and raw-materials (mainly hides, cotton, dyewood and tobacco); (b) it provided privileged access to markets for mainland production (manufactures, wine, etc.); (c) it stimulated sectors of trade between the domains themselves, especially through slave trade; (d) it established the basis for a vast re-export trade of colonial goods to the foreign nations and of foreign commodities to the overseas; (e) it allowed for the transfer of private income and assets from the colonies to the mainland; and finally (f) it generated most of the state revenues (through the transfer of taxes from the dominions, customs tariffs and trade monopolies). These were by all means pivotal functions and the breakdown of this system meant a very serious setback for the economy. Then Portugal suffered severe losses (greater than Spain's) and lost the sole external outlet for the more dynamic parts of the manufacturing sector<sup>63</sup>. In the international division of labour Portugal was thereafter confined to the role of supplier of foodstuffs and raw-materials, for which international demand lagged behind the growth of world trade. No opportunities for specialisation within the more dynamic industrial sector were to be found for a very long time. In turn, the economic pattern fostered by the imperial monopoly can only be explicitly represented as harmful because the empire crumbled. Had it persisted, it might have proven to be beneficial. This does not mean that the empire had brought the Portuguese economy to edge of industrialisation and that this prospect was suddenly shattered by the collapse of the colonial system. It merely says that this collapse put Portugal in a much worse position to initiate modern economic development.

In any case, the empire displayed severe limitations as an engine of growth. A significant part of the receipts generated by colonial exploration and long-distance trade was consumed in maintaining the empire itself. Military and administrative expenses were always very high, both in the

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<sup>63</sup> Pedreira (1993), pp. 248–9 and (1994), pp. 365–66; L. Prados de La Escosura (1988), p. 85.



fortresses and trading posts of the Eastern empire (although, contrary to more pessimistic views, the *Estado da Índia* ordinarily yielded a net surplus<sup>64</sup>), and in the territorial control of Brazil. The patterns of public expenditure (and to some extent of private expenditure as well) certainly restricted the potential externalities from the imperial ventures. The ways in which government and households spent their income were nevertheless dictated by specific structural and cultural attributes of the Portuguese society, which may only in part be imputed to its imperial character. And the counterfactual notion that resources would have been allocated differently and more efficiently if the empire had not been out there is impossible to substantiate.

Moreover, a large share of the revenues produced by the Portuguese colonial empire never reached Portugal or accrued to other European nations. The increasing importance of the Creole element and of inter-colonial exchange must not be overlooked. For instance, the East African trading posts fell into the orbit of the Indian commercial network. As Asian carrying trade achieved increasing significance as compared with trade on the Cape route, in which private business played an ever growing part, the *Estado da Índia*, with its centre in Goa, gained considerable autonomy<sup>65</sup>. In the Atlantic, Portuguese merchants gradually lost control of the slave trade to Brazilian and Luso-african slavers, who enjoyed more favourable economic conditions (namely the access to the by-products of sugar and tobacco cultivation which bought slaves in West Africa)<sup>66</sup>.

International relations of competition and co-operation not only affected the magnitude of returns from the empire but could even determine the general course of its history. Warfare undoubtedly played a role in rising transaction costs for the Portuguese imperial economy, but sometimes it really changed its fortune. In the early sixteenth century, French privateers regularly attacked Portuguese vessels on the route between from Lisbon and Antwerp. Later on, the onslaught of the British and the Dutch precipitated the break of the Portuguese monopoly of navigation on the Cape route and the eventual demise of the Eastern empire and it seriously restricted the significance of Portuguese trade in West Africa as well. On the other hand, co-operative relations could peacefully transfer the externalities from the Portuguese empire to other European

<sup>64</sup> Godinho (1982b), p. 346, A. T. Matos (1985); Subrahmanyam and Thomaz (1991), p. 317.

<sup>65</sup> Godinho (1978b), Wallerstein (1974), p. 343, Curtin (1984), pp. 142-3.

<sup>66</sup> J. C. Miller (1988), pp. 207-313, 445-81; Verger (1970).

countries. From the earlier tentative steps, merchants and sailors from Italy, Flanders and Castile took part in the Portuguese undertakings, and although some were assimilated into Portuguese society others were not. The navigation and trade on the Cape route immediately invited the interest of the great merchant houses of the day. Italian and German syndicates were prominent in the outfitting of the fleets, the financial arrangements for the expeditions and the marketing of spices in Antwerp. As far as the manufacturing sector was concerned, tropical groceries and raw materials coming from the Portuguese dominions generally found their way into the factories and workshops of northern Europe. In the sixteenth century, sugar from São Thomé was shipped to the refineries of Antwerp and Amsterdam<sup>67</sup>. In the late eighteenth century, Brazilian cotton was feeding the ever growing European, and particularly British, industry, much more than the Portuguese, which failed to take off. At that time, Portuguese merchants and ships, engrossed as they were in the overseas trade, in which they enjoyed the protection that the colonial system accorded them, played only a minor role in the commercial intercourse with Europe<sup>68</sup>.

Therefore, in a way or another, foreigners from various origins benefited from the Portuguese imperial endeavour. They may have taken away profits and resources, but in turn they supplied capital, skills and commodities which Portugal was lacking, and which proved essential to the construction of the empire. Could it really have been otherwise? Was this not a basic condition for the very construction and persistence of the empire? That a small country, with very restricted means, could build an empire which encompassed the world may well only be explained by its ability to captivate and mobilise the energy of others. This is the inherent contradiction of empires, for they are meant to fend off foreign competition, but, with the odd exception, their very subsistence makes spillovers unavoidable.

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<sup>67</sup> Wallerstein (1974), p. 121.

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# THE AMERICAN EMPIRE AND THE SPANISH ECONOMY: AN INSTITUTIONAL AND REGIONAL PERSPECTIVE

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The Spanish Empire in America —so envied by other countries— has never been regarded by economic historians as an unmixed blessing. For Hamilton, the precious metals from the Americas caused a parallel rise in prices and wages, reducing industrial investment and thus aborting the development of capitalism. For Vilar, a critic of that view, the Empire, as «the supreme phase of feudalism», led to a primitive accumulation of capital responsible for freezing structures inhibiting to capitalism. Wallerstein recognised that America was essential for the conversion of Spain into a semi-periphery of the world market <sup>1</sup>. To that can be added other less general but equally negative approaches concerning the effects of emigration or of American treasure, seen by many as contributing to an absolutism powerful enough to impose a foreign policy alien to the interests of the country and highly damaging to the Spanish economy, and to that of Castile in particular.

The resulting picture, in large measure sustained by an emphasis on supposed defects in the economy, society and government of 16th-century Spain, which America merely accentuated, has not, however, cohered into a general overview which would permit a more balanced assessment of the economic consequences of empire. The aim of these pages is to set out such an overview and to present a revision of certain more specific issues in the light of recent research.

## 1. A CRUDE BUT NECESSARY APPROXIMATION: AMERICA AND THE KEY STATISTICS OF THE SPANISH ECONOMY

Despite the one-sided emphasis on the powerful distorting effect of America on the Spanish economy, it is becoming increasingly clear that

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<sup>1</sup> Vilar (1956<sup>a</sup>) (1956b), Wallerstein (1974).

in global, macro-economic terms the impact of America on the Spanish economy was slight.

Faced with the estimates of Mörner<sup>2</sup>, for example, what is stressed now is both the limited scale of emigration —500,000 emigrants between 1500 and 1800— and the fact that far from having a determining effect on demographic development, and specifically on depopulation, it simply reflected the greater or lesser vitality of the population of the metropolis<sup>3</sup>.

From the fiscal point of view American treasure was never the panacea it was thought to be. Receipts for the Crown [Graph 1] rose in line with bullion returns throughout the period. In effect, it was partly due to them that Philip II was able to maintain the rising real value of his revenues until the early years of the 17th century, [Graph 1] whereas other monarchs, as in England, saw a real decline in their revenues after 1550<sup>4</sup>. Nevertheless, the Graph also shows that the rise in the Crown's revenues began before the 1530s, when American treasure was only just beginning to be important. Not until the last quarter of the century, did it reach significant proportions. [Table I] Moreover, this inflow was always very variable, irregular and unpredictable, thus making it necessary for the Crown to resort to extremely costly financial expedients. The colonies produced income, but they also imposed costs, and, although we do not know what proportion was spent strictly on the defence of the Americas, it is to be noted that in the 18th century total defence costs exceeded by some way silver returns and, at times of greatest activity, around the 1790s, the combined total of silver imports and tobacco duties, a revenue closely tied in with the Atlantic trade<sup>5</sup>.

With regard to the price revolution, it now seems reasonable to believe that we are not faced with a phenomenon solely monetary in origin. If bullion had its part, it is no less true that the price rise can also be understood in terms of Castilian demographic fluctuations<sup>6</sup>. Furthermore, theories such as those of J. Goldstone<sup>7</sup>, relating inflation to urbanisation

<sup>2</sup> Mörner (1975).

<sup>3</sup> According to Martínez Shaw (1993), emigration was high until 1580, not until 1625 as has been claimed; it coincided with the period of demographic expansion which reached its peak around the former date, and then, in the wake of the demographic crisis of the 17th century, fell back to a level of some 100,000 emigrants in each of the two succeeding centuries.

<sup>4</sup> O'Brien and Hunt (1993), pp. 152-4.

<sup>5</sup> Income into the *Depositaria de Indias* was in excess of 600 million reales in 1760-69, nearly 660 in 1770-79, and rather more than 420 in 1780-89 [Barbier, 1980]. In those same decades naval expenditure was 870, 1140 and 1780 respectively.

<sup>6</sup> Nadal (1959).

<sup>7</sup> Goldstone (1984) (1991).

GRAPH 1  
*Crown Income in Castile (15th-17th centuries) and Spain (18th century) and Royal Treasure from America*

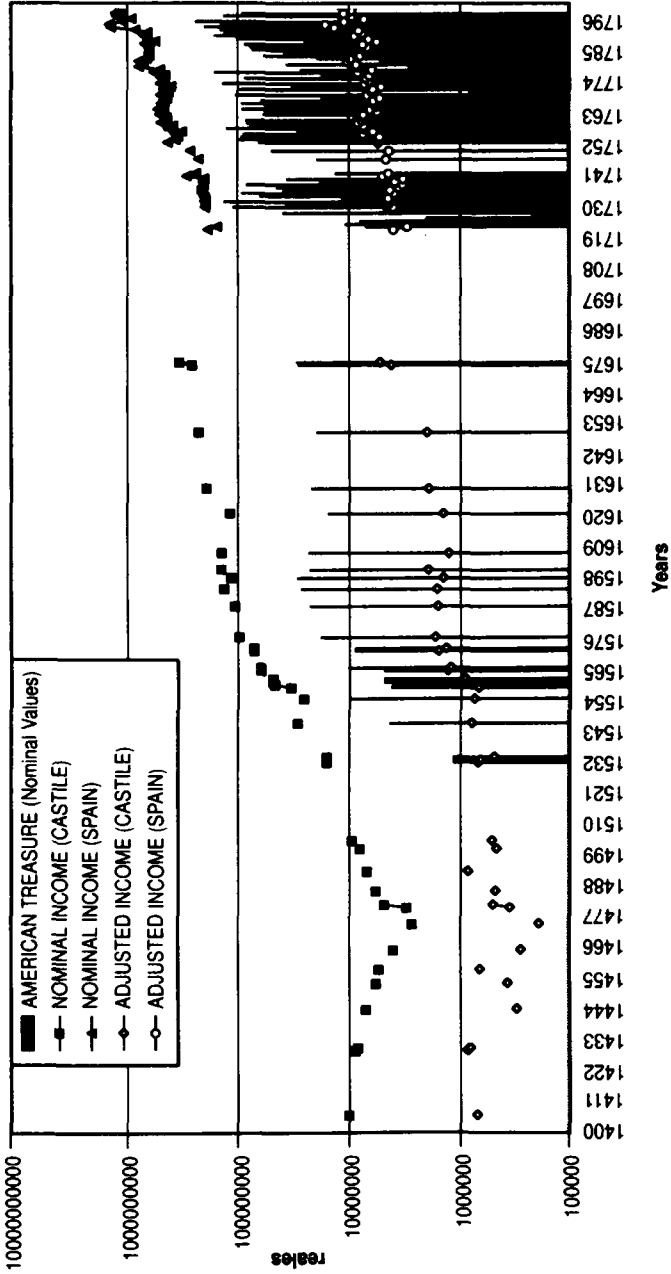


TABLE 1  
*An estimate of crown income and the main American sources of public revenue in castile (15<sup>th</sup>-17<sup>th</sup> centuries)  
 and Spain (18<sup>th</sup> century) \* (average nominal values in millions of reales per year)*

	Total Income				Tobacco Seville				Rentas	
	Castile Spain		American Treasure		Duty		Consulate		Generales ** (—Customs)	
	Values	%	Values	%	Values	%	Values	%	Values	%
1401-25	10 (1)									
1426-50	8 (3)									
1451-75	4.5 (4)									
1476-1500	5 (5)									
1501-25	8.5 (2)		0.003							
1526-50	15.5 (4)		1.1	7						
1551-75	52 (8)		6.8	13						
1576-1600	107 (4)		26.8	25						
1601-25	130 (3)		20	15						
1626-50	200 (2)		21	10	1	0.5	1.7	0.8		
1650-75	2292? (2)		28	9.5	4.2	1.5				
1676-1700					9		2			
1701-25	170 (2)		7	4	27	16			28 (10)	13
1726-50	217 (4)		42	19	63	29			52 (23)	13
1751-75	390 (23)		63	16	73 (13)	19			106 (25)	14
1776-1800	770 (25)		88	11.5	85.5 (17)	11				

SOURCES: My own elaboration from Graph 1 and Alonso (1984), Bernal (1993), Merino (1981), Archivo General de Simancas. *Dirección General del Tesoro*. Inv. 24. Leg. 1387.

\* Figures in brackets represent the number of years used in the estimate.

\*\* *Rentas Generales* do not correspond exactly to customs duties, as is sometimes assumed, since they also include other taxes on transactions and domestic customs duties. Nevertheless a substantial part of them was related, directly or indirectly, to the American trade. *Renta de Lanus* is not included.

and the division of labour, are strengthened by the coincidence of both processes, which were particularly intense in the period 1520-1570, with the years when inflation was steepest<sup>8</sup>. On the other hand, the fact that Castile not only minted money, but also exported it in such great quantities—particularly after the 1550s when price levels were at their highest—means that purely monetarist explanations have to be modified<sup>9</sup>. Though American silver was a factor in inflation, it does not seem sensible to accord it the sole responsibility for the movement of prices in Castile.

Despite all the statistical problems involved, especially the fact that we are dealing with official figures which, because of smuggling, tend to be understatements, an examination of the value of the American trade in terms of GDP suggests similar conclusions<sup>10</sup>. According to the figures in Prados de la Escosura<sup>11</sup>, legal exports from Spain to America averaged some 404 million reales in 1786-95, of which 207 millions were reexports. Even on the lowest GDP estimates, derived from Arthur Young, namely 5,685 million reales for the whole of Spain, total exports to America amounted to 7% of GDP, but, more importantly, exports of Spanish products scarcely came to 3.5%, and in the light of other calculations and considerations that figure could be even less [Table II]<sup>12</sup>. That contrasts with estimates for goods sent from England to her colonies of between

<sup>8</sup> Martin (1993), p. 367. We are not concerned here to arbitrate on the debate about the causes of the price revolution. What is of more interest for us are its consequences. For that reason, I have discussed only studies which balance the monetarist view by an emphasis on the significance of the real economy (population, urbanisation, etc.) in the process.

<sup>9</sup> Pieper (1985), p. 135.

<sup>10</sup> Elsewhere, I have expressed my doubts about the value of this kind of exercise, Yun (1994b).

<sup>11</sup> Prados de la Escosura (1993), tables 1 & 2.

<sup>12</sup> The figures for GDP at the end of the 18th century are presented here merely as approximations and because they seem to give clear support to the case for the small scale of the colonial trade in macroeconomic terms, which goes against the argument I am making for the decisive impact of America on the Spanish economy. In support of that case one should consider that, according to other calculations, GDP was in excess of 8,000 million reales [Prados, 1993], and I myself have proposed a Castilian GDP of 5.6 million reales around 1795 [Yun 1994c], and that would bring Spanish national income up to rather more than 7 million. Nor should it be forgotten that Prados, whom I follow on this point, uses export figures for Spanish goods taken from Fisher who included foreign goods finished in Spain or illegally registered as Spanish, as Fisher himself pointed out [1981, p. 31]. As a result, the 3.5% referred to in the text should also be reduced on that account. In the same way, the 2.9% of Table II should be modified, as I indicate in note 9 of that Table. On the other hand, those reductions could be offset by the inclusion of the profits of reexports, carrying services to other countries, and even those from contraband. For my part, I do not want to give precise figures here, merely to put forward data that leaves the issue open to question. I do that, moreover, in the belief,

TABLE 2  
Some conjectures on the American trade and the Castilian economy, 16<sup>th</sup>-18<sup>th</sup> centuries  
(approximate annual values in grams of silver and reales a year)

	GDP <sup>1</sup> (000,000,000)	Population (Inhabitants)	Exports and reexports from Spain (millions)			Total			Imports (millions)							
			Market prices	Gms. silver	(millions)	Total (% of GDP)	Reales	Silver Reales	(% of GDP)	Spanish exports (% of GDP)	Reexports Silver Reales	Silver (% of GDP)	Merchandise Silver Reales (% of GDP)			
ca. 1590	1	3.4	5.6	26	2.5	85	n.d.	n.d.	n.d.	63	6.3	201	10			
ca. 1630	1.1	2.9	4.5	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	97	8.8	244	n.d.			
ca. 1670	(2.5)	(3)		193	7.7	219	13	0.5	15	180	204	308	12			
1750-60 <sup>3</sup>	2.4	3	6.5	/181 <sup>4</sup>	7.5	228	15 <sup>5</sup>	0.6	19	166	209	369	15			
				/226 <sup>6</sup>	9.4	285	18.5 <sup>5</sup>	0.7	23/	207.5	262		41 <sup>2</sup>			
1750-60 <sup>3</sup>	3.2	4	6.5	/181	5.6	228	22 <sup>7</sup>	0.7	28	159	200					
				/226	7	285	27 <sup>7</sup>	0.8	34/	199	251					
ca. 1795	5.6	6.7	7.8	282	5	337	165	2.9 <sup>8</sup>	197	117	140	521	9.3			
														624	225	1

N. B.: This Table has an indicative value only.

SOURCES: My own elaboration from Graph 1 and Yun (1994c), Grupo 75 (1977), Lorenzo (1979), Hamilton (1975), Phillips (1990), Everaert (1973), Pieper (1992), Ozanan (1978), Atzman (1986), Garcia-Baquero (1976 and 1992), Merino (1981), Cuenca (1981), Fisher (1992b and 1993), Prados (1993), Monneau (1985). For currency equivalents used in the estimations, see Felgu (1991) and Atzman (1986).

<sup>1</sup> These figures are from B. Yun (1994c) and are provisional in character, representing orders of magnitude. They have been used because even a substantial modification—say of 15% up or down—does not affect my conclusions as to the modest weight of Castilian (or Spanish) trade with America within the national economy as a whole. The figures in brackets are extrapolations.

<sup>2</sup> To be considered as a minimum.

<sup>3</sup> Given the suspicion that the data from the *Ensenada Catastro* used in this estimate are understated (B. Yun, 1994c), minimum and maximum figures for GDP have been given. In each case a range from 8.2-12% has been calculated as the share of Spanish exports in the total. This procedure follows Garcia-Baquero, whose data have been used as a starting point (1976, pp. 329-31), who believes that 8.2% would be a minimum, and 16%, derived from the share of Spanish and foreign export by weight, would be too high. In addition, two values for the *peso* have been used, 8 *reales* and 10 *reales*, in order to present different possibilities.

<sup>4</sup> Taking Garcia-Baquero's figures (1976, p. 329) and the *peso* as 8 *reales*.

<sup>5</sup> Taking Spanish exports to be 8.2% of the total, as indicated in note 3.

<sup>6</sup> Taking 1 *peso* to equal 10 *reales*.

<sup>7</sup> Taking Spanish exports amount 12% of the total.

<sup>8</sup> Exports figures for this date come from Fisher (1993, p. 27) and their share in the national wealth should be considered as a maximum, since, as Fisher himself acknowledges, a good deal of the merchandise registered as Spanish were in fact foreign goods. On the other hand, it must be taken into account that export figures include the value of goods exported from non Castilian ports. In fact, they should be compared with the GDP of the whole country. In that case, their share in the total national wealth would be less than 2.9%. Moreover, other authors, such as Prados (1993), support higher GDP estimates, thus giving American trade a smaller share of Castile's wealth.

9.4% and 14.6% of GDP<sup>13</sup>. Furthermore, for most of this period Spanish exports to other countries were twice as great as those to America<sup>14</sup>, reflecting the important but secondary character of the American market, when considered solely from this one point of view.

Was this the case for the whole of the period under review? Despite considerable doubts, I have decided to include Table II, which refers solely to Castile, 70% of the country, as a point of departure for the discussion<sup>15</sup>. On the most favourable estimate, the total of *legal* exports, both goods registered as Spanish and foreign goods despatched from Cadiz or Seville, barely reached 9.4% of Castilian GDP during the period (See the most optimistic estimate of 1750-60 in Table II)<sup>16</sup>. What is also apparent is the primacy of foreign reexports over those registered as Spanish, which scarcely came to 10% of annual exports until the 1750s, and which were, moreover, predominantly agricultural products<sup>17</sup>.

In fact, the colonies were more significant for the value of their exports, 4% of GDP at the end of the 18th century, and, especially, for their exports of silver, 9% [Table II].

In the light of these facts, the obvious question is: was America really so decisive for the Spanish economy? To answer that question we need not only a fuller consideration of its relative importance in macroeconomic terms, but also an examination of the initial conditions of the Castilian economy.

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that will be developed in this paper, that the macrostatistical perspective can be misleading insofar as it reflects only one part of the reality of the relations between metropolis and colonies.

<sup>13</sup> Crafts (1985), p. 131.

<sup>14</sup> Prados (1993), table 7.

<sup>15</sup> If prudence is needed for the calculations for 1795, figures for earlier periods need to be treated with the utmost caution. These GDP estimates are derived, with some corrections and interpolations, from an unpublished study which includes a more detailed theoretical and documentary critique throwing doubt on their representativeness. [Yun 1994c] In the same way as for the late 18th century estimates, they are included here because, even admitting a wide margin of error in the calculation of GDP, the results are extremely indicative of the small importance of the export of Spanish manufactures and of the make-up of the trade, and the share of precious metals, throughout the period.

<sup>16</sup> That peak of 9.4% would apply to 1750, on the assumptions indicated in the figure, which, as can be seen, are the most optimistic possible (the lowest possible—if not impossible—figure for GDP, the peso taken at 10 reales, etc). In reality, other lower figures presented in the table would be much more acceptable, but, as always, I take as a point of reference that which is least favourable for the case for commerce making a light contribution to national wealth in macroeconomic terms.

<sup>17</sup> 10% is in line with Fontana's estimate (1987), p. 9.

## 2. AMERICA AND THE TRAJECTORY OF THE CASTILIAN ECONOMY 1492-1600

That 15th and 16th-century Spain can no longer be considered simply as an export economy, dominated by the Mesta, is now a commonplace among Spanish historians. Castile, and indeed Spain as a whole, was a country experiencing demographic, agrarian and urban growth, in which, despite the importance of the export of primary products, the economy did not depend on external stimuli<sup>18</sup>. By 1500 only Italy and the Low Countries were more urbanised than Spain<sup>19</sup>. Urban networks had already been established by 1550<sup>20</sup> and industry manifested a not inconsiderable dynamism. What Van der Wee refers to as «polynuclear» economic growth within European trade networks<sup>21</sup> was particularly important for Spanish inland regions, and that does not accord with the idea of a semiperipheral economy dominated by an over-inflated export sector. In the Duero Valley, the urban network, though composed of small centres, was extremely dense, with a manufacturing population exceeding 50% in places of merely 2,000 inhabitants. Further south, the cities were of a more agrarian character, but they were larger, and centres such as Cordoba and Seville possessed great commercial and industrial dynamism<sup>22</sup>.

Contradicting the idea of Castile as a rigidly feudal and aristocratic society, lacking pressure for change, strong merchant groups emerged at the same time that a combination of conspicuous consumption and the inelasticity of seigniorial incomes worsened the financial situation for part of the aristocracy<sup>23</sup>. Social tensions destabilised the political system. The usurpation of public lands and royal revenues was the traditional way for the great nobles to overcome their financial problems. That not only reduced the Crown's fiscal resources, it also inflamed the cities which had to pay higher taxes. It thus created a tension between the cities, the Crown, the nobility and the Church, of which the revolt of the Comunidades (1520-21) was to some extent the non decisive. By 1540, noble indebtedness was on the rise and aristocratic income beginning to fall in real terms.

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<sup>18</sup> Yun (1994\*).

<sup>19</sup> De Vries (1987), p. 58.

<sup>20</sup> Reher (1990).

<sup>21</sup> Van der Wee (1988).

<sup>22</sup> Vela (nd) (1983).

<sup>23</sup> Yun (1987).



At the same time, during the 16th century a central government bureaucracy took shape, with the characteristics typical of the age, but of increasing weight and effectiveness. Its extension into America made possible the establishment of complex linkages capable of intensifying the exploitation of the colonies<sup>24</sup>.

It is within this context of the economic development of increasingly interconnected regional economies, and structural tensions, heightened by the costs of servicing the dynastic empire of the Habsburgs in Europe, that the impact of the colonial economy has to be situated.

From a commercial perspective it is possible to detect some potentially positive stimuli for the Spanish economy, though these did not derive from the size of the American market, which in volume terms was quite small—in 1570 there were barely 150,000 creoles, a mere 2.2% of the population in Spain—and which had limited capacity for growth in the 16th century<sup>25</sup>.

As for silver exports, historians have been over preoccupied with testing the quantity theory of money and the impact of bullion on prices. But increases in the money supply must have stimulated transactions and became a key factor in the increasing specialisation of labour that is apparent in the urban expansion of the 16th century. Silver, coming into a growing economy and spreading into the centre of the Peninsula thanks to the flow of interregional trade and the Crown's disbursements<sup>26</sup>, vitalised commercial circuits such as those which linked Castile with Portugal, or with Catalonia, a region with connections with the fairs of the Duero Valley which benefited from a flow of bullion and public expenditure helpful for its industries<sup>27</sup>.

As for industry, Hamilton's view<sup>28</sup> that wages did not lag behind prices for the whole of the 16th century and that real wages fell less than in other countries is not correct except in the period between 1515-30, as Graph 2 shows. Contradicting the picture of an immobile and out of date

<sup>24</sup> Elliott (1990), pp. 34-40.

<sup>25</sup> Around 1590 outward cargoes to the Indies amounted to 2 million reales [Phillips (1990), p. 82], a substantial, but not extraordinary figure. The annual value of trade in a city like Cordoba in 1579-84 reached a similar level, and sales of silk and woollen textiles there alone came to 600,000 [Fortea (1981), p. 265], one-quarter of the total for manufactured goods exported to America, 60% of which may have been textiles [García-Baquero (1992), p. 207]. The collapse of the indigenous population and the difficulty of increasing the consumption of Spanish products over there restricted demand for goods from the metropolis.

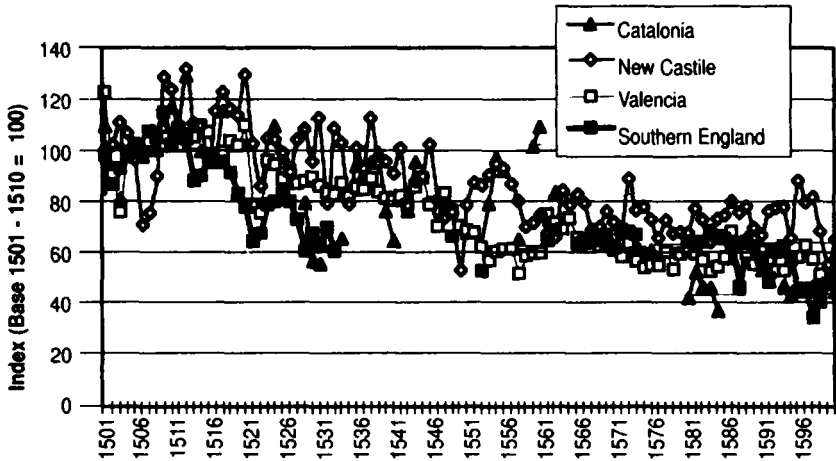
<sup>26</sup> Da Silva (1967), pp. 65-102.

<sup>27</sup> Vilar (1962) I, pp. 544-52; Bennassar (1983), p. 327; Fortea (1981), pp. 394-407; Vilar (1962), I, pp. 561-5.

<sup>28</sup> Hamilton (1975), p. 295.

GRAPH 2

*Real Wages of a Building Craftsman in Spain  
and England (1501-1600)*



SOURCES: My own elaboration from Reher and Ballesteros (1993) Appendix 1, Nadal, J. (1959) Appendix. Feliu, G. (1991), II, p. 88-95, Phelps Brown, E. H. and Hopkins, S. V. (1962), Appendix B).

manufacturing sector, the textile industry tried to adapt to the demand for high quality cloths stimulated in part by the American market but, above all, by the rising income of better off groups and the effect of prices on the redistribution of wealth. Other industries, such as silk, displayed a notable vigour that continued until well into the 17th century<sup>29</sup>. The arrival of primary products, such as hides and dyestuffs<sup>30</sup>, contributed to the development of certain industries, and spices widened new fields of consumption, with consequential effects on the profitability and expansion of trade. Mining, in particular mercury mining, expanded its activities and witnessed important technical changes<sup>31</sup>.

America, also contributed to the faster development of the financial sector and to the accumulation of profits, even areas, such as the slave

<sup>29</sup> Iradiel (1974), Fortea (1981), García (1987), Montemayor (1996), pp. 223-8.

<sup>30</sup> Lorenzo (1979), I, pp. 545-626; Between pp. 1571-72, when cochineal imports began to grow in volume, and 1590-93, its price barely rose in nominal terms, which meant a clear real decline.

<sup>31</sup> Sánchez (1989).

trade to the Caribbean and Central America<sup>32</sup>. The flourishing banking houses of Seville and the success of families like the Espinosa, are proof of that, as is the development of the fairs of central Castile, where the bulk of the Crown's disbursements, fed by American treasure, were handled. Neither were the profits of banking or the advances in insurance on the Indies route<sup>33</sup> and in the techniques of commerce unconnected with colonial expansion. Though we do not know what the naval expenditure of the Crown would have been without America, it must have accounted for a substantial part of those costs, which rose from 3-400,000 ducats a year in the 1570s to between 600,000 and 1,000,000 ducats a year in 1580-1600, that is nearly one-third of the demand generated by the colonies<sup>34</sup>.

However, America made its most decisive impact on the institutional and social side, though not by providing funds for a king who had sole control over the making of policy, nor by virtue of the unprecedented financial resources it made available. In a patrimonial and «composite» union<sup>35</sup>, public revenues from the Indies were important not because of their quantity, but because they constituted readily available resources and an indispensable source of credit. Furthermore, American bullion overcame the institutional impediments to the transfer of revenues across regional and constitutional boundaries, which was one of the main reasons for conflict between the king and his parliaments, a particular problem in the case of such a multi-national empire<sup>36</sup>. Even so, what mattered was not the treasure from America, but the fact that, thanks to agreements with the Cortes, the revenues of the kingdom served to underwrite the consolidation of the debt. Because of that, though it did not do away with the need to have recourse to the bankers, it was possible to overcome the biggest problem of the returns from America, their uncertain and erratic nature. The system never functioned entirely satisfactorily, but its outcome was that Castile became the backbone of an imperial system which in a short space of time extended from Flanders to the Philippines and from Italy to Mexico.

The empire, even in America where the king was legally all-powerful, was constructed on the basis of compacts with the local authorities. In

<sup>32</sup> Lorenzo (1975), I, pp. 530-42.

<sup>33</sup> Bernal (1993), pp. 182-203.

<sup>34</sup> Thompson (1981), p. 356; (1982), pp. 12-13.

<sup>35</sup> Elliott (1992).

<sup>36</sup> Rodríguez-Salgado (1988).

Castile, the mutual support of king, cities, nobility and Church, though not without conflict, was decisive. Far from being crushed, the cities, in effect corporate lordships, retained, and even strengthened, their jurisdictional autonomy and their role in tax administration. However, as grandees and patricians resident in the cities were the main purchasers of revenues and jurisdictions sold by the Crown, that reinforced and expanded the seigneurial regime. Moreover, many found in the empire, and especially in the government of the Indies, an arena for political advancement which facilitated their rise through the remarkably stable social structure. Although the king established his own royal bureaucracy, access to positions within it was often in the gift of viceroys or aristocrats, or was acquired through, or at least had begun within, the continuing bonds of aristocratic clientage. The Church, which absorbed the internal tensions of the noble lineages via the younger sons it recruited, found in the Indies space for economic growth which did not detract from the expansion of its spiritual power <sup>37</sup>.

The aristocracy, threatened by crisis, were enabled to overcome their difficulties. Although inflation eroded their income, the growth in the circulation of money and the willingness of the Crown to permit them to mortgage their entails, allowed them access to long-term credit with low rates of interest. Such loans, taken out to fund political duties for the king, or for their own private needs, made possible the incorporation of the nobility into the government of the empire in Europe and America, and served both to overcome the danger of their failure as a class and to acquire the means for the expansion of seigneurialism through the purchase of jurisdictions and revenues from the Crown <sup>38</sup>. In effect, the exercise of positions of authority in Europe and America provided the aristocracy with a copious source of both wealth and patronage, which, together with the reinforcement of the mayorazgo as an institution, despite its encumbrances, for social and political reasons, enabled them to meet their financial problems without resorting to substantial investment in their

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<sup>37</sup> Céspedes (1988), pp. 240-5.

<sup>38</sup> Jago (1973), Yun (1987).

The latter was helped in its turn by the alienation and sale of revenues and jurisdictions by the Crown, a process made necessary by the disjunction between the needs of the Crown and the capacity of the financial system, which hinged on the flow between American treasure and Castilian taxes.

estates or a restructuring of the social order<sup>39</sup>. In this context, political advancement, social prestige, strategic and costly marriage alliances, clientage networks and lineage solidarities, all of them essential for the acquisition of political influence, became key elements in the management of aristocratic patrimonies<sup>40</sup>. Though not resolved, the structural tension between rising costs and inelastic seigneurial revenues was in part overcome.

Castile was thus converted into the most important power in Christendom without undertaking the institutional and financial changes (or the financial revolution, if you like) that at first sight seem to have been called for by the military revolution that was then taking place<sup>41</sup>. A remarkable effort was required, but the way it was effected defused the tensions which in other countries led to civil and religious conflict (France), or to economic change (England). The consequences for the system of production, both in the short and in the long term, were decisive.

In that context the flow of bullion could stimulate not investment but conspicuous consumption and political advancement. That was in part a consequence of the polarisation of wealth and of changes in demand provoked by the arrival of the precious metals<sup>42</sup> but also of the sclerosis of an institutional system in which innovative investment, as something not essential to the preservation of status and power, was very limited and in which sumptuary expenditure, the acquiring of influence and life at Court were ways to increasing prestige and political power<sup>43</sup>.

Agrarian reform was almost imperceptible, even in Andalusia, where a sort of agrarian capitalism did not lead to wholesale investment or to significant improvements in productivity. That was not helpful for the development of the economy as a whole, as evidenced by the more rapid increase of agricultural as compared with industrial prices, but neither was it for manufacturing and commerce, though not for the reasons Hamilton proposed. Industrial profits were not the result of a gap between prices and wages. In many industries where the unit of production consisted of domestic workshops, profit depended mainly on household costs which moved in line with the cost of living. Given the unfavourable terms of

<sup>39</sup> Although the royal service involved them in costs, at the end of the 16th century houses like that of Infantado were receiving nearly 30% of their incomes by virtue of the viceregal offices they held, and the Counts of Benavente got just about as much as viceroys in Italy as they did from their estates in Castile. Yun (1990) y (1994d).

<sup>40</sup> Yun (1990).

<sup>41</sup> Thompson (1995).

<sup>42</sup> Forsyth & Nicholas (1983).

<sup>43</sup> Yun (1998).

trade between primary and industrial products, artisan's workshops had to operate in an increasingly difficult situation. Moreover, the key role of the cities in tax collection resulted, at the end of the century, in a transfer of the fiscal burden from trade to consumption, which further worsened the situation of the small craft workshops, even though taxes, it has been claimed <sup>44</sup>, came to 9% of GDP. The autonomy of the cities and the sale of jurisdictions fragmented the fiscal map even more, hindering the integration of the market and resulting in a differential regional incidence of taxation and arbitrariness in its administration.

The imperial system had its effects on financial developments. The need of the Monarchy for credit strengthened the Genoese banks, which alone were capable of effecting the transfer of funds to the theatres of conflict in Europe. The situation was made that much more difficult insofar as the arrival of American treasure, which was predominantly silver from the 1550s, implied a devaluation in terms of gold that was greater in Spain than in Northern Europe, where the troops had to be paid in gold. That made the Genoese indispensable for the Monarchy, strengthened their position in Seville and tightened their control over the Spanish banking system <sup>45</sup>. The issuing of «juros» (rights to revenues), often by compulsory allocations on the merchant body as a whole or the Indies traders in particular, contributed to the spread of a rentier economy, as did the diversion of savings into mortgage lending against entails and municipal properties. *The high degree of insecurity inherent in the American trade was aggravated by the Crown's sequestration of bullion at moments of difficulty, which raised transaction costs and encouraged safe investment in rents or in political advancement.*

The multinational nature of the Monarchy hindered the formulation of mercantilist policies with respect to the other Habsburg territories, such as Flanders and Italy, whose products entered the Spanish and American markets in parallel with the growing number of merchants from those areas in Seville. The Monarchy's borrowing requirements led to an overvalued exchange rate for specie that drew in imports. A good part of spending was directed to other regions whose industries developed on the back of it, such as arms manufacturing in Milan, and a proportion of the provisions bought in Spain for the armies was procured by compulsory purchase, or at fixed prices disadvantageous to the vendors <sup>46</sup>. In addition, the positive

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<sup>44</sup> Thompson (1992).

<sup>45</sup> Ruiz Martín (1968).

<sup>46</sup> Thompson (1992).

effects of the growing supply of silver coins on transactions and specialisation of labour must have been limited, since an important part of trade, mainly at the local and rural levels, was carried out using copper coins.

Spanish manufacturers were unable to resist such pressures. Moreover, within this context, emigration to America, whatever its extent, had negative effects since it reached its peak at the moment of greatest difficulty for the cities, which were the source of the emigrants<sup>47</sup>, and for which the loss of people of reproductive age accelerated the demographic downturn after 1580<sup>48</sup> and the urban crisis of the Castilian interior.

In short and despite some positive aspects, America contributed to the maintenance of an institutional and social system which, with its ramifications in the fiscal sphere, was to lead directly to crisis.

### 3. CRISIS AND ECONOMIC CHANGE 1600-1700

The crisis—in some areas, recession—that Spain experienced in the 17th century was not triggered by the contraction of the Atlantic economy. On the one hand, the existence of a recession either in mining or in the colonial economy as a whole has been disputed<sup>49</sup>. But, more important, after 1580—that is decades before the Atlantic trade cycle which began in 1560 reached its peak<sup>50</sup>—the inflexibility of the system of production in Castile led to a profound urban crisis that was most acute in the more dynamic areas of the interior, and to a stagnation of agricultural production.

There were also changes and readjustments. The old pattern of expansion, based on a dynamic interior, would be gradually replaced by one with its dynamic in the peripheries. At the same time, the American economy witnessed the rise of economic circuits more independent of the metropolis<sup>51</sup>. Upon a mineral wealth, steadily less important as silver fell in value<sup>52</sup>, was superimposed an increasingly developed plantation economy that was in a certain sense autonomous of the Peninsula, and which was to transform the composition of the Atlantic trade. The ruling creole groups

<sup>47</sup> Martínez (1994).

<sup>48</sup> Nadal (1984), pp. 58-62.

<sup>49</sup> See TePaske and Klein (1981) (1982) and Kamen and Israel (1982).

<sup>50</sup> Chaunu (1959), VIII 2, 1, pp. 22-3.

<sup>51</sup> Sempat (1988).

<sup>52</sup> Flynn (1982).

were gaining in independence from the metropolis and from the middle of the century were acquiring a powerful position in government<sup>53</sup>. The strengthening of ties with the Philippines and the union with Portugal accentuated the centrifugality of the empire. That coincided with the radicalisation of the struggle for the world market which was posited on the emergence in England and Holland, and later in France, of economies which, in institutional and productive terms, were more adaptable. How did the Spanish economy respond to these changes?

Despite the qualifications which the concept of crisis has undergone, it is hard to see what positive effects America had on the Castilian economy. Even those, such as Morineau, who have modified the figures of Hamilton and Chaunu on the import of precious metals or on the traffic across the Atlantic in an upward direction, believe that Spanish products lost ground in the total of exports, as they were replaced by foreign manufactures.

Positive figures exist. Although some products, such as cochineal, indigo and hides became less important in the official import figures<sup>54</sup>, the plantation economy remitted to the Peninsula increasing quantities of other goods, like cocoa and tobacco<sup>55</sup>, the rising consumption of which brought notable profits to the merchants of the Carrera and to those reexporting them to Flanders and Italy. If recent interpretations are to be believed<sup>56</sup>, these lines of consumption should have activated new patterns of demand and reinforced commercial relations with the New World. Products brought from America, such as maize, were essential to overcome the Malthusian checks in certain regions, such as Galicia, and later Asturias, where population continued to rise throughout the 17th century. Though clearly America was not the only cause, the extension of English and Dutch commercial networks to Seville and from there to the southern part of the Peninsula then stimulated the trade in Ibizan salt, Andalusian oil and wines, Malagan raisins and wine, etc.<sup>57</sup>. That generated a further considerable spin-off as demand promoted the development of coastal transport networks in the Mediterranean. The contribution of American

<sup>53</sup> Burkholder & Chandler (1977), pp. 39-52.

<sup>54</sup> Phillips (1990), p. 88.

<sup>55</sup> Figures for cocoa imports collected by Phillips [(1990), pp. 92-3] reveal a rise in official imports from 1,736 arrobas a year in 1651-55, to more than 20,000 in 1681-85. Tobacco consumption rose from practically nothing at the beginning of the century to 3 million lbs in 1740. Archivo General de Simancas, Dirección General de Rentas, 2ª remesa, leg. 4636.

<sup>56</sup> Shammas (1990).

<sup>57</sup> Pulido (1993), p. 145; Quintana (1987).





treasure to the income of the Crown fell to less than 10% [Table I]. Nevertheless, and without reaching the level of 1576-1600, that figure does not tell the whole story, since to the treasure it has to be added new taxes generated by the Atlantic trade, such as that on tobacco, or occasional though sometimes substantial revenues, such as donativos from the *Consulado de Indias*, concerned always to retain their monopoly, or income from the sale of offices<sup>58</sup>. The calculations of TePaske and Klein<sup>59</sup> for New Spain show in addition that the fall in bullion returns did not imply a parallel decline in the income of the Crown, which was in reality being spent in America, or the Philippines. Although to a lesser degree, the returns from America continued to be decisive.

Already in the 17th century, America had become one of the most important levers of economic and social advance for an aristocracy and for urban oligarchies which could thus overcome their difficulties in the Peninsula without that involving institutional change or changes in the system of production<sup>60</sup>. The penetration of aristocratic clientage into the imperial administration and the sale of offices increased corruption and fraud, progressively more important economically and excused by a very flexible ethic of royal service<sup>61</sup>. The institutional balance in favour of the aristocracy and the autonomy of the cities in fiscal administration was preserved to the detriment of the attempt of mercantilists to reform the system and to increase the resources of the state<sup>62</sup>. Castilian absolutism, even more so than the French, the nature of which has undergone a profound revision<sup>63</sup>, was articulated upon a complex and disaggregated system of powers and loyalties which were not always directed to the king<sup>64</sup>.

It is likely that in terms of income and expenditure, America gave the Crown more than it cost, but the question should be put in different terms. Within the costs of the protection and preservation of the American Empire should be included also the funds accumulated by functionaries and ruling elites, at the expense of the Crown, which made the system possible. In

<sup>58</sup> On the «donativos» from the *Consulado*, see A. M. Bernal (1993), pp. 218-23. On the sale of offices, TePaske and Klein (1981), p. 131 and Burkholder and Chandler (1977).

<sup>59</sup> (1981) 131-4.

<sup>60</sup> Yun (1990). Although those revenues came from the empire as a whole, already in the 16th century, the viceroalties, the «*encomiendas de Indios*», and other sinecures and privileges associated with the administration in America were nourishing the economies of the grandees and their relatives and clients. See Domínguez (1985), pp. 112-4.

<sup>61</sup> Pietschman (1989), Yun (1993).

<sup>62</sup> Elliott (1986).

<sup>63</sup> Beik (1985).

<sup>64</sup> Thompson (1990).

a system with a high degree of corruption, bureaucratic and military expenditures were not invested totally in protection services. The outcome was both inadequate defence and a good deal of uncertainty resulting from an administrative arbitrariness which did not help to reduce transaction costs.

The application of a mercantilist policy of a protectionist hue and the system of monopoly now clashed both with the need to facilitate the access of other subjects of the king to the American market and with the impossibility of securing their markets against the Dutch, the French and the English<sup>65</sup>. Though many of the problems alluded to applied also in other countries, it was on that footing that the king of Spain aimed to exploit the most extensive, dispersed and institutionally fragmented empire ever known. All that was attempted within the context of a financial crisis which made necessary a «devolution of functions» to local powers and private individuals in the two pillars of the Empire, the army and the bureaucracy<sup>66</sup>.

Expensive for the Crown, profitable for the ruling groups, and economically inefficient for the country, the imperial system contributed nonetheless to the maintenance of Castile's social and economic structures. For that reason the weak positive stimuli it generated could not easily revivify the economy. An industry of increasingly inflexible forms of production could not meet the changing demands of the colonies for high quality manufactures. Luxury goods imported from Asia via Manila mopped up the most refined segments of the demand of cities such as Lima and Mexico with a growing sumptuary market<sup>67</sup>. Manufactures, legally or illicitly imported from Holland, England, France, Italy or Flanders, took the lion's share of the cargoes from Seville. At the end of the 17th century, less than 4.5% of the total value of legitimate cargoes were Spanish goods, among which agricultural products predominated<sup>68</sup>. The extension of the commercial networks to Seville also served to open the peninsular market to the New Draperies and other northern products<sup>69</sup>, in successful competition with once vibrant local industries, such as that of Cordoba<sup>70</sup>. In Malaga, the obverse of the export of wine was the massive entry of

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<sup>65</sup> Wallerstein (1980).

<sup>66</sup> Thompson (1981).

<sup>67</sup> Te Paske (1983), p. 433.

<sup>68</sup> Everaert (1973), pp. 277-82; Morineau (1985), pp. 262-9; Fernández de Pinedo (1986).

<sup>69</sup> Everaert (1973), pp. 287-96.

<sup>70</sup> Fortea (1994).

foreign textiles with which the fragile local industry could not compete<sup>71</sup>. That also implied a greater participation of foreign capital in the still plentiful remittances of silver—with consequential difficulties for domestic monetary circulation, which became increasingly copper based—and in the profits of the goods imported and their redistribution to Europe<sup>72</sup>. And all that leaving aside the expansion of the direct trade with America, by-passing Andalusia's monopoly.

A good part of the profits was gathered into the hands of the Indies merchants, who dealt in a speculative commerce between the American fairs and Seville which was not dependent on direct investments. Another part was focused on the aristocracy of Seville whose sumptuary expenditure fed the same circuits of foreign trade which did little good for domestic industry. The concentration of capital contributed to the concentration of agrarian wealth and to the market orientation of neighbouring regions, and perhaps also to improvements in productivity, though these were very restricted and reached their limits around 1750<sup>73</sup>. At the end of the century, the influence of Seville, through its Mediterranean links, began to be felt on the levantine coast, and even the brandy of Catalonia or the iron of Vizcaya benefited from it<sup>74</sup>. But in such a fragmented and regionalized economy, the concentration of profits in the region of Seville and its satellite ports percolated much more weakly through to the Spanish interior as a whole. The decomposition of the urban network and the disarticulation of the inland markets aggravated this situation, and the reallocation of productive resources in line with American demand on any great scale was unthinkable. In a context of recession such as this, emigration took on particular importance. Though on all estimates very restricted, it nevertheless was a drain on a country in which labour was in short supply.

On the side of consumption and demand, the stimulus was very limited. Naval expenditure fell, not only because of the decline in the income of the Crown, but also because of the diversion of funds to America and the Philippines<sup>75</sup>. The complexity and territorial dispersion of the Empire, based on so many local agreements, worked against the Spanish economy. Even the stimulation of domestic consumption by the arrival of new products was very limited. In an economy and social system that facilitated

<sup>71</sup> Quintana (1987), pp. 89-92.

<sup>72</sup> Morineau (1985).

<sup>73</sup> Bernal (1988).

<sup>74</sup> Martínez (1981), pp. 200-3; Fernández de Pinedo (1974).

<sup>75</sup> TePaske & Klein (1981), p. 133.

the polarisation of income in the hands of the aristocracy and the clergy and in which the rigidity of the society of orders inhibited the spread of more homogeneous patterns of consumption, changes would have to be slow<sup>76</sup>.

The Empire had lost its focus and its capacity to defend itself, and it had nourished an institutional framework that was not greatly helpful for economic growth. It was not easy for it to act as a motor for a new phase of expansion and even less for economic change. In addition to being a century of crisis, the 17th century in Spain was a time of readjustment, but those readjustments varied according to area and were slow overall on account of the regionalization of the economy. America was not in a position to speed up those changes to any significant degree, nor to prevent the long-term crisis from turning into recession in some areas, and into stagnation in others.

#### 4. REFORM, EXPANSION, BLOCKAGES (1700-1800)

The 18th century in Spain was a period of growth. As in the rest of Europe, that growth was a prelude to industrialisation, and, as also for Europe, the role of the colonial economy in that process is an issue.

It is important to remember that growth now took place in a world economy in which the role of the American colonies as suppliers of raw materials and as markets for Europe had been fully defined, at the same time that the centre of the world economy had shifted towards England and Northern Europe<sup>77</sup>. The multiplication of transactions generated a growing need for silver in the Old World, which moreover continued to suffer an adverse balance of trade with Asia<sup>78</sup>, at a time when the mines of America supplied nearly 90% of world output<sup>79</sup>. That made trade with Spain and America doubly necessary. This was taking place in a context of international tension, with increasing military and governmental expenditures that would put to the test both the fiscal systems and the social structures of the Ancien Regime.

If the peace of Utrecht (1713) meant for Spain the loss of territory in Europe, it also meant a reduction in expenditures in Europe and in

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<sup>76</sup> For a revealing counter-example, McKendrick (1982).

<sup>77</sup> Wallerstein (1980), pp. 245-89.

<sup>78</sup> Attman (1986).

<sup>79</sup> Barret (1990), p. 225.

the centrifugality and complexity of the Spanish empire. The policy of the Bourbons was directed towards increasing public revenues both in the Peninsula and in America, and that implied a reconsideration of relations with the oligarchies in America and Spain as well as various schemes for reform of the finances and of colonial trade. It is doubtful whether these reforms were the cause<sup>80</sup>, but legal trade with America increased up to 1800, most particularly in the second half of the century<sup>81</sup>. In this way Spain captured a growing proportion of goods, such as hides, cochineal, cocoa, tobacco, sugar, and others, for which there was a rising demand in Europe<sup>82</sup>. In 1796 imports from America exceeded 300 million reales<sup>83</sup> and were indispensable in the balancing of the trade deficit with countries such as England and France<sup>84</sup>. That balance was made up with the more than 27 million silver rix-dollars a year (1791-95), up from around 13 million in the first decades of the century<sup>85</sup>, which paid for a great deal of the imported merchandise consumed internally or reexported to America<sup>86</sup>. The importance of manufactured goods in Spain's exports increased. Even without accepting Fisher's estimates, which by including legal and illegal reexports give a maximum of 61.4% in 1794<sup>87</sup>, it is clear that Spanish manufactures exceeded 8-16% of the total of exports reached in 1757<sup>88</sup>.

Silver returns for the Crown also rose<sup>89</sup>, though it is true that their value in real terms continued to fall. More important, however, there was an increase in the value of taxes on tobacco —of 85% on that from Cuba<sup>90</sup>— and in the «Rentas Generales», mainly customs duties closely related, directly or indirectly, to the American trade (Table II). That, as is sometimes forgotten, indicates a decisive change in the composition of revenues. The most important element was no longer the silver remissions, nor traditional levies, such as alcabalas, cientos, and millones, which fell

<sup>80</sup> There is an extensive debate about the ends and the effects of the Bourbon reforms into which there is no space to enter here. It is sufficient to say that the growth of colonial trade and the increase in returns antedated the reign of Carlos III (1759-88), who is generally regarded as the reforming monarch par excellence. Barbier (1980).

<sup>81</sup> García Baquero (1976), Fisher (1992).

<sup>82</sup> Phillips (1990).

<sup>83</sup> Cuenca (1981), p. 409.

<sup>84</sup> Cuenca (1991).

<sup>85</sup> Attman (1986), p. 25.

<sup>86</sup> Prados (1993).

<sup>87</sup> Fisher (1981), p. 27.

<sup>88</sup> This is the figure that seems to me reasonable to deduce from García-Baquero's estimates (1976), pp. 329-30, who gives a maximum of 15% in 1757.

<sup>89</sup> Attman (1986), p. 14.

<sup>90</sup> McNeill (1985), p. 161.

for the most part on the consumption of basic necessities, but taxes on trade, customs duties, and on the consumption of nonessentials from the colonies. At the end of the century, when, despite the increase in treasure, that proportion was even more marked, as a result of higher customs returns, the situation was very like that in England<sup>91</sup>. That implied, furthermore, a redistribution of the fiscal burden, a decisive shift from the relatively poor regions of the interior, which were nonetheless crucial for the formation of the domestic market, to the more dynamic coastal areas<sup>92</sup>. Finally, the increase in revenues deriving from the empire was accompanied by an increase in what was also raised and spent in the Indies<sup>93</sup>.

Spain, thus, strengthened her ability to benefit from the colonies in the 18th century. The flow of metals, associated with a reduction in foreign expenditure with the outflow of silver and the financial costs they had involved, improved conditions for the circulation of money in the interior<sup>94</sup>. America contributed to the formation of commercial profits, and greater links between Cadiz and other subsidiary ports multiplied its positive effects<sup>95</sup>. The formation of privileged companies, some of them specialising in boom products, such as the Guipuzcoana de Caracas, devoted to the cocoa trade with Venezuela, also helped. The impact of that trade was concentrated in the coastal areas, which now saw increasing levels of urbanisation<sup>96</sup>, and from there commercial links with the interior were formed<sup>97</sup>. If America had not created, it reinforced, after 1750, the kind of expansion emerging between 1600 and 1750. Its trade boosted Basque iron<sup>98</sup>, Catalonia's brandy and other manufactures<sup>99</sup>, Valencia's silk and

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<sup>91</sup> Tedde (1989), p. 171.

<sup>92</sup> Pieper (1992), 140-3.

<sup>93</sup> Pieper (1992), pp. 155-6.

<sup>94</sup> Despite the rise in the premium on silver, which was constant from the monetary reforms of Carlos II to the end of the 18th century [Hamilton (1988), pp. 63, 82, 108], monetary instability, normal in the 17th century, was low until the 1780s. Hamilton (1988), pp. 65-118, 260-1.

<sup>95</sup> Even in 1778-96 more than 70% of exports were concentrated in Cadiz [Fisher (1981), p. 42], though a good part of them did not come from Andalusia, but from areas preferring not to engage in the direct trade.

<sup>96</sup> Pérez & Reher (1997).

<sup>97</sup> Ringrose (1996).

<sup>98</sup> Fernández de Pinedo (1974).

<sup>99</sup> The argument, based on the studies of P. Vilar on the wine trade [(1962) II, pp. 324-31], has been confirmed by that in brandy [Torras (1976)] though qualified by the cotton industry [Delgado (1988)]. The result is a debate which remains unresolved. See Delgado (1993) and García-Baquero (1991).

paper<sup>100</sup>, Andalusia's agriculture, Cantabria's ports, like Santander, where industrial activity was being stimulated<sup>101</sup>, and until 1778 the export of Galicia's linens<sup>102</sup>. In some cases, Valencian silk and paper, for example, the importance of America did not lie so much in the size of the trade as in its capacity to generate, or to revive, sectors related to new necessities or consumption patterns, which subsequently were reorientated towards the, sometimes larger, domestic market, as a form of market diversification, or as an escape from difficult situations, such as those created by the wars at the end of the 18th century.

Though not great in macroeconomic terms, this trade, together with its side-effects and its connections with Europe, created a tension in many regional economies. In some areas, it contributed to increase the monetary circulation and the market orientation of peasant economies at a time of growing population pressure and rising land rents. That promoted the utilisation of idle resources and stimulated secondary activities, such as transportation into the interior, and so contributed to larger and more regular peasant incomes, and in some cases to their more even distribution. New products, like tobacco, cocoa, and, increasingly, manufactured goods, were distributed through commercial networks, inducing changes in consumption patterns<sup>103</sup>. These commercial links had side-effects; they stimulated invisibles, such as insurance, and consolidated a merchant bourgeoisie that, by 1800, was beginning to define its own style of life and political programme. Even accepting that such changes would have occurred without colonial trade, it is clear that the American connection played an important part in that process.

The fact that emigration was not great —some 100,000 individuals<sup>104</sup>— and was fed from the overpopulated rural areas of the North, meant that it did not impact adversely on the supply of labour.

At the same time, it promoted shipbuilding and its associated activities, such as the iron, timber, cordage and canvas industries. Increased expenditure on the army and navy contributed to that as well. At the end of the 16th century, at times of greatest military conflict, the defence budget in Castile came to 28% of ordinary expenditure<sup>105</sup>; it now reached 60%<sup>106</sup>,

<sup>100</sup> Franch (1994).

<sup>101</sup> Miguel (1992), pp. 249-56.

<sup>102</sup> Alonso (1986), p. 255.

<sup>103</sup> Garcia & Yun (1997).

<sup>104</sup> Martinez (1994), pp. 173-5.

<sup>105</sup> Thompson (1981), p. 355.

<sup>106</sup> Barbier & Klein (1985).

a proportion similar to that in England<sup>107</sup>. That manifested itself in an increase in expenditure on iron-works, such as those at Liérganes and La Cavada, where as a result output was expanded<sup>108</sup>, and in the exploitation of forests, often in areas some way from the sea. The shift of the fiscal burden from basic necessities to inessentials from the colonies and to trade also had a positive effect on domestic demand.

Moreover, in the 18th century, the role of the Empire as a subsidiary source of income for the nobility declined markedly, a process to which the battle against corruption and a different notion of service to the Crown contributed<sup>109</sup>. That development, along with others, drove some aristocratic houses toward the more innovative management of their great estates<sup>110</sup>.

Nevertheless, taken overall the changes in the economy of the Peninsula generated by America were less than might have been imagined. Colonial demand could not grow rapidly, given the low levels of emigration and the difficulties in the way of the diffusion of new patterns of consumption<sup>111</sup>. It is not surprising that in many sectors domestic demand was more important for economic growth<sup>112</sup>, especially in view of the competition that had to be overcome in the American market. Local research into sectors such as Catalan cottons or Galician linens<sup>113</sup> shows that after 1778 the *Reglamento de Libre Comercio* contributed to the introduction into the Indies trade of foreign goods finished in Spain. Though this may not have been deleterious in itself, and even less should the benefit to other sectors in those same regions be forgotten, it does make it necessary to qualify the significance of the American trade for the industrial take-off of some regions<sup>114</sup>. That America was the great world provider of silver sharpened the desire of foreign merchants and gave added incentive for the penetration of European manufactured goods in pursuit of the precious metal. That generated new patterns of consumption and new sources of demand, which in turn contributed in the medium term to import substitution that is apparent by the end of the century. In the short term, however, imports of foreign manufactures

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<sup>107</sup> Brewer (1990), p. 40.

<sup>108</sup> Alcalá Zamora (1974), pp. 238-40.

<sup>109</sup> Burkholder & Chandler (1984), pp. 119-91.

<sup>110</sup> Yun (1998).

<sup>111</sup> Garavaglia (1991).

<sup>112</sup> Delgado (1995).

<sup>113</sup> Delgado (1988), Alonso (1986).

<sup>114</sup> Delgado (1995), p. 27.



were a severe challenge for native industries, prisoners in some cases of obsolescent structures.

Despite changes in methods of collection, the fiscal system had not undergone any fundamental reform. America, and the revenues it generated, continued to nourish institutions and a social order that hindered the development of production. The morass of local taxes, which varied from city to city, and the arbitrary way in which local authorities collected them, continued to be a source of confusion in the domestic market, increasing transaction costs and impeding the extension of trading networks<sup>115</sup>, the ability to penetrate into the interior was thus much reduced. The stimulus to which America contributed, concentrated in specific localities, extended only weakly across the nation as a whole. Cause, consequence, and evidence of this is the atrophy of the cities of the regions of the interior, where even in 1787 levels of urbanisation were lower than in 1591<sup>116</sup>.

Furthermore, it was a society that had experienced few structural changes. The commercialisation of the land was restricted by the extension of the entail and of ecclesiastical properties in mortmain. The reallocation of resources that could have been generated by colonial-related commerce was not great. Industrial sectors like flour-milling, for export to Cuba, would not revive until the abolition of the entail and mortmain in the 19th century facilitated the acquisition of agrarian installations by merchant capital. Both the clergy and the nobility improved their management techniques and introduced productive innovations. But neither their management goals nor the old forms of land tenure allowed much scope for such changes.

All that helped to preserve a retrograde agronomy, in spite of the advances made, and entrenched a very unequal distribution of returns, which constrained consumption in rural society. Domestic demand continued to be very weak and fragmented, and the development of new patterns of consumption for durables and semi-durables was either very limited<sup>117</sup>, or was met by foreign imports<sup>118</sup>.

America generated incentives that failed to break through the shell of a society of orders, which, despite changes, was still inflexible. Those incentives were in many cases just not strong enough. Public expenditure

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<sup>115</sup> Yun (1997).

<sup>116</sup> Pérez & Reher (1997).

<sup>117</sup> García & Yun (1997).

<sup>118</sup> Stein (1989).

did not rise in real terms <sup>119</sup> and the silver cargoes continued to have their ups and downs [Table II], imposing financial costs on a system that even at the end of the century had not undergone a financial revolution, like those in Holland in the 16th century or England in the 17th <sup>120</sup>. That deficiency would be perceived most of all in the wars at the end of the century, and would lead to a fiscal crisis that coincided with the uprising of the creole minorities in America, chafing at their subjection under Enlightened Despotism, and with the break-down of the political and social system. The colonial empire and the society of orders were collapsing in unison. That, indeed, is no surprise; the two phenomena were inextricably linked, and the fiscal system was the principal bond between them.

## 5. TOWARDS A GENERAL AND COMPARATIVE OVERVIEW

In macroeconomic terms America had little weight in the great cycles of the Spanish economy. Nonetheless, America's role was decisive. Without it, it would not be possible to imagine a capacity for survival in merchant feudalism. That is not to say that the Castilian economy in the 16th century was either static or inward-looking, nor that the wealth from the Indies served to strengthen a monarchical authority that was uncontested and that sustained an archaic social order lacking forces for change. Spain's colonies were just one piece in a complex of fragmented and disjointed powers. Castilian absolutism, along with the French, in fiscal terms the most powerful in Europe, was the delicate outcome of a compactualism that involved a high degree of political decentralization. No financial or administrative revolution had taken place, despite the attempt to establish a solid bureaucratic base in the 16th century. Nor was Spain very different from other countries in Europe. It was precisely in such a context that the extraction of precious metals became the principal goal and the empire contributed to the survival of a social system that rapidly reached the limits of its productive capacity. The result was an inefficient system geared to defence and an economy incapable of responding to the challenges of mercantilism and the struggle for the world market in the 17th century.

Without America the history of Castile would have been very different. But more useful than an impossible counterfactualism, is a simple

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<sup>119</sup> Barbier & Klein (1987).

<sup>120</sup> Tracy (1985), Brewer (1990).



comparison. After 1640 England ran her colonies within the framework of a «powerful fiscal-military state»<sup>121</sup>. From 1688 a financial revolution was taking place based on the joint responsibility of king, lords and Parliament and on a «new» and professional administration, in which the sale of office, or office regarded as property, had no place and which constituted a guarantee that taxes would be collected and the interest on the long-term debt paid. That system permitted the effective mobilisation of private savings for military purposes at low cost, and involved a «limited extension of venality», «a substantial and regular income», and heavy taxation, but on a «national and uniform» basis, «paid by all subjects, regardless of rank»<sup>122</sup>.

In contrast with the centrifugalism of the Spanish empire, in the English nation-state the exploitation of the colonies was funded from the metropolis, where expenditure was also concentrated, in sectors central for economic growth. As in 16th-century Castile, the economy was expanding, but its dynamic was different. It was developing towards an agrarian capitalism that, whether through the efforts of yeomen or great landowners, was generating increasing rates of productivity and feeding a rapid and widespread process of urbanisation [Wrigley, 1987]. Whether or not the colonies were responsible for growth in England, their effects were felt in a very different way from those in 16th-century Castile. The reallocation of the factors of production generated by colonial trade was easier, more fluid and more widespread. The diffusion of new patterns of consumption to link the economy of the household with that of the market was quicker.

As was the case in Castile, the British Empire may have helped to sustain the existing social system, but it was one much more favourable for economic growth. Furthermore, the changes that took place in Spain in the 18th century were an important step towards arrangements similar to what was then in existence in England. However, the differences

<sup>121</sup> Brewer (1990), p. 250. An interesting comparison with what has been set out above, into which it has not been possible to go more fully, can be pursued more widely in Brewer's work (1990).

<sup>122</sup> Brewer (1990), pp. 70, 89, 22, 251. Although it would present a more positive view not only of the 16th-century Castilian fiscal system, in which forms of debt consolidation and a certain degree of co-responsibility between king and Cortes were developed, but also of the bureaucracy, which was a model for its time, such a distant comparison between England and Castile would take us too far. As far as the fiscal system is concerned, it is sufficient to say that, in contrast with England, joint responsibility between Crown and parliament never resulted in effective control by the latter. With respect to the bureaucracy, the decline from 1580 onwards is apparent, particularly in the Indies bureaucracy.

continued to be crucial. In the British colonies population grew rapidly, whereas in the Spanish growth was very slow<sup>123</sup>. That, together with a relative military and administrative weakness, which meant it was impossible to prevent either the contraband trade or the successful competition of third countries, held back the expansion of the colonial market. Spain's very urban structure, with the slow growth of the cities of the interior, blocked the creation of commercial networks such as could have had an impact on a country as extensive as Spain.

If one compares the make-up of the income and expenditure of the two countries, it needs to be remembered that the Spanish fiscal reforms did not mean the end of the old system. The old taxes on the consumption of basic necessities, the fragmented fiscal geography and the group inequalities persisted. The political and constitutional framework for a financial revolution was lacking, and only in 1782 was a bank, the Bank of San Carlos, established with the aim of servicing the funding of the public debt. Until then advances on the floating debt were carried out privately, by the Cinco Gremios de Madrid for example, in return for high rates of interest and economic privileges. Though Spain collected a proportion similar to England from customs duties and spent a comparable amount on defence, she did it retaining a fiscal system and a complex of institutions which held down the development of the country's productive forces. When all is said and done, that was the best way, certainly better than market monopoly, of profiting from the Empire.

America generated some incentives favourable to growth. They were not great, but they were there. Moreover, despite the difficulties described, economic growth after 1814 rested on merchant capital, commercial networks, a bourgeoisie, and also a capital stock and a change in consumption patterns to which the American trade, linked inextricably with trade with Europe, had contributed from 1750. Though the Indies were not important in macroeconomic terms, they were a vital cog in an institutional and economic system that shaped interregional relationships in the period of the formation of a national economy. The effects of American independence, though outside the scope of this study, should perhaps be analysed from that perspective.

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<sup>123</sup> Engerman, Haber & Sokoloff, (n.d.), p. 7.

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# THE ECONOMIC IMPACT OF THE DUTCH EXPANSION OVERSEAS, 1570-1870

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## INTRODUCTION

How much did the Dutch economy benefit from its expansion beyond the borders of Europe? The simple answer is provided by the Dutch spectators at international soccer games, when they start to encourage their team by singing about the great achievements of Piet Heyn, who as an admiral of the Dutch fleet captured the Spanish *flota* off the Cuban coast in 1628. This song implies that the Dutch economy was greatly stimulated by a one-time injection of «Spanish coins» and oranges. No doubt, both were very welcome indeed, but they did not seem to have constituted the economic impetus that made a difference to the Dutch economy at the time.

However, in the long run the popular notion regarding the importance of non-European sources of development proved to be exaggerated in case of the Netherlands. In spite of the fact that the contribution of the non-European world to the economies of Europe as a whole has been calculated as relatively small, an exception has been made for those cases in which the colonial empires were large and the economy of the metropole small. Leaving the port-city states such as Hamburg, Goa or Gibraltar aside only two countries qualify in the category «small nation, large empires»: Portugal and the Netherlands. For these two countries Patrick O'Brien conjectured that the contribution of the periphery to the GNP of the metropole to have been larger than 10 per cent<sup>1</sup>.

Unfortunately, there exists no comprehensive study of the economic impact of Dutch overseas expansion. Worse still, to date there exists no table of estimated GNP figures for the period under discussion (1570-1870). These two *lacunae* make it virtually impossible to arrive at any reasonable answer to the question, which does justice to changes over time. However, several economic aspects of the Dutch exploits outside Europe have been studied to some detail and therefore we can offer a

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<sup>1</sup> O'Brien (1982), p. 4.

summary of research of the economic impact on the Dutch economy of i) the Dutch East India Company (VOC) between 1600 and 1795; ii) the Dutch slave trade and of the plantation sector in the Atlantic between the foundation of the Dutch West India Company in 1621 and the slave emancipation in the Dutch West Indies in 1863; iii) the Dutch trade in the Atlantic between 1600 and 1870 and —last but not least— iv) the «cultivation system» in Java between 1830 and 1870<sup>2</sup>.

These four major episodes and sectors of Dutch expansion do not, however, cover all the ground. An important omission is Dutch trade to the non-European shores of the Mediterranean, the so-called Levant trade. Every year after 1600 between 60 and 100 Dutch ships participated in this trade. It seems reasonable to assume, however, that the majority of these ships sailed to Spanish and Italian ports and not to the non-Western ports of the Mediterranean<sup>3</sup>.

A second omission is made up by the Dutch trade to North America. However, its volume could not have been very large as the Navigation Laws made this trade virtually impossible. After the U.S. had gained its independence, the trade with North America passed from the colonial into the non-colonial sector and therefore falls beyond the scope of this contribution.

A third omission concerns the trade and production of goods, imported and exported to and from neighbouring countries in Europe, coming from or going to the non-European world. It is well-known that during the early phase of the slave trade British and French slave ships first sailed to a Dutch port in order to buy textiles, cowries and assorted other items used as barter on the African coast. There is no way in which the volume of these exports can be calculated. However, it should be stressed that once the slave trade had been developed most French and British slavers were loaded in their own ports with products mainly produced in their own country<sup>4</sup>.

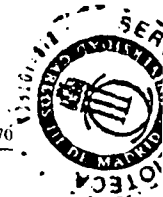
Similarly, between 1650 and 1800 large quantities of sugar from the French Antilles were imported from France and refined in and distributed *via* the Netherlands. The economic impact of this indirect colonial link

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<sup>2</sup> On the Dutch East India Company see Gaastra (1982a). The Dutch West India Company is discussed in Heyer (1994), Emmer (1981) and Goslinga (1971). The slave trade and plantation slavery in Suriname is discussed in Stipriaan (1993) and Voort (1973). The colonial exploitation of Java is featured in Niel (1992) en Fasseur (1975).

<sup>3</sup> Israel (1989), pp. 149-156 and Israel (1990), pp. 133-162.

<sup>4</sup> Rawley (1981), pp. 79-92.



seems to have been limited. The import of unrefined sugar from France will have caused a marginal increase in the Netherlands in the number of refineries and in the amount of commercial and shipping services<sup>5</sup>.

## THE DUTCH EAST INDIA COMPANY AND THE DUTCH ECONOMY, 1602-1795

Anyone studying the impact of the non-European world on the economies of Western Europe would have to discuss the economic role of the Dutch East India Company or *Vereenigde Oost Indische Compagnie* (VOC) during the seventeenth and eighteenth centuries. It was the largest company at the time, employing more than 40,000 personnel during the most expansive years of its existence. The VOC accounted for 25% of Dutch shipping and for 13% of the value of all Dutch foreign trade. The Company's offices and wharfs could be found in six Dutch cities and as such it was the largest single employer of artisans, clerks and seamen in the country. In addition, the VOC's capital was put up by shareholders and thus the Company constituted one of the few opportunities for investment at the time<sup>6</sup>. Yet in spite of the size of its operation, its employees and its capital, the economic impact of the VOC on the economy of the Netherlands had few innovative spin-offs.

First of all, it should be stressed that the VOC made most of its profits in Asia. Sometimes the trade between the Netherlands and Asia could only be operated at a loss. A large share of the Asian profits did not accrue to shareholders, but to the members of its personnel.

There is no doubt that each year the high-ranking expatriate staff of the VOC sent home much more money than the possible savings on their salaries could have allowed for<sup>7</sup>.

Secondly, while the activities of the VOC in Asia might have been unique, at home the activities of the Company were similar to those of the other shipping companies, albeit on a larger scale. Thus, there were more sailors, soldiers, bookkeepers and ship building personnel employed than would have been the case without the VOC but the Company did not create any unique economic activities. Its main impact can be situated on the Dutch labour market, but the VOC's demand for labour could

<sup>5</sup> Voort (1973), pp. 134-152.

<sup>6</sup> Vries and van der Woude (1995), pp. 452-453.

<sup>7</sup> Gastra (1982b), pp. 79-83.

not have been met if there had not been a sizeable additional supply of foreign immigrant workers. Yet, the impact of the VOC on the Dutch labour market remained substantial because the bulk of the Company's employees, i.e. its soldiers and sailors, had a very high turnover. The constant need to hire additional men can be explained by the fact that most low-paid jobs in the Company were not suited for middle-aged men. In addition, mortality *en route* to and in Asia was extremely high, particularly among the soldiers who had to remain there for some time. In sum, the Company «used up» thousands of young, mobile boys and men, who otherwise would have been available for the labour market at home or as emigrants willing to go to the colonies of settlement in the New World and South Africa <sup>8</sup>.

A third observation, in favour of the argument that the economic impact of the VOC in the Netherlands was rather limited can be found in the financial demands of the Company. When founded the VOC absorbed a large share of the investment capital available at the time. Shares were sold to small investors (artisans, even employees and house maids), who were looking for an opportunity to invest their savings, as well as to merchants. Over time, however, the majority of the shares came into the hands of a small group of investors and remained there. Most of the additional capital needed by the Company was financed by ploughing back part of the profits. During the 18th century the declining profits and increasing overhead costs forced the VOC to obtain loans and these reduced the opportunities of merchants to obtain credit for innovative change. The VOC absorbed substantial amounts of money in order to continue its increasingly uncompetitive activities. Without the Company, more investment capital would have been available for small entrepreneurs operating in the intra-European trade and —last but not least— for those, who produced goods and services for the Dutch and European markets. As well as for investments in the public debt of foreign countries, notably that of the U.K. <sup>9</sup>.

#### THE ECONOMIC IMPACT OF THE DUTCH SLAVE TRADE —CUM— PLANTATION SECTOR

To what extent did the Dutch economy during the period of the *Ancien Régime* profit from the slave trade and from slavery itself? In the case

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<sup>8</sup> Bruijn (1976), pp. 218-248 and Bruijn and Lucassen (1980).

<sup>9</sup> Vries and van der Woude (1995), pp. 144-179.

of Britain the answer to this question is usually derived from calculations of profits for the slave trade as well as from estimates of the financial profits and other spin-offs from the various plantation economies in British America. In this discussion many historians remain adamant that there is no direct link between the profits from the slave trade and the beginnings of the Industrial Revolution in Britain, but there is no doubt that the rapidly growing West Indian economies provided an indirect stimulus. However, the debate about a possible link between the slavery —cum— plantation sector and the growth of the British economy of the later 18th century seems to be of little value in solving a similar question regarding the Dutch economy. Furthermore, the Industrial Revolutions in Portugal, Spain, the Netherlands, and even France seemed to have owed little to their slave economies in the Americas.

In the Dutch case, the economic impact of their slave trade and West Indian plantations might well have been a negative one. First, for Dutch expansion the Atlantic was secondary. Asia came first. It has always been assumed that the total turnover of Dutch exports and imports to and from Asia was substantially larger than for Atlantic trades. Recent calculations seem, however, to indicate that the two were not dramatically different because the volume and the value of the production and trade in goods in the Atlantic have always been undervalued. Yet, during the 18th century, the Dutch economy was never faced by an explosive increase in the production of its West Indian plantations as had happened in the case of the U.K., France —and to a lesser extent— for Spain and Portugal.

Secondly, the Dutch might have been instrumental in increasing the Atlantic slave trade and in laying the foundations of capitalist plantation economies in the Caribbean, but Dutch primacy was only of major importance during the first half of the seventeenth century when the volume both of the slave trade and of the plantation output were still very limited. After 1660 when these volumes started to increase, the share of the Dutch in the Atlantic trade declined rapidly. There is moreover good reason to assume that the respective shares in the slave trade of the U.K., France, the Netherlands and Portugal can serve as proxies for their ranking as producers of plantation cash crops. The Dutch slave trade constituted about 5 per cent of the total slave trade and this percentage can *ipso facto* be applied to the production of cash crops. Towards the end of the 18th century the Dutch share decreased rapidly indicating a decline in the

position of the Dutch Caribbean relative to other areas both as recipient of slaves from Africa and as exporter of plantation produce <sup>10</sup>.

Third, the Dutch investments in plantation agriculture yielded returns which were not nearly as positive as those of other nations. The origin of this difference emerges beginning of the 17th century. During the early decades of the 17th century, the Dutch tried to seize Northeastern Brazil which already had been developed by Portugal as a sugar producing region rather than conquering and setting islands in the Caribbean and starting from scratch as France and England opted to do. The struggle for mastery in Brazil was more fierce than the Dutch had expected and as a consequence the Dutch West India Company went bankrupt. In 1645 the export of sugar from Dutch Brazil virtually came to a standstill and the Dutch had no alternative but to induce planters in the British and French Caribbean to create a «second Brazil». Only after the conquest of part of Guyana in 1667 did the Dutch start to develop some sugar producing colonies of their own <sup>11</sup>.

Even then the development of the Dutch sugar colonies was quite different from that of the British and French islands. The Dutch only invested substantial amounts of capital into their plantation colonies when their position as distributors of sugar and coffee from the French Antilles in Europe was being threatened. After 1750 when the French started to distribute these products themselves, Dutch investors poured more than 60 million guilders into the Caribbean, two thirds of this amount went to the largest Dutch plantation colony, Suriname, between 1753 and 1775. These investments should be seen as one of the many 18th century «bubbles» that were not based on sound business acumen. It soon became obvious that the size of these investments was far too large in relation to the increase in the productive capacities of Suriname's plantations. The result was that most of the planter-owners of that colony went bankrupt and that their plantations became the property of a multitude of metropolitan investment groups who had expected a quick return on their investments rather than becoming the actual owners of plantations in a distant part of the world <sup>12</sup>.

In spite of heavy debts, the Suriname plantations were nevertheless able to take part in the «second plantation revolution» at the end of the 18th and the beginning of the 19th century. However, Suriname's increase

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<sup>10</sup> Postma (1990), p. 296 (table).

<sup>11</sup> Boogaart (1992), pp. 156-166.

<sup>12</sup> Voort (1973), pp. 197-213, and Stipriaan (1993), pp. 69-74.



in the production of sugar due to improvements in efficiency only amounted to half of that of some parts of the British Caribbean, notably Trinidad and Guiana. In fact, Guiana's output only started to grow once it had been transferred from Dutch to British ownership during the course of the Napoleonic Wars. This suggests that after 1775 the Dutch had become too reluctant to invest in the Caribbean, because their previous investments had turned into losses. Successive over- and underinvestment in the plantation sector prevented the Suriname's planters from gaining as much from the new opportunities offered by steam mills and new varieties of sugar cane as did their competitors elsewhere<sup>13</sup>.

These various mishaps and miscalculations in the history of the Dutch Caribbean explain why the West Indian plantations never became the «jewels» of the Dutch colonial empire. The plantation market for consumer and investment goods certainly was of interest to the Dutch metropolitan economy, but its size was limited and did not increase consistently during the 18th century. In sum, the links between the plantations in the Caribbean and the Dutch economy at home were far weaker than those of Britain and France. The Sugar Duties Act forced the British consumers to subsidize their plantations, and in return the West Indies offered the fastest growing outlet for British exports during the latter part of the 18th century. A similar observation can be made about France and the French Caribbean. During the same period the Dutch export to Suriname stagnated, because of the debt crisis and the lack of protection<sup>14</sup>.

During the first half of the 19th century economic links between Suriname and the Netherlands remained stable, but the colony's relative share in Dutch overseas trade declined because of the increase in trade with the Dutch East Indies. After 1848 the Suriname sugar producers were allowed to export wherever they wanted and soon they sold most of their sugar to the U.K. and the U.S. After the 1830s the sugar exports from the Dutch East Indies started to exceed those of Suriname in spite of the fact that the Atlantic colony used slave labour until 1863, when the slaves were finally emancipated. Again, it should be stressed that the «benefit» of continued slave labour in Suriname only prevented the decline of the cash crop production, while the continuation of slavery in Cuba, Brazil, and the U.S. helped to increase production<sup>15</sup>.

<sup>13</sup> Emmer (1996), pp. 11-18.

<sup>14</sup> Cuenca Esteban (1994), Butel (1990).

<sup>15</sup> Fogel (1989), pp. 60-72; Stipriaan (1995), p. 125.

The growth of the agricultural production for export on Java explains why the Dutch government could pay the owners of slaves compensation without increasing the national debt as had been the case in Britain and France. The British slave emancipation was paid for by the taxpayers in Britain. In case of the Dutch, the costs of slave emancipation could easily be met because of windfall income derived from the sale of cash crops from Java. These cash crops were produced by forced labour and sold for the profit of the Dutch colonial government in Java. Paradoxically, one kind of forced labour paid for the abolition of another<sup>16</sup>.

Lastly, Dutch trade with Western Africa should be mentioned. This trade was dominated by the slave trade. Unlike the British, French and Portuguese/Brazilian slave trades, the Dutch slave trade peaked in the second and third quarters of the 18th century and declined sharply towards the end of the century. This sequence flowed from the investment crisis as outlined above which severely had curtailed the buying power of the planters in the Dutch Caribbean after 1775; and from the -illegal- supply of slaves by North American and British slavers reducing the demand for Dutch slavers and from the absence of protection for the Suriname sugar and coffee which would have made its plantations more profitable and provided their planters with more buying power<sup>17</sup>.

As a result of the relatively modest size of the Dutch slave trade, there are no indications that branches of the manufacturing industry in the Netherlands, such as the textile industry were increasing in order to respond to the African and West Indian markets. In fact the major share of the textiles exported to West Africa on Dutch slave ships had been imported from Asia. No research has been done on the impact of the African and West Indian trades on the Dutch industries producing textiles, liquor, guns and powder, but it seems unlikely that these trades created anything but a relatively small and unstable supplementary demand.

## THE IMPACT OF THE ATLANTIC TRADE IN GOODS

The Dutch expansion within the Atlantic economy differed from that of other nations in that the major share of the Dutch trade consisted of products not produced by Dutch colonies. At the end of the 16th century the Dutch expansion in the New World had been supported by other

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<sup>16</sup> Emmer (1995), p. 215.

<sup>17</sup> Postma (1990), p. 295 (table).

empires, notably the Portuguese and Spanish colonies and that tradition persisted. First, the Dutch penetrated into the sugar trade between Brazil and Portugal and over time they succeeded in transporting more than half the yearly sugar production to Europe. After the aborted attempt to take over the sugar producing regions in Brazil between 1629 and 1651, the Dutch had been ousted from those trades. From the middle of the 17th century Brazilian export products were brought to Europe in ships owned by Portuguese, Brazilian and British merchants<sup>18</sup>.

As Brazil turned out to be a dead loss, the Dutch traders moved to the Caribbean, where they stimulated the creation of a second sugar producing area between 1640 and 1670. In some of the literature the role of the Dutch has been praised for being instrumental in the transfer of relevant technology from Brazil to the West Indies. After 1640 Dutch merchants were supposed to have provided extensive credit facilities to the planters in the British and French Caribbean, in addition to the slaves as well as the machinery needed for the production of sugar. However, in the long run the second Dutch attempt at acting as middlemen for foreign sugar planters also failed. During the 1660s the Navigation Acts forced the Dutch traders to withdraw from the British islands and ten years later the mercantilist policies of Colbert had a similar effect on the then flourishing Dutch trade with the French Caribbean<sup>19</sup>.

It would go beyond the scope of this paper to enumerate all the new findings regarding the creation of a «second Brazil» in the Caribbean, but the most important conclusions point to the fact that before the 1660s the role of the Dutch was far less vital than the literature wants us to believe. Local capital as well as British ships and traders played a much more substantial role during the 1640s and the 1650s than has been assumed previously. What should concern us here is the fact that even if the Dutch had occupied the position of the foremost trading nation in the Caribbean, it can only have been limited to a relatively short period when the production of plantation products was still in its infancy and consequently the export volumes were very small<sup>20</sup>.

How then it is possible that between 1650 and 1800 the Dutch were able to continue a sizable trade in goods and slaves in excess of the demand for slaves generated by their own West Indian colonies? The present state of the research points to two major «leaks» in the mercantilist empires

<sup>18</sup> Jobson de Andrade Arruda (1991), pp. 380-397; Schwartz (1985), pp. 180-185.

<sup>19</sup> Boogaart (1992), pp. 156-166.

<sup>20</sup> Appleby (1996).

of the Atlantic trade before 1800: Spanish America and the French Antilles. In times of war, large quantities of French sugar were shipped to the Netherlands via the (neutral) Dutch island of St. Eustatius. In addition, directly or via Dutch Curaçao, merchants were able to siphon off large quantities of cocoa, sugar, coffee, tobacco, indigo and hides from Spanish America, mainly from Venezuela <sup>21</sup>.

Last, but not least, it should be repeated that the major activity of the Dutch in the Atlantic was trade and not production. Thus, the impact of the dynamic, capitalist and innovative plantations on the Dutch economy was far less important than the less dynamic impact of the long-distance trade. Yet, their own plantations kept the Dutch operating in the Atlantic after the Napoleonic Wars had brought all other activities to a virtual standstill. Although markets in Latin America were lost to the British, after 1815 the Dutch were able to keep about 40-60 ships per year employed in the carrying trade with Suriname by excluding foreign carriers. Even this economic activity was threatened when the introduction of free trade after 1848 showed that the majority of the Suriname cash crops could be marketed more profitably in the U.K. and the U.S. than in the mother country. Since the introduction of the «cultivation system» in 1830 virtually all Dutch efforts at increasing their supply of tropical cash crops were directed towards Java, where this new system of forced cropping yielded results beyond the wildest expectations <sup>22</sup>.

## THE CULTIVATION SYSTEM AND JAVA, 1830-1860

After the Napoleonic Wars the Dutch colonial empire found itself in a state of crisis. In the West Indies, Essequibo, Demarara, and Berbice (later to become British Guiana) had not been handed back and the same applied to the Cape Colony and Ceylon. The West and East India companies had gone bankrupt and the state had been forced to assume responsibility for the administration and the defence of their possessions.

After 1815, the colonial trade links had become more vulnerable as foreign competitors were ready to take over from Dutch shipping firms offering cheaper freight rates and cheaper products. In the Atlantic as well as in Asia the Dutch activities were increasingly directed towards the remaining colonies from where foreign competitors could be excluded.

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<sup>21</sup> Klooster (1995).

<sup>22</sup> Fasseur (1975), pp. 114-128.

British and American merchants replaced the Dutch in intra-Asian trade, once the driving force behind the Dutch presence in Asia. Since the Dutch East and West Indian companies had gone bankrupt and had been taken over by the government, the Dutch taxpayer now had to pay for the government and the defence of these colonies. The Dutch government was not able to defray the expenses by increasing the taxation of colonial firms or of its colonial subjects. The budget deficit was considerable and the situation worsened when during the 1830s the Dutch King spent a considerable amount of state money on a military campaign against Belgium in an abortive attempt at preventing secession, as well as on suppressing a guerilla war on Java.

The financial crisis was solved by the introduction of a colonial taxation scheme which yielded results far beyond the expectations of its architect, Johannes van den Bosch. From 1830 onwards, the production of cash crops was forced upon the Javanese villages in addition to the various taxes which already existed. The villages were ordered to use part of their arable land for the production of coffee, sugar and indigo. It is true that the villages were paid a fee for the cultivation of these crops, but the large differential between fees (and other expenses involved in operating the system) and the income from the sale of these products was pocketed by the colonial government in Batavia. After deducting expenses for governing Java, Suriname and the Dutch Antilles the remainder flowed into the metropolitan treasury<sup>23</sup>.

Time and again the cultivation system has been evaluated, In fact, there is a whole historical and literary tradition denouncing the more than 800 million guilders which in this way were transferred to the Netherlands as a «debt of honour». There exists an extensive and conflicting body of literature concerning the question as to whether the introduction of the system has been detrimental to the economic well-being of the Javanese. To date this debate remains inconclusive as the relevant economic and demographic data showing the effects of the cultivation system are not available.

What should concern us here, however, are not the effects of the system on Java, but on the Netherlands itself. On paper these results seem dramatic as well as unique. Dramatic, because the Dutch metropolitan treasury profited greatly from the transfer of the positive balance from Batavia to The Hague. This transfer was unique, because no other colonial power

<sup>23</sup> Fasseur (1982), pp. 166-194.

ever sold coffee and sugar for its own benefit. All other colonial powers left this activity to the private sector.

During the 1860s extra income derived from the cultivation system peaked to about one third of the income of the Dutch state. This extra income allowed the Dutch to increase their expenditure on the transport infrastructure at home. The 1850s and 1860s saw the rapid extension of the railway network as well as improved access to the harbours of Rotterdam and Amsterdam. Also, the debt left after the unsuccessful campaign against Belgium could be paid off and the owners of the slaves in the West Indies compensated. The colonial profits also allowed the Dutch to postpone the introduction of an income tax.

This financial windfall from the colonies seems to have made the Dutch economy more productive but not more competitive. The Dutch government had given the Dutch Trading Company (*Nederlandsche Handelsmaatschappij* or *NHM*) the exclusive right to transport sugar and coffee from Java to the Netherlands, where the *NHM* sold these products at public auctions. This monopoly position allowed the *NHM* to pay extremely high freight and insurance rates. In addition, the government also allowed the *NHM* to sell exclusively Dutch textiles in Java and to exclude foreign (i.e. British) competition. Secondly, the need to transport coffee and sugar and the demand for European goods on Java resulted in a boom in shipbuilding, textile production and commercial service sector. However, the boom was short-lived and did not create industries which could face international competition. The effects of the boom were mainly felt between 1830 and 1840. After this decade the level of protection was reduced.

No doubt the «cultivation system» was important for the Dutch economy as more than half of the value of Dutch international trade consisted of tropical cash crops and about 60 per cent of the value added in maritime shipping was dependent on the Dutch East Indies. The textile exports to the Dutch East Indies certainly reduced unemployment. This seems to suggest that the effects of the cultivation system on the metropolitan economy were beneficial when we consider the growth in volume, but negative when the quality of that growth is taken into consideration. In fact, there are reasons to assume that the cultivation system retarded the development of the Dutch economy towards competitiveness on the international markets, which were increasingly liberalized from the 1840s onward.

The shipping and the sale of coffee and sugar produced by the cultivation system was handled by a semi-private trading corporation which excluded competition. Similarly, the Indonesian markets, which were increasing in size due to monetization flowing from the payments involving the cultivation system, were only accessible to Dutch firms. The question remains whether around 1830 there would have been sufficient investment capital available in the Netherlands in order to constitute a viable alternative to the heavy-handed role of the government. However, it seems clear that outside the domain of government finance the economic impact of the colonial links between the Netherlands and Java remained more limited than would have been the case had private entrepreneurs been allowed access to Java. The jealousy with which other colonial powers regarded the Dutch exploitation of Java was misplaced. The cultivation system retarded the introduction of a modern market economy in Java and it also retarded the adaptation of the Dutch economy to the competitive capitalism of the 19th century. As late as 1830 the «free labour cum private enterprise» maxim had not yet been accepted by the Dutch political elite and this allowed the introduction of the cultivation system with its outdated forced-labour ideology. It was not abolished until 1860, when this maxim had finally gained more adherents in the Dutch parliament. After a period of stagnation between 1780 and 1860, the modernisation of the Dutch economy started after the cultivation system had been abandoned and after the link between the colonial and metropolitan economies had been weakened<sup>24</sup>.

#### THE ECONOMIC IMPACT OF THE NON-EUROPEAN WORLD, ON THE DUTCH ECONOMY: ESTIMATES OF THE VOLUME OF TRADE AND OF THE CONTRIBUTION TO THE DUTCH NATIONAL INCOME

There have been a few attempts at calculating the volume of the Dutch share in the trade between Europe and the non-European world. Niels Steensgaard suggest that the total volume of all foreign imports into the Netherlands around the middle of the eighteenth century amounted to 150 million guilders of which 20 to 25 per cent was derived from non-European trade. No allowance had been made for the sale, re-export

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<sup>24</sup> Fasseur (1991), Elson (1994), Boomgaard (1987), Jong (1989), Reimsma (1955), Niel (1992).

and distribution from, to and *via* the Netherlands of colonial imports and exports from and to the neighbouring countries. For Britain around 1750, Steensgaard calculates the share of the non-European trade as a percentage of all trade at about 50%, twice as much as for the Netherlands<sup>25</sup>.

A second difference between the Dutch and British trade patterns which Steensgaard's statistics bring to light, is the fact that within British colonial trade the importance of America versus Asia can be set at 3:1, while that ratio is roughly 1:6 in the Dutch case. However, recently W.W. Klooster has pointed out that the volume of the Dutch trade in the Atlantic has always been undervalued. In the existing literature the export of cash crops from the Dutch plantations in the Caribbean supposedly constituted the lion's share of all Dutch Atlantic trade. Klooster's revision suggests a 500 per cent increase in the gross turnover of the Dutch Atlantic trade, which brings it to about 10 million guilders. This means that the share of the total non-European trade to and from the Netherlands would come to 30-35 per cent of the total trade and that the ratio between the American and Asian trades of the Netherlands can be set at 1 to 2 rather than at 1 to 6<sup>26</sup>.

De Vries and Van der Woude recently have re-calculated a contemporary estimate of the Dutch National Income around 1800. They estimate a National Income of around 300 million guilders and suggest that all foreign and colonial trades (inclusive of banking) brought in 50 million guilders or about 18 per cent of the total (30 million from the trade within Europe and 20 million from the Asian and Atlantic trades). The combined figures of Steensgaard and Klooster suggest that the respective values of the European and non-European trades of the Netherlands had been 130 million guilders and 30 million guilders respectively (or roughly 4:1)<sup>27</sup>.

These figures indicate that the Dutch economy of the *Ancien Régime* was more dependent on foreign trade than virtually any other economy in Europe, perhaps with the exception of Portugal. The mercantile sector certainly was less important to the economy of Britain than it was for the Netherlands. Within the mercantile sector of Britain, however, the non-European trade, and especially the Atlantic trade, was twice as important as it was within the mercantile sector of the Netherlands<sup>28</sup>.

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<sup>25</sup> Steensgaard (1990).

<sup>26</sup> Klooster (1995), pp. 169-199.

<sup>27</sup> Vries and van der Woude (1995), pp. 806-818.

<sup>28</sup> O'Brien and Engerman (1991), p. 186 (table).



During the 19th century there was little change in the nature of the Dutch economy and in the relationship of that economy with the Dutch colonial world. In a recent analysis of the economic development of the Dutch service sector between 1800 and 1850 E. Horlings points out that the modernisation of the Dutch economy did not take place until after 1850. During the first half of the 19th century the Dutch economy experienced growth but that growth was mainly concentrated in the international service and export sectors which had few feedbacks to the economy at large. Until 1860 real wage levels stagnated as well as the consumption per head of population, while poverty increased because of a combination of slow economic growth, stagnating wages, and the increased taxation of low incomes. Horlings concludes by saying that the economic growth *after* 1850 constituted the real rupture with the past <sup>29</sup>.

#### CONCLUSION: DUTCH ECONOMIC GROWTH AND NON-EUROPEAN TRADE

The impact of the colonial trade on the Dutch economy varied over time. During the three hundred years between 1570 and 1870 there are three phases of economic development during which the impact of overseas trade changed: i) the period of explosive growth between 1570 and 1670; ii) the period of relative stagnation between 1670 and 1800 and iii) the period of reorientation from 1810 to 1870.

It could be argued that the impact of the non-European world on the Dutch economy had been most profitable during the earliest part of the first phase of Dutch expansion because it coincided with an increase in the Dutch trade in Europe as well as in the production at home. The factors of production could easily be switched from intra- to extra-European activities. In view of that situation it seems strange that the Dutch took such enormous risks by gambling on the profits to be gained from the conquest of Brazil.

However, the overhead costs of the Dutch Atlantic possessions had to be paid for by one single institution: The Dutch West India Company. Because of the constant warfare against the Spanish, the Portuguese, and the British the Company had no way to balance its expenses and income. Had this venture been successful, the Dutch would have been as unique

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<sup>29</sup> Horlings, pp. 309, 310.

in the Atlantic as they were to become in Asia. The Portuguese and the British, however, cut the Dutch West India Company down to size and both Brazil and New Netherlands in North America were lost while the Company went bankrupt. As a consequence, the Dutch could no longer invest in the conquest of another Atlantic settlement colony and they were rather late in obtaining a plantation colony of their own. The atomization of the Dutch Atlantic empire created several loose ends; the various possessions and trade patterns no longer constituted a coherent entity. For example, the Dutch slave trade network in West Africa had become far too extensive in relation to the very modest demand for slaves in the Dutch Caribbean and for a short period the Dutch were able to become the largest suppliers of slaves to third parties such as to the British, French and the Spanish plantations. However, the rise of the various Atlantic empires was based on a mix between metropolitan business acumen, overseas settlement and plantation colonies and mercantilism and after the 1660's the Dutch in the Atlantic lacked several of these ingredients. The only way to redress this situation would have been a massive investment in naval power, but the Dutch Republic could not have financed such an increase in government expenditure. Around 1670 the Dutch in the Atlantic had only two avenues for economic growth left: illegal trade with Spanish America and plantation agriculture.

After 1670 Dutch trade with the Atlantic started to become more important to the Dutch economy, because the Dutch trading operations within Europe declined due to increased competition from British and French traders. The Dutch lost ground in the Atlantic trade when the British, French and even Portuguese slave trade-cum-plantation sectors became more dynamic than their Dutch equivalent. In Dutch economic history there is no corollary for the interesting fact that while the British trade with the Atlantic during the 18th century did not constitute the major part of British foreign trade in general, it was the most rapidly growing section. In case of the Dutch, the Atlantic trade did not increase nearly to the same extent.

In order to explain the relatively modest performance of the Dutch plantation colonies it should be pointed out that the Dutch West Indian cash crops did not enjoy any protection on the Dutch home market. In addition, Dutch investors and plantation owners were reluctant to invest in the new opportunities for growth after a dramatic decline in the value of plantation loans on the Amsterdam stock exchange around 1775. The Dutch plantation colonies in the Guianas had ample room to increase their

crash crop production by adopting new varieties of sugar cane containing more sucrose. However, there no longer was investment money available. Only after the take-over by the British did Demerara, Essequibo and Berbice start to grow, while Suriname could only attempt at keeping cash crops production at the same levels as before.

This leaves us with the Dutch mercantile triumphs in Asia. In Asia military power, and the number of available colonists were far less important than mercantile organisation. In the Atlantic the Dutch lacked a strong fleet as well as government money to invest in overseas settlement. These requirements were absent in Asia, where the Dutch could excel in trade. There is no doubt that during the first half of the 18th century the *VOC* became for the Dutch economy what the American plantations were for the British economy. The question is whether the trade with Asia had similar effects on the metropolitan economy as had the trade to and from American plantations.

There seems to be sufficient evidence to prove that the trade to and from Asia created different —and less stimulating— demands on the Dutch economy than did the Atlantic trade. First of all, Dutch trade to Asia required little in the way of specialized production, meanwhile the imports from Asia did not induce the entrepreneurs in the Netherlands to invest in manufacturing. In the Atlantic the demand for barter products on the African coast and the need to supply the plantations did create inducements for the mechanisation of the manufacturing sector.

Secondly, the Dutch East India Company needed large numbers of mobile, unmarried males in order to staff their growing number of entrepots in Asia. In the 18th century the numbers amounted to perhaps as many as 4,000 to 5,000 a year. Two thirds of these boys and men were sent to a certain death in Asia. Whereas 75 per cent of such men in the U.K. went to work overseas in the American colonies of settlement and only 25 per cent went to the dangerous environment of the tropics. In case of the Dutch these percentages were exactly opposite. In spite of the large percentage of foreigners employed in the Dutch overseas ventures, the constant drain on mobile labour must have pushed wages up at home, thus reducing the competitiveness of Dutch mercantile shipping and manufacturing. As 20% of each cohort of young men born in Holland died overseas in the employ of the Dutch East India Company, the Dutch expansion certainly kept the streets at home free from beggars and the unemployed.

In a dialectical way, the trade with Asia also had some positive consequences. Once the Dutch had become less competitive in Europe, their colonial trades reduced unemployment in the shipping industry, in banking, broking and ship handling. On the other hand the Dutch trade with Asia reduced the need for leading sectors in the Dutch economy to face up to competitive European and Atlantic markets. Attempts to imitate the economies of the U.K. and France by heavy investments in the Dutch plantation colonies failed because of over-investment. On the other hand, it should be pointed out that the consumers in France and the U.K. were forced to subsidize their West Indian plantations by having to pay higher prices for sugar (and coffee) than the world market would demand, while such protective policies were absent in the Netherlands.

The Napoleonic Wars did not constitute a change in the relationship between the empire and the metropole. The profits from the «cultivation system» allowed the Dutch to continue operating a non-competitive economy at home. During the first half of the 19th century the profits from the colonies were used to improve the infrastructure of the Dutch economy. The subsequent modernization during the second half of the 19th century was in part based on that improved infrastructure. Yet, the metropolitan economy only started to grow once the flow of windfall profits from overseas had dried up.

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# EMPIRE AND ECONOMIC GROWTH: THE CASE OF 18TH CENTURY FRANCE

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## 1. SOME CHARACTERISTICS OF THE FIRST FRENCH COLONIAL EMPIRE

Among the colonial powers of the early modern period, France was the last to emerge. Although, the French had not abstained from the exploration of the New World in the 16th century: G. de Verrazano discovered the site of New York (1524), during a voyage sponsored by King Francis I; Jacques Cartier sailed up the St. Lawrence to Quebec and Montreal (1535). From the early 16th century, many ships from ports such as Dieppe, St. Malo, La Rochelle, went on privateering and or trading expeditions to the Guinea coast, to Brazil, to the Caribbean, to the Spanish Main. Many French boats did fish off Newfoundland. Some traded in furs on the near-by Continent. Moreover, during the 16th century, sporadic attempts were made to establish French settlements in «Equinoctial France» (Brazil), in Florida, in modern Canada, but they failed utterly. Undoubtedly, foreign wars against the Habsburgs, during the first half of the 16th and of the 17th centuries, civil «wars of religion» during the second half of the 16th century, political disorders like the blockade of La Rochelle or the *Fronde* during the first part of the 17th century, absorbed the attention and resources of French rulers, despite some ambitious projects, like those of Richelieu, for overseas trade. As for the port cities they tried to trade overseas but they were isolated and not strong enough (specially during the wars of religion) to create «colonies». Some small companies, which had been started in 1601 and 1604, to trade with the East Indies, were very short-lived, and the French did not engage seriously in Asian trade before 1664.

A French «colonial» empire only emerged during the 17th century and for long it was of modest size. Quebec was settled in 1608, but only had 150 inhabitants in 1635. In the West Indies, some Frenchmen settled in St. Kitts in 1627. Possession of Martinique and Guadeloupe was taken in 1635. But the population of those colonies only increased slowly, and

much of their trade was in Dutch hands up to the 1670's. There was, however, a significant change in the late 17th and in the early 18th centuries, despite the long wars at the end of Louis XIV's reign. Sugar plantations expanded in the French islands (but in 1685, their production was under half that of the British West Indies) but a few French ports—first Nantes, and later Bordeaux—developed trade with these colonies. In 1697, the Western part of the large island of Santo Domingo was officially ceded by Spain to France. Groups of French buccaneers and tobacco-growers had already settled there and its production of sugar (also coffee) then grew at an amazing speed—from 7 000 tons in 1714 to 86 000 in 1789. As for North America, small groups of French explorers, soldiers, missionaries, fur traders, starting from their base in the St. Lawrence valley, built up, within a few decades, an immense «empire», which extended from the Great Lakes to the Ohio and Mississippi Valleys, down to the gulf of Mexico (New Orleans was founded in 1718).

This empire was, however, to be short-lived. As early as 1713, following the war of Spanish succession, France lost Acadia (Nova Scotia), Newfoundland and the Hudson Bay area. Fifty years later, the French disasters during the Seven Years war resulted in the loss of all French territories in North America. Louisiana, West of the Mississippi, was ceded by France to Spain, as a compensation for the losses the latter had suffered in supporting the French cause. France also lost some minor West Indian islands and renounced all claims to territorial expansion in India, where she only retained five trading posts.

This narrative of rise and decline over a relatively short span of time is significant for the role which the 18th century colonial empire played in the French economy. First, it is obvious that French colonial trade could only develop, in all its dimensions, much later than it was case for other colonial powers- i.e. not before the very end of the 17th century, or rather after the peace of 1713. Secondly, the French empire included a rich core of colonies which were retained despite the Seven Years War. It was made up of Martinique, Guadeloupe and Santo Domingo and the Isle de France (Mauritius), in the Indian Ocean, can be added. Its total area was small, but the rise in its production of colonial produce during the 18th century brought about a remarkable increase of French colonial trade. However, it had started from a low level in the late 17th century, at a time when Dutch and English traffic with non-European countries was already large. As it was basically a West Indian trade, its growth potential was also limited by the cultivable area available on French islands.





Moreover, the European population of both this core and of the shortlived periphery in North America was small and could not provide a large market for French manufactures (except for luxuries such as Lyons silks). Food exports were also important for rural areas in Aquitaine, which sold flour to the West Indies. The contrast with British colonies was striking. For example, although France had about three times more inhabitants than Britain and had not escaped the Malthusian trap, Frenchmen, unlike Britons, were not prone to emigrate to the colonies. New France—which, admittedly, had a harsh natural environment and furs as its only export staple—did not receive, altogether, more than 10 to 12 000 immigrants, so that the very high marriage and birth rates it enjoyed gave it a rapidly rising yet not a large population. By 1763, European inhabitants in the lands which had been under French sovereignty did not exceed 85 000, of whom about 60 000 were in «Canada» and 4 000 in Louisiana. The huge empire which France lost in North America had been almost empty (and therefore the commercial consequences of that loss were limited). In contrast the British Continental colonies, by 1763, had 1,6 Million inhabitants. Many of whom enjoyed relatively high incomes. As for the West Indies, they had attracted more Frenchmen than North America, but the rapid rise in their population—from less than 80 000 c. 1713 to over 700 000 in the 1780's—resulted mainly from the slave trade. By 1789, Santo Domingo had half a million slaves, and only 30 000 whites.

The century during which French colonial trade developed (1672-1789) was punctuated by six major wars during which it suffered, because of British ascendancy at sea after 1692. Convoys, escorted by warships, were used to maintain relations between France and its colonies during the wars of Austrian Succession and of American Independence; though during the former heavy losses of both merchantmen and naval vessels occurred. Only during the Seven Years war was traffic almost completely interrupted. Even before war had been declared, French merchants and shipowners had also suffered heavily from the piratical capture of 300 merchant ships by Admiral Hawke's squadron. British sea-borne trade generally enjoyed security (except during the Nine Years War, when the loss of the Smyrna convoy in 1693 was spectacular).

Yet, French colonial trade bounced back to new heights after each war, even after the Seven Years War, when the enormous loss of territory at the peace of 1763 did not have disastrous consequences from a purely commercial and short-term point of view. Still, trade with New France had been growing on the eve of that War, when 60 ships sailed from

France to Canada, on average per year. As for the French East India trade, after protracted difficulties, it had prospered after 1730; the sales in France by the French East India Company grew faster than those of the English Company in London and were about the same in value in the years before the Seven Years War. After the latter, trade revived, but at a lower level, it prospered again in the 1780's, but a large share was with the French islands of Mauritius and Bourbon.

Indeed, the «golden age» of French colonial trade had been from 1735 to 1755. It suffered greatly during the Seven Years War, but rebounded sharply after its end, and likewise after the War of American Independence (when levels had been better maintained). Counterfactually French colonial trade could have grown more, but for the disasters of the Seven Years and interruptions of the American wars.

## 2. COLONIAL TRADE AND FRENCH FOREIGN TRADE

During the 18th century, imperial expansion in America (and also in Asia) might have made a significant and dynamic contribution to the growth of the French economy, inasmuch as colonial trade was connected with a large flow of reexports to Europe. Contemporaries were fully conscious of this connection. For example, in 1761, the directors of the Chamber of Commerce of Guyenne wrote about «a trade, which generates an enormous navigation, which spreads all over Europe and which gives to France a favourable balance of profits». It is, however, difficult to estimate with any precision the importance of this role or the profitability of colonial trade.

As table I shows, on the eve of the French Revolution, trade with French colonies held first rank in the total foreign trade of France, and its share of the latter had markedly increased since the beginning of the 18th century.

In 1787, France received from its colonies 227 millions livres of imports. They were its largest single source of supply, far ahead of the second supplier —Italy (Switzerland, Geneva and Savoy included) from which the economy purchased 82 millions worth of commodities, i.e. 13.5% of total French imports. Then came Germany with 64 m. lt, 10.5% of total imports and Britain, 63 m., 10.4%.

The situation had been completely different at the beginning of the 18th century. In 1716, French imports from the colonies were only worth

TABLE I

<i>Imports from the colonies compared to total imports</i>				
	1716	1754	1772	1787
— Imports from the colonies Millions of <i>livres</i> (lt)	5.1	76.8	142.1	227.0
— Total France imports Millions of <i>lt</i>	38.5	227.1	300.2	606.5
— Share of the colonies %	13.5	33.8	47.4	37.4
<i>Exports to the colonies and total exports</i>				
— Exports to the colonies Millions of <i>lt</i>	2.1	43.5	38.3	120.0
— Total exports from France Millions of <i>lt</i>	49.1	292.0	335.6	544.2
— Share of the colonies %	4.3	14.9	11.5	22.1

5 millions, i.e. under 14% of total imports. They were far below imports from Spain (10.7 m., i.e. 28% of total imports). Furthermore imports from England (5.8 m., 15.2%) and Holland (5.7 m., 14.8%) were also slightly larger than those from the colonies.

As early as the mid-18th century, imports from the colonies (East Indies not included) had risen close to 77 millions *lt*, 34% of total French imports. They exceeded those from Italy (40.4 millions, 17.8% of total imports) and those from the Ottoman Empire and Barbary (28.7 m., 12.5%). Spain had lost much ground, with imports worth 23.5 m., i.e. 10.3% of total imports.

As for French exports, in 1787, colonial markets received 120 millions, i.e. 22% of the grand total. In rank order they preceded «Germany» (including Austria and Poland), which bought 95.6 m. worth of goods (17.6% of total exports), «the North» (Hanseatic cities and Scandinavia; 79.8 m., 14.7%) and Italy (78.3 m., 14.4%). Admittedly, colonies in America and Africa only bought for 93 millions (17.1% of total exports) and held second rank.

Progress of exports to the colonies had indeed been spectacular. In 1716, they had only been worth 2.1 millions, i.e. under 4% of total exports, far behind those to Holland (16.6 m., 33.9% of the grand total), Italy (9.3 m., 19%) and Spain (9.2 m., 18.8%).

At mid-century, exports to the colonies had gained in importance, but less markedly than imports. Colonial markets received in 1754 43.5 millions of French goods (14.9% of total exports), but Spain remained France's best customer: 50.1 m., 17.2% of the grand total.

Pierre Léon concluded that the colonies represented a significant market for French industry. In 1787, exports of manufactures to the French West Indies were worth 42.1 millions, and those to Africa 12.8 m. They made up over 57% of total French exports to the West Indies and over 75% of those to Africa. As the grand total of manufactured goods exports reached in 1787 the sum of 154.4 m., the French West Indies and the French African trading posts absorbed 35.5% of that total. On the other hand, exports of foodstuffs to the West Indies were only worth 26.8 millions and those to Africa 4.9 m. From 1716 to 1781, exports of manufactures to the West Indies had increased ten-fold—from 4.1 to 42. m. They consisted mainly of up-market textiles, such as fine linens and silks. Linens represented 56% of exports to the Guinea coast, 23% of textiles sent to the West Indies. Sizeable quantities of these goods were reexported from the French islands to the Spanish colonies.

The importance and growth of colonial trade varied from port to port.

Bordeaux's colonial trade (in value) increased three-fold from 1750 to 1787; Nantes had been far ahead in the early 18th century but later fell behind Le Havre.

TABLE II

*Colonial Trade by Major Ports*

<i>(Millions lt)</i>	1750	1787
Bordeaux	34	110
Le Havre	21	53
Nantes	26	45

This expansion of French colonial trade was generated by the increase in the production of sugar in the colonies, from the 1720's to the 1740's, and after the Seven Years War, by the progress in coffee cultivation. As the French home market—unlike the English—could not absorb the increased output of its colonies, markets were found in a growing reexport trade to Europe. Thus, in the early 1770's, over three quarters of imports from the colonies were reexported. Reexports to Europe increased over eightfold from 1716 to 1787, while exports of French goods only rose threefold.

Colonial demand also created large markets for French agricultural produce, such as fine flour from the Garonne valley. Bordeaux sent nearly

20 000 tons per year to Santo Domingo, where «ostentation at meals» was a more significant sign of high social status than grand houses. Wines from Guyenne and Anjou, delicacies (such as truffled pies from Périgord) were also exported. As for textiles, the rise of proto-industrialization in Western France (and elsewhere) was helped by colonial demand. Linens from Brittany and Saint-Quentin, lace from Le Puy and Valenciennes, woollen cloths from Languedoc, cotton fabrics from Normandy were sent to the West Indies, via large fairs, like the Fair of Bordeaux in spring and autumn.

The colonies (mostly the West Indies —thus achieved a dominant position within French foreign trade, but this does not necessarily mean that they became a major engine of growth.

There is no doubt that several port cities, which dominated colonial trade, greatly benefited: one has only to consider the historical centre of Bordeaux (which is one of the most impressive examples in Europe of 18th century European architecture, on a par with Bath and the New Town of Edinburgh, and only surpassed by St. Petersburg) to illustrate the connexion. Nantes suffered from Allied bombing during World War II, but still contains many fine houses built by 18th century merchants. These local gains are obvious, but there is a broader and more difficult problem: how to ascertain the role which the fast-growing (and profitable) colonial trade imparted to the progress of the French economy as a whole?

A first step is to measure it relatively to national product. Figures for the latter are, of course, highly problematic; still we only need rough orders of magnitude. The total value of French foreign trade in 1787 (1151 millions livres) is equivalent to 19% of in the 1780's, according to J.-C. Toutain's most recent estimate of French Gross Domestic Product. It is 28% of the commodity output of 1785, as calculated by P. Mathias and P. O'Brien (c. 1715, the ratio would have been only 6%). If only French exports are considered, they were equivalent in 1787 to 9% of Toutain's G.D.P., and to 13% of commodity output (Mathias-O'Brien); in 1716, they would only have been 3% of the latter. However, colonial trade of 1787 is only 6% of Toutain's G.D.P. and 8-9% of French commodity output. Both G.D.P. and commodity output include agriculture and non-tradeable services.

As for total exports of French manufactured goods in 1787 (154 millions), they amount to only 7% of French industrial and handicrafts product (according to Toutain). That ratio falls to 2.5% if only exports of manufactures to the colonies (55 m.) are considered. In the early 18th century the ratio would have been even smaller- around 1%. However,

Toutain's figures include a good deal of non-tradeable goods and small-scale production for purely local needs. At the margin, exports to the colonies increased by a factor of 13 from 1716 to 1787 (from 4.2 to 55 millions) and they were responsible for 45% of the increment in total exports of French manufactured goods over those 71 years. However, the growth of the latter was not particularly fast, and this ratio is lower than its equivalent for Britain, as calculated by P. O'Brien and S. Engerman.

One must therefore accept that exports to the colonies were not a powerful factor for the growth of French industry *as a whole*. However, colonial markets were clearly important for some manufactures—mostly of linens—from some rural areas and small towns, specially in Western France (Brittany, Normandy and Maine). The frequent statements, from 1791 onwards, that many French centres of industry had greatly suffered from the loss of colonial markets may have been excessive, but not untrue (even though the decline of the linen industry had already started in the 1760's).

On the other hand, feedbacks from colonial trade generated or stimulated a number of non-exporting industries, including sugar refining, shipbuilding and its ancillary activities, such as the making of cordage, sails, anchors, etc. Transport across the Atlantic, to and from the colonies, was entirely on French ships, but the large reexports of colonial produce to Northern Europe took place on foreign vessels—Dutch, Hanseatic, Scandinavian, so that profits on freight on those cargoes were lost to France.

It can be thus suggested that the positive economic effects of the First French Empire were rather localized—in a few ports and a few industrial centres. They were certainly smaller than comparable effects on the British side, a difference which is not at all surprising. Because the British Empire—at least before the American Revolution—was bigger, more populated, more diversified and richer.

Secondly, France had both a territory and a population which were much larger than Britain (not to mention Portugal and Holland) and a bigger economy. Though the value of its aggregate foreign trade had risen, on the eve of the Revolution, to the same level as the value of British trade, figures on a per capita basis were much lower in France than in England. Moreover, France had no national market, because of natural obstacles separating its regions, inadequate transport facilities (particularly in inland areas), and suffered from internal customs and tolls. Needless to add, agriculture remained the dominant sector of the French economy. Under such circumstances, the feedbacks and spinoffs from foreign—and

pecially colonial— trade were bound to be weaker and more regionally concentrated than in Britain. Though trade connections with other parts of France even distant ones —existed (e.g. gloves made in Grenoble were exported from Bordeaux). The great portcities-Bordeaux, Nantes, Marseilles —were in some ways enclaves, where the entrepot trade, of importing and reexporting, was dominant. The fact that the French consumption of colonial produce was limited, so that a large share of French imports from the colonies was reexported, also reduced the significance of colonial trade for the economy as a whole.

One must also mention that large illegal imports from North America and some British islands also reduced the size of markets for French goods in the French West Indies. Illegal imports included slaves which thus had a negative impact upon the French slave trade, which was already markedly smaller than the British. Among illegal exports, molasses were prominent, because their distillation was prohibited in France in order to protect the spirits industry. On the other hand, France had an «informal» empire in the Spanish colonies, to which large quantities of French manufactures were reexported from Cadiz —where the French colony of merchants was the largest. Still, in the second half of the 18th century, despite the close political alliance between the two Bourbon courts, French dominance of this trade was weakened by Spanish protectionism and English competition.

### 3. INVESTMENT AND PROFITS

In 1761, the Chamber of Commerce of Guyenne estimated that, in peace-time, about 60 ships cleared from France to Canada each year. The cargoes of those ships, which were made up of wine, brandy, fine and coarse woollens, silks and other luxuries, involved a capital investment of 10 millions and, according to the merchants of Bordeaux, yielded a profit of 2 millions. Page suggests that, in 1788, 783 ships sailed from France to the West Indies. Assuming that the average value of cargoes came to about 166 000 lt and that the rate of profits was the same for the West Indian and the Canadian trades, total investment in the former might have been close to 130 millions and profits 26 millions. The values of the ships involved must be included and the lowest possible estimate comes to 42 000 lt per ship, which implies an overall value of over 32 millions. This brings the total investment by French merchants and shipowners in the West India trades to over 160 millions. This figure is not improbable,

because investment by Bordeaux merchants in the East India trade was valued by the Chamber of Commerce of Guyenne at 20 millions for 1785.

Such a significant level of investment and profits achieved by merchants fluctuated and depended upon correctly predicted prices. Yet forecasting price movements was extremely difficult and risky, because of long delays in the transmission of information. A typical example of the risks involved is the trade in fine flour, which was much demanded by European settlers, who wanted to eat the same white bread as in France. In war time, scarcity caused sudden and sharp price hikes. For example, in 1757 —during the Seven Years War, a barrel of flour rose on West Indian markets from 70-80 colonial livres to 170-210 l. Such an upswing could bring enormous profits, while, at the same time, prices of colonial produce were collapsing on the islands, because few ships were available to take produce to France. In peace time, during the early 1770's, competition by flour from the British Continental colonies resulted in falling prices, and some times it became impossible to sell French flour. Fluctuations in the prices of both goods imported from Europe and colonial produce led to contingent variations in profits —and losses. In French Atlantic ports, most of the demand for colonial produce came from markets in Northern Europe and from time to time wide gaps developed between prices which sugar refiners asked and those offered by commission merchants —according to the orders they had received from Hamburg or Amsterdam. For example, in september 1763, the Chamber of Commerce of Guyenne observed that orders for the reexport of sugar had been suspended, because refiners were buying at 24-25 livres per hundredweight, while foreign commission merchants only offered 20-22 livres. Two decades later, a sharp rise in coffee prices in 1784 and early 1785 came to a sudden end in May 1785, when the «fleet» from Surinam arrived in Amsterdam and caused a fall in Bordeaux.

Price data, however, are not as illuminating as a number of examples which provide direct evidence for profits. For example, in 1724, the Portuguese-Jewish shipowner Abraham Gradis made a nominal gross profit of 43% on the sale of a cargo, made up of European goods, sent on his ship *Ange Mikaël* to Léogane, in Santo Domingo. But he suffered losses on his return cargo of sugar and indigo, so that the overall profit on both legs of the voyage was cut in half. Moreover, if credit given to planters is taken into account, then the net profit on this voyage comes to only 5% but on the next trip, it exceeded 10%. There was thus great variance in profit rates. For the four ships which belonged to Gradis, profits varied between 8% and 40% in 1726-27.



Furthermore, profits may have decreased in the course of the 18th century. In the 1780's, Bonnaffé, one of the leading shipowners of Bordeaux, made gross profits of 10 to 13% on the voyages made by his ship *Le Magnifique* and his yearly return on capital was 5-6%. The profits of the house of Gradis came to 12-13% for the years 1786-89, but they had been much higher in 1780-82, thanks to contracts with the French Royal Navy for hire of ships, on favourable terms, and again in 1784, when colonial produce prices rose sharply. On the other hand, Gradis suffered losses on his shipments during 1785.

In that year, shipowners, affiliated to the Chamber of Commerce, complained of «the incertitude of the business with America». In 1786, an official report stressed that, since the peace of 1783, profits on sales in the West Indies, from return cargoes in French ports and freight rates had all fallen. Such complaints may be taken with a pinch of salt, but the falling trend was unmistakable. One cause was increasing competition from United States imports into the West Indies. According to Page, in 1788, over 1 200 small American ships visited the Virgin islands, where they loaded sugar and molasses. To Europe, Britain reexported sugar, which competed with French produce.

On the positive side, French merchants had for a long time taken part in smuggling from the French islands to the Spanish colonies, and this illicit trade brought in profits, some times very large, which were not mentioned in reports by Chambers of Commerce. Some merchants actually specialized in this traffic. For instance the Portuguese-Jewish house of Raba, which had been established in Bordeaux after the Seven Years War, had a subsidiary firm at Santo Domingo and it made over one fifth of its profits in the smuggling trade with *Terra Firma*. In 1783, its assets were over 4.3 millions livres.

Some merchants were bold enough to break the French Navigation Laws. Hilliard d'Auberteuil, in his *Considérations sur l'état présent de la colonie française de Saint Domingue*, stated that since 1772 large quantities of flour, from Philadelphia and New York, were put into French barrels and shipped by Bordeaux merchants to Santo Domingo and the Windward islands. Such illegal practices were denounced again, some years later, in letters from the Governor and the *Intendant* of Santo Domingo to the Secretary of State for the Navy: one seacaptain of Le Havre had called at Plymouth (Massachusetts) to load some prohibited goods, which he carried to Santo Domingo. Profits from illegal trade —not only in foodstuffs, but also in slaves— ought therefore to be taken into account

in the aggregation of gains made by merchants and might be set against the very pessimistic views expressed in 1785 by the Chamber of Commerce of Guyenne: «there are not in Bordeaux ten shipowners who have made profits in their trade since the Peace, all the others have more or less suffered losses».

Actually a number of Bordeaux shipowners, who had succeeded in gaining control of the sources of supplies for the West Indian islands, increased their profits. The example of the fine flour (*minots*), produced in the Garonne valley, leads to stress the rise of some fortunes built up on vertical integration, from grain-milling at Moissac or Montauban, in order to make a flour of which the West Indian settlers were extremely fond, up to its transport and sale in the colonies. A good example is the Gouges family, who owned mills at Moissac, ships registered in Bordeaux, a subsidiary trading firm in Santo Domingo. Jean Gouges was one of the largest millers in Moissac and in his will (1746), he mentioned that within 13 years he had made gains over 71 000 livres in grain-milling alone. In 1764, the magistrates (*consuls*) of Moissac rejected a petition for tax relief, from Jacques Gouges, «who has given an expensive education to his children, erected splendid buildings, paid up large dowries, without his trade having suffered». Furthermore, shipowners who did not have similar connections with the production of goods sent to the colonies, were nonetheless able to obtain credit: in the late 1780's, Bordeaux shipowners could buy fine flour at Moissac on a 8 to 10 months credit. Bordeaux' credit system was efficient and extensive, so that its colonial transactions were made easier and profits larger.

The over-pessimistic statements by the merchant bodies in the 1780's cannot be taken at face value. The same caution is necessary towards conclusions which were put forward in those years about the profitability of plantations. Detailed studies demonstrate that planters made profits. For example, with the exception of difficult years during the Seven Years War or after the earthquake of 1770, financial results for the Fleuriau estate, near Port-au-Prince, were good before the War of American independence and became still better afterwards. Its gross income tripled during the 1780's and net profits exceeded 15%. This is close to the estimate given by Hilliard d'Auberteuil and which was much criticized by the «planters' party» at the end of the Old Regime. He suggested that a well managed sugar estate yielded 15 % per year and repaid its capital in less than seven years. Absentee owners maintained that returns on capital did not exceed 5 to 7% per year. The West India interest rarely acknowledged

the gains from illegal trade, through which a sizeable share of the colonies' sugar and molasses output was shipped to the United States.

Yet there were risks: crops might be suddenly destroyed by hurricanes, or severely reduced by drought, and prices fluctuated. Moreover the price of slaves rose sharply after the American War. All these circumstances pressed heavily on planters' incomes and pushed many of them into debt.

From a survey of cases and evidence of profits generated by colonisation, historians can thus conclude that it was profitable for the majority of planters and merchants involved. But when we take account of government expenditures for the defence of the colonies, the overall benefits of colonial expansion are not so clear, despite the gains from trade which it brought to France.

French colonial trade from the death of Louis XIV to the French Revolution may appear as a striking success story: its value grew ten-fold between 1716/20 and 1784/86. Even sceptics (who suspect under-estimation early in the 18th century) cannot dismiss a three-fold increase from 1754 to 1787 (see table I). France had been far behind England in the late 17th and early 18th centuries, but caught up fast, despite losses of territory. In the 1740's, Santo Domingo alone exported as much sugar as all the British West Indies put together. Subsequently, the latter regained some ground, but the French islands retained their dominant position on the international sugar market, and the production of coffee made striking progress in Santo Domingo, where it increased six-fold from the late 1760's to the late 1780's, while the British islands did not grow much coffee.

This successful investment in colonies was destroyed by exogenous shocks. First the slave revolt in Santo Domingo (which started in August 1791) and then the twenty-three years of war with Britain, during which French colonies were cut off from France and eventually all occupied by British forces. The plantations of Santo Domingo were destroyed, the French failed to reconquer the island, which became the independent republic of Haiti. The large investment, which had been made in plantations and slaves in Santo Domingo, was almost a write-off, though some planters managed to transfer some money to Cuba or to the United States.

Although the jeremiads about falling profits (which French planters, shipowners, merchants voiced loudly during the 1780's) must not be taken at face value, nonetheless, difficulties existed. Planters' debt increased and hurt their creditors, at least the smaller merchant houses. Furthermore, the «colonial system» (*l'Exclusif*) came under pressure, after American

independence, when a royal order opened seven free ports in the French islands to American vessels. Though the kind of goods they were allowed to import and export was limited, those restrictions were not well enforced, and a significant share of the colonies' trade was diverted towards the United States and lost to France, and to French merchants, who complained loudly. But the government did not dare to antagonize planters, who had not been unaffected by the American Revolution. In Santo Domingo, some of them had started to dream of independence and free trade.

Actually, Santo Domingo had become responsible for three quarters of French colonial trade, while the concentration there of half a million slaves was dangerous—even though their revolt was a by-product of the French Revolution. So the counter-factual that, but for the Revolution, French colonial trade would have gone on prospering and growing cannot be accepted at face value.

#### 4. THE COSTS OF EMPIRE

The creation of the First French Empire was not expensive. No large scale expeditions were required to conquer colonies. Cavalier de la Salle financed from his own pocket the exploration down the Mississippi river, which led to the «annexion» of an immense territory in North America. The administration and defence of colonies in peace time did not cost that much.

The trouble was the wars with Britain, which colonial conflicts helped to trigger. Those wars caused serious human losses, in battle of course, but also among French seamen kept as prisoners of war on British hulks. Occasionally the civilian populations also suffered. For example in 1741, a squadron which sailed back from Santo Domingo brought fever to Brest which killed many of its inhabitants. Wars, of course, cost money.

One can assume that the wars of Louis XIV did not have colonial origins? Anyhow, the enormous debt they had generated was almost wiped out by the bankruptcy of 1720-21. Subsequently, between 1744 and 1783, within 40 years, Britain and France fought three major wars. Their total cost for the French Treasury was about 3 billions livres (£ 120 millions). They were increasingly financed by borrowing (about 90% of revenue for the War of American independence) and were therefore the major factor in the growth of the public debt, which had reached an amount of 5 billions in 1789. The servicing and repayment of this royal debt absorbed a growing



share of government expenditure, which rose from 28% in 1751 to 49% in 1788. And the growing budget deficit eventually brought down the Old Regime and started the French Revolution.

However, neither the War of the Austrian Succession, nor the Seven Years War were purely Anglo-French conflicts. In each, France had a major continental enemy —Austria in the former, Prussia in the latter. Therefore a share of the expenditures and borrowing they caused was not related to the Empire. Moreover, as far as those two wars were «colonial», they were imposed upon France by British aggressiveness, by British resentment against French presence in North America and the progress of French colonial trade. Benjamin Franklin proclaimed that the Thirteen colonies would not enjoy peace as long as France possessed Canada.

On the other hand, the War of American independence undoubtedly had «colonial» origins and France, who lent assistance to rebels against their legitimate sovereign, can be represented as an aggressor. Moreover, the American war is often seen, because of the heavy borrowing to finance it, as a direct cause of the French Revolution. Recently Eugene White has suggested that the financial crisis of the Old Regime could have been solved and that it became irreparable, not because of the loans contracted during the war, but because the borrowing which went on after the peace of 1783, and which was unprecedented. In 1783, British finances were in as bad a condition as the French, but within a few years the Younger Pitt had restored them to a sound state. In contrast Louis XVI's ministers presided over a cumulative process of debt creation, which made the deficit worse every year.

The First French Empire can be represented, as therefore one cause of the French Revolution. The latter in its turn triggered off a twenty three year long desperate struggle between Britain and France. One of its results was the final destruction of the French colonial empire. This was only one of the disasters which revolution and war brought to France, particularly to its economy.

This leads to a last problem: the decline and fall of the First French Empire were largely caused by the inferiority of France at sea relatively to Britain, by an inadequate investment in sea-power.

Indeed, French efforts to build and maintain a large and efficient navy were sporadic. Colbert and his son Seignelay built up an enormous fleet —which, for a time, outnumbered the Royal Navy. But, after their deaths and during the Nine Years and Spanish succession wars, which demanded large land armies, the French Navy did not receive enough money, and

*la guerre d'escadres* had to give way to *la guerre de course*, against enemy trade. Yet, by 1715, France still had a large fleet. Then came a long period of lean years. For financial reasons and in order to appease England, few new ships were built, so that the French Navy had far fewer ships of the line than the Royal Navy, when the two wars of the mid-18th century started. Furthermore, the Navy suffered heavy losses during the Seven Years War. However, from 1761 onwards, a serious effort to «rearm» began and an ambitious building programme went on right up to 1792. Still, French ministers knew that they could not win an armaments race with Britain. They did not aim at parity with the Royal Navy (France did not have enough seamen), but instead achieved a ratio of 2 to 3 —against 1 to 2 or even 1 to 3, earlier in the century. Then the Navy was desorganized by the French Revolution and suffered a succession of crushing defeats.

One factor behind those ups and downs of investment in sea-power was that «public opinion» and ruling circles did not understand its importance and did not realize the real stakes in the Second Hundred Years War with England, particularly the relationship between sea-power, empire and wealth. Voltaire's famous statement, that «France can be happy without Canada», which was just «a few acres of snow», was far from atypical.

On the other hand, France had both a continental and a maritime calling, and on many occasions, the Continent had priority. France was a late-comer to colonial expansion and therefore to colonial trade because its encirclement by the Habsburgs had to be broken and its land frontiers consolidated. On several later occasions, the threat of invasion by powerful coalitions deprived the Navy of financial resources it badly needed. Still, during the War of American independence, England had no continental ally, France could concentrate on war at sea —and was supported by Spain; yet she did not win a decisive victory.

Actually, French inferiority was not only quantitative —in the number of ships, but also qualitative. The French are (as most Britons assume) possibly an inferior race. Anyway, British crews were better trained, British officers had more practical experience of the sea, of handling ships and of fighting, British admirals were bolder and more skilful. Tactics in battle, logistical support and the command structure were also better on the British side. So the French empire in North America was lost at Lagos and Quiberon Bay (1759). The French defeat at Les Saintes (1782) prevented a landing in Jamaica and the retention at the peace of some other islands which the French had occupied.

Altogether, during the early modern period and up to 1815, the French experience of empire was quite different from those of Portugal, Spain, the United Provinces and Britain. The conquest and loss of colonies seem central to the history of those countries. For France, they only were side-shows, relatively minor episodes, which have not left any imprint on the collective memory.

On the other hand, the 18th century was the «Atlantic» phase of French economic history, the only period during which France played a major role in global trade —specially in traffic with the West and East Indies. Fernand Braudel was right to stress that the center of the world economic system was never located in France: it has wandered from Venice to Antwerp, to Amsterdam, to London, to New York, but has never been within the Hexagon. Even during the 18th century, French colonial trade was shared amongst several ports— for obvious geographical reasons, so that none of them (even Bordeaux) could approach the size and power of Amsterdam or London. Indeed, they depended upon those dominant *places de commerce* for financial and other services (including shipping). Nonetheless, one can wonder whether more continuity in naval and colonial policy would not have promoted a larger trade and more economic growth. This is one of the many opportunities which the French —a nation with suicidal tendencies— have missed.





# BRITISH IMPERIALISM IN A MERCANTILIST AGE, 1492-1849: CONCEPTUAL ISSUES AND EMPIRICAL PROBLEMS

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## I. INTRODUCTION

Writing on the eve of one of the major transformations in the British Empire, Adam Smith more or less repeated the remark made by the Abbé Raynal several years earlier that «the discovery of America, and that of passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind»<sup>1</sup>. Both of these great events of the 1490's, Columbus's discovery of the Americas and the sailing to India, a few years later, by Vasco de Gama, had no immediate impact on the British economy, but the opening up of this wider world for colonization and trading would soon have profound impacts on Britain and the other nations of Western Europe. In the same decade Britain, however, did make its first claim to New World territory, when John Cabot landed on Newfoundland in 1497, but it was to be about a century before title was clear and settlement begun. Not the first to establish an empire, the British rose to world-wide dominance over the course of the next three centuries. Since the regions of Western Europe, with few exceptions, did not become the colonies of other European nations, the ability to reach other continents became an essential aspect

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<sup>1</sup> Smith (1976), it might be noted, also commented that although the «whole extent of their consequences» are impossible to determine as yet, the commercial benefits to the Europeans had come at the expense of «dreadful misfortunes to those resident in the East and West Indies, the outcome of the superiority of force of the Europeans». Smith, p. 626. Others at that time also pointed to the less positive aspects of colonization. See, e.g., Pagden (1995), Ch. 6.

of their expansion<sup>2</sup>. Settlements and trading relations occurred throughout the world, not just in mainland North America and the Caribbean islands, but in South America, India, elsewhere in Asia, in Australia and New Zealand, and throughout much of Africa.

If 1492 represents an obvious starting point for the study of Britain's overseas empire, the choice of 1849 as the end-date for this paper is one that reflects the final repeal of the English Navigation Acts, along with various controls over shipping and shipbuilding<sup>3</sup>. That repeal came after a series of revisions, particularly in the 1820's, that reduced their overall impact, and came only three years after the dramatic abolition of the Corn Laws and marked the movement from mercantilist regulation to free trade<sup>4</sup>. These changes meant that the controls over imports that had long been central to British trade policy were eliminated, and also that the components of the colonial empire would now be on an equal footing for trade with the rest of the world. Arguments for free trade were also advanced in an attempt to persuade foreign nations to do the same, thus helping British exporters of low-cost industrial producer goods at this time.

That 1849 had a significant meaning for the nature of the empire and its relations with the metropolitan power did not, of course, mean that Britain had lost any of its interest in empire-building. On the contrary, the late nineteenth century witnessed a considerable expansion of Britain's empire, sustained by innovations in medicine and public health practice, permitting the settlement in and the obtaining of power in Africa<sup>5</sup>. Some departures from the Empire occurred, most notably the thirteen North American colonies in 1783, but otherwise little of the British Empire was relinquished prior to the end of World War II. Nevertheless the world of 1849 was quite different for the British from the world of the 1490's, marked political and economic changes had occurred, and the place of Britain in the world arena had shifted dramatically. The relation between

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<sup>2</sup> The role of Ireland is difficult to fully categorize, although because of the nature of settlement and political control, some now regard it as England's first colony. See Canny (1988). Similar related problems arise in dealing with Scotland and Wales, at least among some nationals.

<sup>3</sup> On the Navigation Acts, see Harper (1939).

<sup>4</sup> For a recent discussion of the political economy of the repeal of the Corn Laws, see Irwin (1989).

<sup>5</sup> Thus Hobson (1902), pp. 18-19, notes that «we find one-third of this empire, containing quite one-fourth of the total population of the Empire, was acquired within the last thirty years of the nineteenth century». On the role of changes in practices toward health which made this expansion possible, see Curtin (1989).

these changes and the growth of the British Empire remains a continuing question for historical analysis <sup>6</sup>.

## II. WHY EMPIRE?

There has been a long debate concerning specific motivations for the expansion of Empire and for the imposition of mercantile regulations, although the extent to which such motivations can be successfully distinguished is not clear. The familiar, and overlapping, dyads of «power versus plenty» of «God and gold», and of «Christians and spices», seem to present alternative motivations, but, as Jacob Viner has pointed out, it was believed that power went with plenty (and vice versa), while spreading the word of God took the Spanish and Portuguese to those heavily populated areas where the gold and silver mines happened to be located <sup>7</sup>. Clearly the general pattern of mercantilist rules suggested that an economic motivation formed at least some part of the desire for trade and Empire. Furthermore, the differences that existed among the Western European nations in mercantilistic policies reflected the adjustments to differences in colonial resource endowments and population densities and variations in policies for growth rather than any significant differences in motivation. The competitive nature of Western European expansion also meant that the pursuit of power and profit also embodied aspects of defensive reactions to more aggressive leaders, and the desire to avoid the dangers of falling further behind. While religious aspects of expansion are now given only minor attention, except to be depicted as rationalizations of various colonial labor and racial policies, the sheer magnitude of the missionary efforts suggests the importance of these beliefs among the early colonizers.

Nevertheless, attempts to establish distinct motives indicate that this is an extremely difficult, if not impossible, task, but to discuss these causes helps us frame certain key questions. If, for example, Empire did not appear to yield economic returns, but satisfied national (or governmental) desires for power and served to feed national pride, such reasons may, of course, be used to justify a nation's interest in Empire. But this is a different

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<sup>6</sup> For useful descriptions of the British empire in this period, see, in particular, Davies (1974), Bayly (1989), Cain and Hopkins (1993), Fieldhouse (1973), Marshall (1996), Martin (1967), Porter (1996), and O'Brien (1998).

<sup>7</sup> See Viner (1948), and for a recent discussion of the distinctions in regard to motivation of the colonizing nations, see Pagden (1995).

question than that concerning the economic benefits of empire, as usually defined.

### III. WHEN EUROPE EXPANDED

Starting from the 1490's all areas of Western Europe became involved in settlement and/or trading enclaves in both the Americas and the East Indies. For some, including Spain, Portugal, Britain, and France, as well as smaller participants in the race for Empire, such as Sweden, Denmark, and Russia, and, on a more temporary and considerably smaller scale, the Brandenburgers and Courlanders (from modern Latvia), the primary focus was on the Americas. Yet they also had an interest in settlement and trade with Asia. The empires in Asia were less for settlement than they were maritime empires for trade, requiring only naval bases and ports. The British, after the defeat of the French in the mid-eighteenth century, had larger empires in both parts of the world than did the French and the Portuguese, as well as a much larger Asian empire than did Spain. The Dutch were unusual in that the numbers settled in the East Indies greatly exceeded the numbers in the Americas, particularly after their departure from Brazil in 1640 and the loss of their mainland North America colony (New Amsterdam) to the British in 1664<sup>8</sup>.

The British, as well as the French and the Dutch, moved into the Americas about one century after the Spanish and Portuguese. The Spanish settlements, particularly in Mexico and Peru, were in areas with the largest Native-American settlements, in terms of both population density and degrees of economic and political sophistication. The «follower» nations were thus forced into seemingly less profitable areas with lower population densities. These were primarily on the islands of the Caribbean and on mainland North America (apart from Mexico and Central America). These were regions with fewer Native-Americans, requiring more whites and others to provide for the labor force that in Spanish-America was provided by resident Indians<sup>9</sup>.

The settlements of Asia were similar in timing but there was more geographical overlap than in the Americas. For example, rivalry soon

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<sup>8</sup> For a survey of Dutch colonial migration, see Lucassen (1991). For indications of the limited European population in Dutch Java, see Nitisastro (1970), Ch. 1-3.

<sup>9</sup> For a discussion of these issues, see Engerman and Sokoloff (1997). See also the extension of this paper with Stephen Haber (1997).

emerged between the British with the French, Dutch, and Portuguese, but in general European control was only exercised over port cities or enclaves held as trading centers, not over large territories or numbers of people<sup>10</sup>. The fact that Europeans (except for the Dutch) were generally restricted to trading ports meant that in Asia only limited numbers of whites were required to migrate and to settle there. Very large resident populations were already involved in production and there was little need for immigration from other continents.

In 1500, the populations of the areas of Asia reached by Europeans was probably greater than was the population of the Americas. This difference increased dramatically after the onset of European contact, because there was a very large decline in the Amerindian population in all parts of the New World, as there was to be later among the aboriginal population in Australia coinciding with the start of British settlement. The epidemiological impact on Asian and African populations was relatively minor. Thus the Americas required a much larger inflow of whites from Europe and blacks from Africa to rebuild the population and labor force than did Asian nations, while the European demands from Africa were met by the population present. Whereas a substantial economic role in production was played by immigrants, (whites and blacks) in the Americas (and particularly outside of Spanish-America), the small number of whites who went to live in Asia were most frequently there for military or governmental purposes, or operated as merchants and traders. The causes of these rather different demographic patterns is uncertain, but it is clear that, in regard to Africa and to Asia, the whites remained on the coast and worked with inland producers, while in the Americas the Europeans went inland for settlement and production and became more exposed to resident populations (and vice versa). Initial epidemiological conditions helped influence the patterns of settlement and the relative demands for labor in the different parts of the world<sup>11</sup>.

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<sup>10</sup> For an analysis of the economic rivalry of the Dutch and the British in the East India trade, see Irwin (1991). On this rivalry, see also Steensgaard (1973, 1990), and Wallerstein (1980), Ch. 2, 6.

<sup>11</sup> On the role of disease in the «Transoceanic Exchanges, 1500-1700», see McNeill (1976), Ch. 5, as well as Crosby (1972).

#### IV. MERCANTILISM

The opening up of the world to sailing vessels had involved most of the nations of Western Europe. There were some basic similarities in the nature of technology and organization employed, and each nation also followed a somewhat similar set of policies that have come to be represented as mercantilistic in their intention to benefit the home country at the expense of other nations, as well as benefiting the metropolis at the expense of the newly-created colonies, even though the settlers of these colonies had often been fellow countrymen<sup>12</sup>.

The English Navigation Acts which regulated the colonies contained a set of policies similar to those implemented by the other European nations. The Navigation Acts, effectively recodifying some earlier trading regulations, date from 1651, were modified frequently thereafter, as political and economic circumstances varied. Their central purpose was to maintain control over international trade, including colonial trade, by trade policies established by the metropolis. The goals were to promote exports from the home country to the colonies, proscribing the countries that could be direct recipients of the products exported from the colonies. The rules were designed to control shipping and shipbuilding, and to restrict the rights of other carriers, including third parties, to transport goods to various markets. Controls over trade patterns were also designed to encourage metropolitan producers and merchants, to influence flows of specie to the European nations and to encourage the growth of British naval power. Migration policies were also set by the metropolis, although these ranged from the very open policy of the British regarding the numbers, composition, and nationalities of migrants into their colonies to the severe legal restrictions (however loosely enforced) of the Spanish concerning both who could depart from Spain and who could settle in Spanish colonies.

Underlying these mercantilistic policies were national rivalries and, in the economic sphere, the belief that commerce was a zero-sum game, with the benefits for any one nation coming only at the expense of others. The intensity of national rivalry is also exemplified by the frequency of warfare among European nations, on the European continent as well as elsewhere in the world, including Asia and the Americas. For more than

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<sup>12</sup> There could, however, be some gains to the colonists from being in the Empire, since in some cases the colonies were treated no differently than was the metropolis. The specific legal and political relations of metropolis and colony took many different forms, by nation and over time, and that issue cannot be gone into detail here.

half the years between 1500 and 1850 England was at war with other European nations, mainly its two major economic and political rivals, the Dutch and the French. Between 1701 and 1815 Britain and France were at war more than 50 percent of the time, and these wars spilled over from the European continent to mainland North America, the Caribbean Sea, and to India<sup>13</sup>. The age of Mercantilism saw more than just economic warfare, military warfare also being a central aspect of the empire-building being undertaken by European nations.

Intra-European warfare and the creation of overseas empires occurred against a background process of nation-building and political consolidation in Western Europe, including Britain<sup>14</sup>. This has given rise to the perennial debate among historians as to whether one or the other came first. For some historians, the gains from Empire are seen as a necessary source of finance for nation-building. To others only a strong state could provide the resources and power required to establish an Empire. The complexity of this question is reflected in the fact that some strong nation-states emerged without external empires, as in the nineteenth-century United States<sup>15</sup>. On the other hand, some nations, e.g., Spain and Portugal, with extended empires did not develop a modern state and economy. England's empire grew before, during, and after the Industrial Revolution. Nineteenth-century additions to Empire occurred after Britain was already the world's economic leader, as well as a model of appropriate political structure.

## V. LABOR IN THE BRITISH EMPIRE

The history of the British Empire is marked by important changes and discontinuities. First came the successful rebellion of the mainland North American colonies (except Canada), which led to the formation of an independent United States in 1783, the one major military defeat and

<sup>13</sup> See Wright (1965), pp. 625-676, for a detailed listing of various wars, and Kennedy (1987), for a more general discussion of military conflict and empires.

<sup>14</sup> For a discussion of nation-building in Britain at this time see, most recently, Brewer (1988).

<sup>15</sup> The question here is whether the internal empire of the United States—the westward movement—substituted for the desire for an external empire. With the closing of the internal frontier, it is argued, the need for external expansion finally emerged. The Indians of the United States have been regarded as undergoing difficulties similar to the residents in areas settled by Europeans, leading to a similar historical treatment of this form of imperialism.

loss of territory suffered by the British before the loss of Ireland in 1921. The loss of the thirteen colonies, even had it been by peaceful transition and not warfare, would have imposed some costs on the remainder of the Empire, since after 1783 the United States fell outside the scope afforded by British mercantilist rules<sup>16</sup>. This had an immediate effect upon British West Indian trade, and, along with the adverse climatic conditions of that decade, led to some shortages of food and other supplies on the Caribbean islands. Some scholars point to a change in the focus of the British Empire coming on stream after the American Revolution, with a perceived shift from the «Old Empire» centered on the Americas, primarily areas of white and slave settlement, to a «New Empire» «tipped in favour of the East», based upon «trade and political responsibilities in Asia»<sup>17</sup>. While trade with Asia increased, it did not equal the trade with the British West Indies and Canada until after the middle of the nineteenth century. Furthermore, trade with the United States continued to grow, and exceeded pre-Revolutionary War levels within twelve years of independence. At roughly the same time that a British movement against the transatlantic slave trade emerged, so too did the parliamentary concern with the governance of India. Pitt's India Act of 1784 redefined the relationship between the East India Company and gave considerable powers to the British government to control the activities of the Company.

Equally dramatic were the various charges in the metropolis against slavery. The government ended British involvement in the international slave trade in 1808, and then attempted, by diplomacy and by naval patrols, to end the slave trades of other nations. Legislation weakened the demographic and economic conditions of British colonies. Slave populations failed to experience natural rates of increase, and the closure of the slave trade meant that the slave populations of the West Indies declined. More important in its impact upon the Empire was the abolition of slavery by the British government in 1833. Slavery in the West Indies, Mauritius, and the Cape Colony came to an end in 1834, and was followed by a four-to-six years of apprenticeship. Slavery in India and the smaller eastern colonies persisted legally until 1843 and 1844. Emancipation was

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<sup>16</sup> American independence did, however, indicate the continuing power of the mercantilistic ideas. The new legislation regarding ships, shipping, and trade resembled those of the British, except now presumably in the interests of the former colonies and not of the British metropolis.

<sup>17</sup> See Rose (1968), p. 12. Of particular importance in this transition were the «vast responsibilities in India» (p. 14). See also Marshall (1996), p. 10.



generally followed by large declines in output (particularly of sugar) and in the external trade of these colonies, losses due basically to failure to re-impose plantation systems seemingly essential for the efficient production of sugar. Within several years a new system of labor was introduced to replace plantation slavery, a system that had previously existed in the eighteenth century to facilitate the migration of population from Britain to its North American colonies. The nineteenth-century movement of indentured labor from India, and other low income countries, was generally highly regulated by the British, both in India and in the receiving countries. Mauritius was the first major recipient of Indian indentured labor, but it was only after 1850 that the movements of Indian indentured labor to the Caribbean became important. This form of migration lasted until the early twentieth century, but it had long been a debated issue of Empire policy. Indentured labor was of particular importance in the production of sugar, both in those areas, such as Trinidad and British Guiana, where sugar had previously been grown by slaves, and in parts of the Empire such as Australia, Malaya, Fiji, and Natal, where there had been no previous sugar production or slave labor.

Other legislation also influenced population flows within the Empire. Britain, like most other western European nations, had used the colonies as dumping grounds for convict labor. A half-century of shipping convicts to North America came to an end with the independence of the United States. There then followed an even larger outflow of convicts to Australia, which lasted for approximately three-quarters of a century, by which time the Australian states had legally ended this arrangement <sup>18</sup>.

## VI. BRITISH SETTLEMENTS AROUND THE WORLD

The British Empire began with a movement into the Atlantic Ocean <sup>19</sup>. As with the other nations, some of the earliest settlements were little more than seasonal camps for fishermen, particularly those in Newfoundland

<sup>18</sup> See Ekirch (1987) on the convict shipments to the thirteen colonies. For the shipments of convicts to Australia, see Shaw (1966). Shipment of convicts to overseas colonies was a practice also long-followed by other nations of Europe.

<sup>19</sup> This discussion will include only what has been called the formal empire, under British political control. Prior to 1850 the informal empire, with extensive trading arrangements dominated by the British, was less important than it was to become. According to Cain and Hopkins (1993), Ch. 9-13, the pre-1850 informal empire would include Argentina, Brazil, Egypt and the Ottoman Empire, and China.

in the early sixteenth century, or concessional ports in Asia, where first trading and then political control preceded (outside of Asia) larger-scale settlement. Schemes for colonization were presented in the latter part of the sixteenth century in the hope that a profitable trade with the «American aborigines» would be possible<sup>20</sup>. Nevertheless, settlement by the British people to produce foodstuffs and other goods for export back to England was soon seen as desirable.

The initial British move towards Empire began in Virginia in the first decade of the seventeenth century, and the movement into Barbados and the Lesser Antilles followed in the 1620's. These islands had been left unsettled by the Spanish, with their focus on mainland Latin America. Britain was seldom the sole settler nation, either on the islands or on the mainland, and it often took a century before peaceful ownership was established<sup>21</sup>. The British East India Company was chartered in 1607, but few British settlers went to India, and their share in the overall population under British control continued to be quite small, a dramatic difference from most of the rest of the Empire<sup>22</sup>. Initially, the British role in India was to trade, but dramatic changes occurred after 1784 with the imposition of government oversight over the Company and, eventually, the crown control after the 1857 Mutiny. India's economic role in the Empire included not only the trade in goods, but also the impact of the unbalanced trade in goods, described, alternatively, as «invisible imports» or as the «drain», depending upon whether or not it is argued that there was economic exploitation of India which furthered British industrial development<sup>23</sup>. Major additions in the Asian and Indian Ocean Empire occurred with military conquests, generally from the French or the Dutch, of Ceylon (1796), Mauritius (1810), the Cape Colony (1814), Singapore

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<sup>20</sup> This was the hope of three early writers - Peckham, Hakluyt, and Carleill. See Rose (1960), p. 69. Apparently they were not yet aware of the small numbers and «primitive life» of these Amerindians.

<sup>21</sup> For a brief discussion of Caribbean warfare, and changes in ownership of different islands, see Richardson (1992), pp. 50-62.

<sup>22</sup> It is estimated that the European population of India was less than 0.02 percent of India's population in 1805. Of the approximately 30,000 British, about 70 percent were in the army and six percent in governmental roles. See Maddison (1971), p. 44. According to Martin (1967), the British share rose to about 0.05 percent in 1836. Overall Martin's estimates have only 2.1 percent of the British Empire white, although in the areas of the Americas, including the West Indies, the share was 63 percent white. The Americas had only 2.3 percent of the Empire's total population, but over 70 percent of its white population.

<sup>23</sup> These could include freight charges, insurance, banking services, and the costs of government, as well as unilateral transfers of funds to England.

(1824), Burma (1824), and Hong Kong (1842). In Africa, Sierra Leone became a Crown Colony in 1808, as a result of the failure of the humanitarian Sierra Leone Company's attempts at settlement with ex-slaves after 1787.

Colonies in the Americas also expanded, as a result of settlements on the mainland and in the Caribbean, but also by way of military conquests from other European powers. The most important of these military acquisitions were: Jamaica (from Spain, 1655), New York (from the Dutch, 1664), Canada (from the French, 1763), Trinidad (from the Spanish, 1797), and British Guiana (from the Dutch, 1803). These American territories became colonies of settlement by the British and their African slaves and included few Native-Americans.

Australia's settlement began in 1788, initially with convict labor that could no longer be sent to the mainland North American settlements. Australia had been previously left alone by other European powers so that its colonization did not require conquest from other recent settlers. Over time the share of free and subsidized immigration from Britain increased, and the population inflow from the United Kingdom provided the labor force for developing the colony. Prior to the European arrival in Australia, there had been a substantial (if still debated) number of aborigines, but the aboriginal population suffered from a substantial decline in numbers<sup>24</sup>. The other major area of white settlement in the Pacific Ocean came with the movement into New Zealand in the 1840's.

Although the Empire in the eighteenth and nineteenth centuries expanded by military conquest, the British held on to a number of conquests for only limited periods of time, before returning them to their previous owners, for strategic and diplomatic reasons. Among the areas owned for several years prior to return were the French Caribbean islands of Martinique and Guadeloupe in the late eighteenth and early nineteenth centuries, Spanish Cuba (1761-63) and the Philippines, Dutch Surinam (1799-1816), Curaçao (1810-1814), and Java and other areas in the Dutch East Indies in the early nineteenth century, as well as several African ports.

The one major loss to the British Empire came with the successful revolution of the thirteen North American colonies, an area that had been quite prosperous before achieving independence and was to continue to be so after the Revolution. They soon become one of the major trading partners for the British, becoming their principal source of raw cotton and

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<sup>24</sup> For a recent statement of this debate, see Butlin (1993), Ch. 12-14.

also being a large market for British manufactured goods (despite the imposition of U.S. tariffs)<sup>25</sup>.

## VII. BENEFITS AND COSTS OF COLONIES

Colonies were not costless to acquire, settle, and defend. Frequent and extensive wars led to losses of men and ships, and the diversion of capital and other economic resources from alternative uses. As previously noted, Britain was at war more than one-half of the years in this period, and military activity occurred in Europe, Asia, the Americas, and Africa. The costs of these wars was reflected in the comparatively high rates of taxation paid by the British and in the unusual size of the British public debt, as well as the magnitude of the military and the losses suffered in wartime<sup>26</sup>.

Although the Navigation Acts limited the Dutch control of the New World carrying trade in favor of the British shipping and merchants, their enforcement was at the expense of colonial producers and the European consumers of colonial produce. The Acts may have formed part of the defense of the realm by supporting a mercantile school as a nursery for

<sup>25</sup> This had been predicted by John Lord Sheffield (1770) at the ending of the Revolutionary War. «The solid power of supplying the wants of America, of receiving her produce, and of waiting her convenience, belongs almost exclusively to our own merchants», and «the industry of Britain will encounter little competition in the American market.» This, he argued, was based in part on the easier availability of British credit (p. 5).

<sup>26</sup> The British war casualties and/or deaths in military service were, however, lower than those in France, Austria, Spain, and (per 1,000 population) the Netherlands. See Wright (1965), pp. 656-665. For more on «excess» military deaths, see Dumas and Vedel-Petersen (1923), pp. 25-37, and Hodge (1856), and for a discussion of the costs of the movement of the military into tropical areas, see Curtin (1989). The costs of the Caribbean Wars during the Napoleonic Era are described by Duffy (1987). For discussions of the impact of war financing, see Williamson (1985), Ch. 11 and 12, and Peacock and Wiseman (1961), pp. 35-40. The latter indicates that the ratio of government expenditures to GNP was at its nineteenth century peak in the years between 1800 and the 1830's, being approximately double the ratio for the remainder of the century. For a comparison of taxation in Britain and France in the eighteenth century, see Mathias and O'Brien (1976).

For a general discussion of the economic effects of wars, see O'Brien (1996), while for an early (1691) attempt at measuring the human and property losses due to the «Late Rebellion» in Ireland, estimating «the destruction of people made by the Wars, viz. by the Sword, Plague, and Famine occasioned thereby», see Petty (1899), pp. 149-159 («The Political Anatomy of Ireland»). For a judicious analysis of the effects of wars on British eighteenth century growth, see Ashton (1959), Ch. 3. For a discussion of the wars at the start of that century, see Jones (1983, 1991). See also Deane (1975), and Crouzet (1990), pp. 262-317.

the Royal Navy, but they raised shipping costs and lowered returns in the colonies. Smith's comparison of defense and opulence, and his favoring the former despite the higher cost shipping, suggests an awareness that a price was paid for the substitution of British for Dutch shipping and other commercial services<sup>27</sup>.

Thus it is not obvious that the Navigation Acts provided large net gains to the metropolis. There has been some examination of the effect that the code had had on the mainland colonies and the West Indies in the 1760's and early 1770's, which indicate that they imposed costs on the colonies, primarily through constraints on the direct shipping of colonial exports to Europe. Estimates of these costs turn out to be relatively small, and may have been more than offset by those benefits received by the colonies from membership in the Empire, particularly in the form of defense provided and paid for by the metropolis<sup>28</sup>. Losses to the colonies need not imply a transfer of benefits to the metropolis. Relations between the colonies and the home country cannot be represented as a zero-sum situation, and some legislation meant that both could have ended worse off. For example, while the requirement for transshipment of colonial exports to Europe via Britain provided a boost to British merchants, this requirement also imposed an implicit tax on consumers and the British. The transshipment of goods required deployment of ships and manpower. Thus, the implicit tax paid by the colonists also entailed some real costs to the metropolis in terms of reallocated resources. Whatever the gains to British consumers, in terms of lower prices on these goods, as well as to merchants and shippers resulting from the transshipment provisions of the code, these were not costless to achieve.

Furthermore, the protection of sugar production in the British West Indies effectively precluded the import of French sugar, which was then generally believed to be of lower cost than the British sugar<sup>29</sup>. Thus the protective provision of the Acts led to some redistribution from British

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<sup>27</sup> See Smith (1976), pp. 464-465. On Smith's comment and the related aspects of British naval power, see Baugh (1994). The shipping cost differentials were noted in the mid-eighteenth century by Postlethwayt (1967), and were frequently pointed to by colonial planters, arguing for some offsetting subsidy. See also Harper (1939), Ch. 19.

<sup>28</sup> As Davis and Huttenback (1982) indicate, the tax burden of the colonies was small relative to that in the metropolis. The overall tax burden of the colonists was also probably less than that of most parts of Europe. On British taxes in general, see O'Brien (1988).

<sup>29</sup> A key question is how much of a shift to sugar produced in the French West Indies would have occurred in the absence of British protection. Presumably the availability of sugar produced in the British West Indies would have placed a ceiling on French prices, limiting the possibility of artificially raising the French price to take advantage of their

consumers to planters in the British West Indies, whether the planters were British or not. More specifically, the gains went to those who owned land in the colonies or to the sellers of slaves in Africa, depending on the long-term expectations of those involved in the trade, and how these expectations influenced the prices of both slaves and land. The increased benefits to sugar growers in the British colonies because of the tariff protection would be capitalized in the prices of the scarce resources used to produce sugar —land and slaves. Slave prices in Africa had risen, however, possibly in line with the future New World prices, to the extent that these could be accurately forecast.

### VIII. LABOR FLOWS IN THE EMPIRE

We can examine aspects of the impact of the Empire by looking at its influence on supplies of factors of production to the home economy. Arguments about the effects of the Empire on labor supply included two different variants. At an early stage of expansion, when there was a fear of overpopulation in Britain, the acquisition of new territory to which migrants could go was perceived to have solved two problems —mitigating population pressure in Britain and providing labor for the settlement of overseas areas. The support for outmigration waned with the apparent reduction in the growth of British population and the reduced apprehension of overpopulation that emerged in the eighteenth century. New areas of settlement did, however, serve a useful purpose as recipients of special types of labor that were sent from Britain, particularly convicts and paupers, who were dispatched, first, to mainland North America and then, after independence was achieved, to Australia. The first migrants to the Americas came as part of settlement companies, followed by a large stream of indentured servants, few of whom returned, and these laborers formed the early white population of the thirteen colonies and the Caribbean islands<sup>30</sup>. Unlike the movement to the Americas, that to India was relatively small in numbers and primarily for military purposes. Thus down to the

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enhanced market share. Despite the comparative sizes of the two West Indian empires, the French colonies were clearly producing more output, and growing more rapidly, than were the British through 1790. In 1770, San Domingue alone produced more plantation crops than did the British islands, and if there was any significant link between sugar, slavery, and industrialization, more would have been expected of late eighteenth century France.

<sup>30</sup> The indentured servants and the free migrants from Britain represented a general cross-section of the population, a pattern somewhat similar to that of Spanish America and

end of the eighteenth century the outflow of English population was primarily to North America and, within North America, increasingly to the mainland with a declining share (and absolute amount) going to the earlier settled Caribbean islands<sup>31</sup>.

The loss in population in establishing the overseas Empire was relatively small, both compared with the total British population of the time and, even more dramatically, compared to the labor force within the Empire. In India and elsewhere in Asia this was the case because the political and trading controls established by the British were dependent upon local rulers and resident labor, with no need for further immigration from England or elsewhere. Within the Caribbean there occurred, within a half-century of settlement, a shift from dependence on white labor to the import of slave labor from Africa with the shift from the production of tobacco to that of sugar. A similar shift to increased slave labor, over a somewhat longer time lag and not as complete, also took place in the southern mainland colonies. Unlike in the Spanish areas, however, the Amerindian population formed only a small component of the labor force on the mainland and in the Caribbean.

For both free whites and black slaves, there were extremely rapid rates of natural increase in the mainland colonies, reducing the need for further immigration from across the Atlantic. This pattern differed from that in the British West Indies where both white and black mortality was high, and both suffered from negative rates of natural increase. Given the unfavorable disease environment, the share of whites in the population declined, due to reduced migration from England, and the population of the West Indies became about 90 percent black slave. The slave populations of the British Caribbean (as well as those of the French and Dutch colonies) could be maintained only by continued imports of slaves from Africa, until such traffic became illegal. The need to purchase more slaves from Africa meant further expenditures were necessary to solve the labor supply problem, while the need for further inputs of whites from Britain meant a continued drain of British population from the metropole. The ability

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Portuguese Brazil. See Galenson (1981), Ch. 2; McAlister (1984), Ch. 6, 18. Among the settling European nations, it was only England and France that drew extensively upon indentured labor. For more on European emigration patterns, see the essays in Canny (1994) and in Altman and Horn (1991).

<sup>31</sup> See, for estimates on British migration, Wrigley and Schofield (1981), pp. 219-228, App. 3; and for migration to British North America, Gemery (1980, 1984), and Galenson (1981). For an overview of migration to the Americas, see Eltis (1983). For a summary of the effects in changing skill distributions, see Erickson (1959).

to purchase slaves from Africa was important for the continued prosperity of the West Indies, although it is probable that with some changes (amelioration, etc.) many of the islands continued to be economically viable through the ending of slavery.

Australian economic development depended on migration from Britain, since there was only limited employment of the aborigines, whose numbers had declined sharply with British contact. This flow to Australia in the nineteenth century represented a part of the overall outmigration, which served to reduce the growth of the metropolitan labor supply. Early settlement was dependent on shipments of convict labor, most of which remained after serving their terms. The growing numbers of free and subsidized migrants from England, and the local objections to more convict labor, reversed the relative importance of these different sources of labor. It was only in the second-half of the nineteenth century, with immigrants from India, China, and, most importantly, several of the Pacific islands as contract laborers, that Australia used non-white labor, and even this ended within a short time with the shift to a «white Australia» policy. Another large British colony, the Cape of Good Hope, captured from the Dutch in 1814, had a somewhat more balanced population than did the other British areas. Whites formed about one-third of the overall population, which also included slaves, free blacks, and Africans. More than half these whites were Afrikaners, who had settled there prior to the British take-over, while slaves were about one-quarter of the overall population in 1833, just prior to emancipation.

The labor force within the British Empire came from several different sources and their acquisition involved quite different circumstances. Drawing upon an existing resident population required no direct expenditures by the British, although the military costs of conquest and control formed part of the price paid to obtain this labor. Free migration, paid for by the immigrant, could be costless to most other members of the home population, while convict labor could represent a savings on imprisonment costs, offset by the costs of shipment and relocation. Indentured servants required a payment in the receiving area, to the shipper or whoever bore the transport cost, and those required expenditures by the users of such labor. Migration from Britain was effected by relative returns expected in the Empire and at home. And slaves were not free or inexpensive, but rather required expenditures to meet the cost of enslavement within Africa and the transport to the coast, with payments going to slave acquirers and traders within Africa, and the costs of the



Middle Passage. The cost of slave labor rose over time, and a distinct capital expenditure was required by the colonies to increase the labor force in this manner.

## IX. CAPITAL FLOWS IN THE EMPIRE

Marxists attribute the imperialism of the late nineteenth century to the British need for outlets for excess capital, caused by oversavings relative to domestic capital needs. However accurate (or inaccurate) this claim is for the period after 1850, after the extensive growth of British capital exports, it is not one generally used to explain the rise of the British Empire<sup>32</sup>. Throughout the pre-1800 period the British were a net importer of capital, with most of the funds coming from the Dutch<sup>33</sup>. After the early years of the nineteenth century, Britain became a large exporter of capital to other nations, though this was mainly to Europe and to the United States, as well as to the newly-independent nations of Latin America<sup>34</sup>. Only a relatively small share went to areas within the Empire. While some capital, mainly short-term trade credit, was provided to the North American colonies, it was only after independence, particularly in the 1830's that long-term capital flows to the United States became important. Short-term trade credit provided primarily by Britain and Holland was of considerable importance for the successful operation of the Atlantic economy<sup>35</sup>.

These investments did not all yield satisfactory returns, the Latin American nations defaulted on loans in the 1820's and some states of the United States defaulted in the late 1830's and 1840's. Caribbean plantations also received funds in the colonial period, though much of the capital formation there entailed the use of slave labor for land clearing and preparation. Richard Pares argued over fifty years ago, that even after the initial years of settlement, the West Indian colonies continued to require

<sup>32</sup> See Knorr (1944), pp. 233-234. See, however, the article by Barbara Solow (1985), whose argument on the Eric Williams thesis is premised upon the West Indies as an outlet for excess British capital. Knorr (1944) claims that by the time of Wakefield and Torrens the possibility of redundant capital was thought possible, and that this could be resolved by colonization (pp. 296-307).

<sup>33</sup> See Feinstein (1988), Neal (1990), and Carter (1975).

<sup>34</sup> See Jenks (1927), Edelstein (1982), Ch. 2, Davis and Cull (1994), Ch. 1,2, and Davis and Huttenback (1986).

<sup>35</sup> On the provision of trade credit to the thirteen colonies, and the problems this created, see the writings of Jacob M. Price, particularly (1980, 1991), and Hancock (1995).

capital from Britain, and it is doubtful if profits from sugar planting provided a major source of capital inflow into Britain and made a substantial contribution to the capital formation of the Industrial Revolution<sup>36</sup>. India did not absorb much capital from Britain in this period. Indeed the debate about the so-called «drain» suggests a flow from India to Britain, whether as payment for financial and banking services, freight and carrying trade, or insurance or, rather, a form of British expropriation, that probably remained relatively small<sup>37</sup>. During the formation of the Empire the nature of capital outflows seems to have been quite different than it became between 1873 and 1914.<sup>38</sup>

## X. THE IMPACT OF EMPIRE

Attempts to estimate the benefits and costs of the Empire to Britain pose many problems, theoretically and empirically. Much of the difficulty revolves around the specification of the appropriate state-of-the-world required to understand what could have happened in the absence of imperialism. While often discussed purely in theoretical terms, the specification of alternatives was often made by contemporaries, and is important as a description of the nature of the economy at the time.

A necessary question for historical analysis is whether the economy contained unemployed factors and unutilized resources or, rather, if the economy was in a condition that alternative employment of the resources would have been possible<sup>39</sup>. The need to consider alternatives uses for available resources indicates that the overall gains from, say, increased export demand may not have been large because to meet increased demand some other types of output and uses of factors of production would be

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<sup>36</sup> See Pares (1937), and Pitman (1917), Ch. 6, who contrasts the French and the British West Indies, arguing for the greater needs of the British islands for capital from the metropolis than was the case for the French islands.

<sup>37</sup> See Maddison (1971), pp. 63-66.

<sup>38</sup> On this see, in particular, Hobson (1902), Edelstein (1982), and Cain and Hopkins (1993). Neither Hobson nor Lenin in their writings on imperialism spend much time on the period prior to the 1850's.

<sup>39</sup> The debates among contemporaries often made this distinctions, implicitly if not explicitly. The argued-for advantages or disadvantages of colonies to the home country were generally based upon comparisons with alternative circumstances. For a brief, but informative, listing of the arguments of the advantages, disadvantages, and utility of colonies «to the mother country», see the subject index in Knorr (1944), pp. 425-426. See also Winch (1965). For a discussion of «The Commercial Value of Imperialism», drawing the same distinctions, see Hobson (1902), pp. 28-30.

reduced. For example, there were early arguments that the increased volume of shipping flowing from overseas trade led to a greater utilization of labor and of natural resources (particularly timber) for the construction of ships. If this meant the need to attract labor from elsewhere where it was presently employed, then it might cause the British economy to suffer from shortages of labor in other sectors. Further, there might have been extra costs imposed on the iron industry because of the shortage of timber caused, in part, by the naval and maritime demands<sup>40</sup>.

These questions about the alternative use of resources are also central to debates about the effect of tariffs (explicit or implicit) on imports and import-competing industries, as well as of other governmental policies designed to influence economic development. It is probable that tariffs on imports will increase output in the protected sector of the economy, but it is doubtful if the net effect will be to raise national income or welfare, once allowance is made for the effects of the costs of the tariffs on domestic consumers, and upon other producers, including those producing commodities for export.

## XI. ECONOMIC MODELS TO EXAMINE EMPIRES

The difficulty in formulating precise answers to questions about the impact of policy reflects both the uncertainty about the empirical magnitudes of their effects as well as of the knowledge about the state-of-the-world at the time. The choice of an appropriate model with which to examine these questions has also been a long-standing source of disagreement among economic historians.

The most basic model used to approach questions such as the effects of Empire has been the static equilibrium model, which asks what difference it would have made if a particular demand source (or supply response) had not existed but which ignores dynamic or external effects. Such a

<sup>40</sup> Interpretation of this case is made more difficult, however, by the subsequent linking of innovations in coal-based fuels in the iron industry to the timber shortage. While it may be that shortages generate induced innovations which then lead to economic betterment (as in Habakkuk's (1962) argument about the impact of labor scarcity in the U.S.), this is not an easy argument to generalize, since it is not clear why one set of shortages would have such favorable effects while others would not, or why effects should be favorable in one area but not in another. It places rather heavy weight on the responses of the members of society to perceived difficulties. For a brief discussion of the effects of Britain's early timber shortage, see Nef (1937).

model has been used to analyze movements in labor supply (e.g., to study the effects of migration on the areas of outflow and receipt), as well as changes in savings (and the impact of savings upon investment at home or in the Empire). Its most frequent historiographic use has been in relation to arguments about the external demands for exports. It could be argued that this export demand from the Empire provided for the employment of labor and of other resources that would presumably not have otherwise been utilized or, if utilized, only in uses that yielded lower returns. British income would therefore be higher as a result of export demand than it would have been in the absence of Empire, by an amount possibly as great as the source of demand if no alternative employment possibilities existed, or still positive, but lower if there were other uses, but these were not quite as rewarding. The impacts may be argued to have been even greater if multiplier effects (which also assumes the presence of resources with no or limited alternative uses) were positive, or, if some dynamic effects or externalities were introduced into the assessment, irrespective of the level of unemployed resources.

These questions of alternative possibilities, implicit in any cost accounting exercise for Empire, are obviously extremely difficult to answer, no matter what case one is trying to make in regard to the effects of changes in demand for exports. The same complexities arise in examining the nature of changes in supply and demand for factors of production. Central to any understanding of British economic growth is the explanation for induced, or for exogenous, variations in the labor supply. Were there increased annual amounts of labor input, and, if so, were they due to a shift out of seasonal industries, or to a reduced desire for leisure? If less leisure, was this the result of voluntary choices, in the interests of obtaining more consumer goods, or was the reduction in leisure imposed by some coercive mechanism? The increased demand for consumption, and thus the increased willingness to work may have been, as Malthus claimed, due to the availability of exotic new goods from imperial and/or foreign sources<sup>41</sup>.

Using these models and even with the assumption of unemployed resources, however, the magnitudes of international or of Empire trade

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<sup>41</sup> See Malthus (p. 403). Malthus argues that «one of the greatest benefits which foreign commerce confers, and the reason why it has always appeared an almost necessary ingredient in the progress of wealth, is, its tending to inspire new wants, to form new tastes, and to furnish fresh motives for industry». Presumably domestically produced luxuries could have had a similar effect in increasing the willingness to work longer hours and/or with greater intensity.



remain relatively small compared to the expansion of domestic demand, though the share in the increment to industrial output may have been higher at various times<sup>42</sup>. Thus many of the arguments concerning the necessity of Empire for metropolitan growth prefer to focus on a range of dynamic spinoffs to allow for more significant effects. Yet to substantiate the point about the significance of Empire, it must be argued that the dynamic effects could only occur because of a particular and specified demand pattern, and not because of other economic circumstances. Thus, in some of the arguments heavier weight is given to the impact of less than ten percent of the economy (the share of exports in GNP for most of the eighteenth century), or less than five percent, the even smaller share of exports going to the Empire, since, it is contended that the dynamic influence of the other ninety percent of the economy's expenditure, coming from domestic demand, was limited<sup>43</sup>. The basis of those dynamic impacts from foreign and Empire demands could be: (1) internal to the firm, so that increased demand leads to a lowering of costs<sup>44</sup>. (2) economies

<sup>42</sup> For estimates of the share of exports in British national income, see Crafts (1985), p. 131; Crouzet (1990), pp. 213-261; and O'Brien and Engerman (1991). Leandro Prados de la Escosura (1993), p. 80-81, provides the following rough estimates for shares of export trade in national income in the late eighteenth century: Great Britain, 9.4%; France, 4%; and Spain, between 3% and 7.4%. Peter Emmer (1991) estimates the share of overseas trade in Dutch income at about 10 percent, and its trade with Europe at about one-third of GNP. See also Emmer and Butel, below. The shares of the total exports of the Dutch and French with their colonies were generally below those of the British, Spanish, and Portuguese. For an analysis of Spain's early nineteenth-century empire, and the limited impact upon Spain of its loss, see Prados de la Escosura (1990).

<sup>43</sup> The growth of exports was most rapid after the colonial period, in the second and third quarters of the nineteenth century, the constant price share of exports in national income being almost twice as high in 1851 as in 1801, with a more than doubling between 1841 and 1871. Crouzet (1990), p. 244. While the current price export share was relatively high in 1801, exports were considerably higher than in the preceding years, and it took several decades before the shares of 1801-1802 were consistently exceeded. Crouzet (1990), pp. 243-245; Mitchell and Deane (1962), pp. 281-283.

<sup>44</sup> This argument has frequently been made for the cotton textile industry. But the rapid growth of cotton textile manufacture did not occur until the 1780's, and exports did not exceed domestic consumption until the start of the nineteenth century, both dates after the presumed start of the Industrial Revolution (Crouzet (1990), pp. 226, 251; Davis (1979), pp. 14-16, 65-66). And, in many years through the 1830's, Europe received more than one-half of the export of British cotton goods. Davis (1979), p. 15; Edwards (1967), p. 243; Farnie (1979), Ch. 3. The West Indies were an early source of raw cotton, but after 1800 most came from the United States, no longer a part of the Empire. Davis (1979), p. 41. Thus the contribution of the Empire to the growth of industry via the cotton textile industry was relatively small and as Clapham had indicated, the modern parts of the cotton textile industry generally accounted for only a small part of the economy. See Clapham (1967), pp. 54, 72, 74; Deane and Cole (1962), p. 202; Farnie (1979), Ch. 3. Farnie (1979),

external to the firm but internal to the industry, such as the expansion of wholesale and retail distribution networks as industries expand, based on an increased number of firms, each of limited size; or (3) economies external to the firm and the industry, but internal to the economy, as illustrated by Adam's Smith discussion of the division of labor and George Stigler's analysis of vertical disintegration and increased specialization by firms. These external effects include the creation of many specialized activities in transportation, financing, or industries otherwise reducing transaction costs between firms, and between producers and consumers.

That such developments as external economies, with vertical disintegration and increased specialization, enhanced productivity in the economy, occurred during this period, and made the economy more productive, is not to be doubted. Orders of magnitude have, however, been difficult to determine, and the specific linkages to foreign and to Empire demand compared to internal demand remains problematic. For most industries, including cotton textiles, sales in the home market generally exceeded exports throughout the eighteenth century and, in most cases, afterwards. To focus narrowly on the Empire's contribution to British economic growth, without also detailing the wide diffusion of growth in efficiency and in output throughout the economy, is to miss some essential aspects of the process of British economic growth<sup>45</sup>. The flexibility and adaptability of the domestic firms and entrepreneurs, and the labor force, might serve to distinguish British from other economies of Western Europe, given the relatively smaller differences in shares of external trade and in the nature of the empires at this time than there were in the relative rates of growth of incomes<sup>46</sup>.

## XII. BENEFITS AND COSTS OF EMPIRE

The evaluation of the benefits of Empire are difficult both to describe and to measure. Any attempt to provide a full benefit-cost calculation, which requires measures of the costs of acquiring and maintaining the

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p. 26, estimates that the highest contribution of increased cotton textile production to the increase of national income was about 13 percent, between 1781-83 and 1819-21.

<sup>45</sup> The relevance of balanced versus unbalanced growth models in explaining British economic growth in this period has been studied by McCloskey, Crafts, and Berg.

<sup>46</sup> See the estimates of trade shares in the 1770's for Britain, France, and Spain made by Prados, summarized in footnote 42.

Empire, to see if it was an economically rewarding activity for the nation seems impossible to produce. A focus on the possible gains of Empire in the forms of increased income, power, or prestige can downplay the considerable costs that the Empire imposed on the nation<sup>47</sup>. Furthermore, pointing to the gains of individuals and defining them as gains to the nation will overlook offsetting costs to other individuals due to the policies pursued<sup>48</sup>. These points have been given attention in several implicit benefit-cost examinations of the British economy made at, and for, different time periods. For example, Adam Smith, Jeremy Bentham, James Mill, Karl Marx, J. A. Hobson, and Lance Davis and Robert Huttenback, are only a few among the economists and others who have suggested both that empires were costly to the metropolis, and that much of what some depict as social gains were primarily redistributions among the members of the population<sup>49</sup>. These were not arguments against trade with new areas of settlement, but arguments that the benefits of trade could be obtained without the need to pay the costs of owning or ruling territory and resources overseas.

The costs of Empire that are downplayed include: the costs of the army and navy, and of resources used in warfare, to acquire and defend the Empire; higher taxation than in many other nations, and also higher than in the colonies; the higher prices paid to import protected commodities (e.g., eighteenth century British West Indian sugar rather than sugar produced by the French colonies, and, as was the intent of the original Navigation Acts, higher costs paid for British transatlantic shipping compared to the Dutch). In some cases, moreover, depending upon the nature of market conditions, the benefits may not have gone to the metropolis. While slavery no doubt reduced the cost of sugar to British consumers (relative to the hypothetical costs of sugar produced by free labor) it might have been even more beneficial for British consumers to

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<sup>47</sup> For a detailing of some of the arguments relating colonialism and economic development in Europe, see Landes (1969), pp. 33-39. For a discussion of the evaluation of the benefits and costs of the Navigation Acts, see Harper (1939), pp. 376-378. At present there are no detailed calculations of the relative costs of different empires, and we do not know if, for some reasons, the British had a more expensive empire than did other nations.

<sup>48</sup> In regard to the redistribution aspects of policy regarding empire, it is also important to consider whether gains (and costs) accrue to the state and the treasury, or to private individuals. Depending on where the benefits go and the costs come from, quite different political actions might be introduced.

<sup>49</sup> See, e.g., Knorr (1944), pp. 262-264: «The Interest of the Few versus that of the Many».

have purchased the lower-cost sugar produced by the French slaves. Furthermore, increased British demand for sugar, and for slaves, may have yielded benefits to West Indian owners of plantations, but they would have paid higher prices for imported slaves, and thus passed on some of the benefits to the African suppliers of slaves.

The costs and benefits of Empire certainly varied over time. Thus it has been argued that the early Empire paid, but over time its costs increased and the Empire became less desirable on economic grounds. For example, a famous thesis presented by Eric Williams maintains that the West Indian sugar and slavery complex had been highly profitable, and that it made significant contributions to the British Industrial Revolution throughout most of the eighteenth century<sup>50</sup>. Then, when British economic development led to changes in economic and political structure, and when West Indian sugar production presumably declined due to both the American Revolution and the failure of plantation owners to adopt to new technologies, the British West Indies became either unprofitable or far less profitable, and thus an unnecessary part of the Empire. They became economically expendable, thereby creating conditions for the prohibition of, first, the slave trade and, later, slavery. These arguments remain contested, but they do suggest the returns from Empire varied over time.

There have been several attempts by economic historians to measure the benefits and costs of different parts of the Empire. Estimates for the thirteen colonies in the period just prior to the American Revolution have suggested that, for at least that part of the Empire, there were no significant, if any, positive benefits to Britain. Similar conclusions have also been argued for the economies of the West Indies at about the same time<sup>51</sup>. To some extent these numbers may understate the overall costs of Empire, since

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<sup>50</sup> See Williams (1944), and for a flavor of the ensuing debate, see Drescher (1977), and Solow and Engerman (1987).

<sup>51</sup> The debate on the profitability of the British West Indies between Richard Sheridan (1965) and Robert Paul Thomas (1968) includes some disagreement as to the possible alternative use of resources, some question as to the evaluation of war and military costs, and a disagreement on the relative costs of French West Indian and British West Indian sugar, among other items. Some attribute the lower cost of producing sugar on the French islands to better soil, others to better care of slave labor, and others to a better French colonial policy. Thomas understates the benefits of the West Indies to British colonists because of a failure to allocate the capital gains going to the original landowners on the islands. See also Coelho (1973). On the thirteen colonies, for the debate started by Harper (1939) see, most recently, Sawers (1992). This debate is summarized in Atack and Passell (1994), Ch. 3. Writing in 1803, Henry Brougham (p. 539) finds that earlier the French colonies had been superior to the British and (p. 590) «the French colonies were much more essential to the mother country than the English».



they are based on the contemporary expenditures on the military, and do not necessarily include the costs of warfare to initially acquire and later maintain these colonies. These estimates include the costs of defense, the costs of indirect shipping to European markets, and the costs of diverting colonial resources into different productive sectors due to the tariff-like effects of the Navigation Acts. It might, however, be argued that the defense costs were to provide for unmeasured benefits of national power, necessary for statebuilding at the time, and that potentially productive resources would not have been otherwise utilized without the trade regulations, thus lowering their properly estimated costs.

### XIII. STATE-BUILDING AND EMPIRE-BUILDING

In evaluating the overall benefits and costs of Empire to the metropolitan power, it is necessary to return to the question of the motivation for acquiring new territory. Were the colonies seen as an economic investment, with the costs necessary to achieve these gains, or were the costs paid for non-economic ends, such as power and domination. To numerous contemporaries as well as subsequent scholars, strong economic motivations were involved, but the goals of power, prestige, and other forms of conspicuous consumption also played a major role in justifying Empire-building. Less attention was often paid in these cases to the acquisition and maintenance costs involved. Here distinctions between trade with overseas areas and ownership of the territory overseas becomes important, and the costs of the colonies can be related to higher goals and broadly defined national interests. For example, if it is argued that state-building was aided by the development of an overseas empire, and that without Empire a strong nation-state would not have been possible, then relatively narrow economic considerations might be seen as irrelevant. The basic questions are whether these national objectives are related and if there was some optimum extent of Empire, or time-path of expansion and contraction, that would have served to best meet these objectives.

A central question in linking Empire and state-building is concerned with the relation between the external Empire and the nature of the internal economy. The first successful overseas empires were those of the Spanish and the Portuguese. The Dutch had a rich and highly controlled Asian empire, while the French Caribbean colonies were highly productive, and France had a large military establishment. Thus the British were neither

the first, nor the only, to have a large and apparently profitable set of overseas colonies. Yet Britain became both the first industrial nation and also the nation that had acquired the largest Empire. Perhaps its rather effective domestic economy allowed Britain to effectively acquire an empire. The apparently greater flexibility of the British economy and the nation's liberal political regime also allowed a more growth-oriented pattern of internal and external change. Alternatively, the British may have had somewhat different motives, and were more concerned with economic returns than with satisfying religious or other political aims. Although other colonial powers sought specie and plundered that may suggest a myopic economic strategy rather than the absence of acquisitive motivations.

The analysis of the role of Empire in British economic growth is similar to related debates on the role of foreign trade, here with the relevant foreign trade limited to that within the Empire. This link is not inevitable. Smith and others pointed out that the benefits of foreign trade could be obtained without the costly burdens of Empire. Arguments for the importance of foreign trade, with or without Empire, assume that Britain needed an external source of demand because of the limitations of the home market. Limited internal demand was also part of the debate on the British standard of living, the foreign demands provided for increases in employment that otherwise could presumably not have been achieved in any other way<sup>52</sup>. The source of increased imperial demands remain, however, to be determined, and Deane and Cole argued that the rapid growth in demand for the British goods by the West Indies and the thirteen colonies was not exogenous but could be attributed to the growth of incomes generated by increased demands for colonial products coming from within Britain.

The basic argument for the importance of overseas markets, whether or not they formed part of the Empire, was the increasing ratio of exports to national income. Various refinements to this main measure have been advocated, such as shares of exports to manufacturing production, or, the shares of exports from those modern sectors which had key dynamic impacts for future growth. This makes it important to analyze not only the overall magnitude of the foreign demand, but also the particular areas from which the demand emanated, and the nature of demand patterns in different markets. Nevertheless, the systematic increase in the ratio of exports to income came after the Napoleonic Wars, not in the earlier stages of British industrialization.

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<sup>52</sup> See Engerman (1995) for a discussion of these issues.

The case for the importance of Empire rests on the share of the colonies in the total growth of trade, and the share of imperial trade relative to national income. The assumption is that the the role of the Empire would not have expanded if metropolitan controls over the empire had not influenced trade. Wars and imperial policies clearly influenced the evolution of trade over time, but the contention that Empire mattered also depends on the place of the United States, after it achieved independence, in the argument. It is probable that imperial trade increased its share over the first half of the eighteenth century. Thereafter, given the increased importance of early nineteenth century trade with the United States, the share stabilized. Nevertheless, the share of the Empire in British trade over the eighteenth century was generally less than one-third of total trade, less than 3 percent of total output (except for an unusual period just prior to the start of the American Revolution, when European demands were low). Adding in the so-called informal Empire (besides the United States), would not raise these figures by substantial amounts even in the nineteenth century, with the largest new sources of demand being within the Empire, India and Australia, and also, in the informal empire, South America.

#### XIV. SLAVERY, THE «DRAIN», AND BRITISH ECONOMIC GROWTH

In addition to these arguments about the overall significance of the Empire, arguments are also made about the role of particular parts of the Empire, of particular products, or of particular institutions, labor and other. The most familiar of these is Eric Williams's argument about the importance of the slave trade and slave-produced sugar in the British West Indies. The incomes from sugar production, which were based on the use of slave labor, allowed for increased purchases of goods manufactured in Britain, as well as increasing the pool of investible profits. This argument, linking slavery and capitalism, provides a variant of Marx's primitive accumulation, as well as leading according to Walter Rodney and others, to the underdevelopment of Africa both via the loss in population with the export of labor in the slave trade and the deindustrialization resulting from import of low-cost British manufactured goods in payment for slaves. This latter contention of lowered African incomes due to the slave trade was familiar from the eighteenth century, it being claimed by Postlethwayt and others, that ending the transatlantic slave trade would have greatly

increased European trade with Africa. While Williams's views on the contribution of slavery to industrialization remain debated, as does his economic explanation for abolition and emancipation, he did provide an argument for the shifting economic fortunes of Empire over time that raises important questions for the examination of the full history of Empire.

Similarly, as noted above the argument that the «drain» from India contributed both to British industrialization and Indian deindustrialization has played a similar role in the historiography of India as did the slave trade and slavery for the West Indies. The unbalanced trade between India and Britain was presumably the cause of a shift of funds to Britain to underwrite some of the investment going into industrialization. The magnitude of such an exploitative shift, however, remains uncertain, given the various cost items of shipping, trading, finance, etc., as well as local costs of defense and government within India. As with the Williams thesis, this issue remains debated both as to magnitude and significance. For the eighteenth century it is these two regions —the East Indies and the West Indies plus, prior to independence, the thirteen colonies, that have been considered the key Empire sources of contributions to British growth, at roughly the same time period, although with quite different mechanisms.

## XV. CHANGES IN TRADE AND FACTOR MOVEMENTS

The analysis of the contribution of the role of the control of imperial areas for purposes of directing trade and factor movements in order to promote metropolitan economic growth has presented a number of quite different scenarios. For the second half of the nineteenth century a key argument was the Empire as absorber of investable funds and thereby a needed offset to tendencies to oversavings within Britain, but this has not been claimed for the pre-1850 period. For that era the significant economic issues include the role of trade, both as a source of markets for exports of British manufactured goods and as a source of imports of raw materials, including sugar and other foodstuffs.

The impact on manufacturing has been noted above; here the possible contribution of imports will be mentioned. Malthus claimed that exotic consumption goods would increase the willingness of workers to forego leisure and that this could help explain increases in labor supply. To the extent that increased labor supply was seen as desirable, it does not fit in well with the argument that overpopulation made colonies desirable

as an outlet for surplus labor. While the British did not benefit to the same extent as other colonial empires, particularly the Spanish and the Portuguese, from the mining of gold and silver they did benefit by bullion received from trade with these nations<sup>53</sup>. The import of raw materials for production, as opposed to goods like sugar, tea, and tobacco was a central argument for Empire. At that time it was often applied to naval stores, including timber, not all of which came, however, from Empire sources, Baltic timber being the first major source of this import during the eighteenth century. The West Indian colonies produced raw cotton, but the main supplier to Britain during the major years of cotton textile production after 1800 was a non-imperial source, namely the United States.

In regard to capital flows, Britain probably shifted from being a net capital importer to a net capital exporter at the start of the nineteenth century. By 1800 several sectors of the Empire had been established, and it remains uncertain if the colonies required continued inflows of capital, or if, as a result of their profits, they were either able to meet local investment demands (which often required labor inputs from slaves for land clearing) or even repatriated capital back to the metropolis. That capital was sent from the colonies to the home country need not mean that this represented a net gain from Empire. If the major basis of plantation profits was the restrictive regulations imposed by the British, rather than a net gain to the British Empire, these profits would have represented a redistribution from British consumers. The impact of colonial capital flows on British interest rates and investment, and the possible externalities that these transactions had in making financial institutions more effective, all remain subjects of debate<sup>54</sup>. It appears that Britain did not suffer from a surplus of capital in the period covered, pointing to the need to explain the sharp changes in the level of foreign investment in the middle of the nineteenth century.

There were also changes in the nature of the supply of labor, although Smith and others argued that those had taken place earlier, in the mid-eighteenth century<sup>55</sup>. When overpopulation was seen as a major problem, colonies were considered useful as a source for its relocation,

<sup>53</sup> For a description of bullion movements among the European countries, see Attman (1986).

<sup>54</sup> The «export» of financial services by Britain may also have played a significant role in British gains from the rest-of-the-world. Given mercantilist arguments, however, these were accorded less attention than were the exports of goods.

<sup>55</sup> See, e.g., Coats (1958).

a move which would also help Britain by providing a higher demand for British goods that presumably would not have otherwise existed. There were losses of population by the British, due to free migration, indentured labor, and convicts, primarily to the Americas, with the share going to the mainland increasing over time. Overall these losses were a relatively small share of the British population, and the outflow declined with the eighteenth century recovery of the British economy<sup>56</sup>. But, as noted above, the British Empire was able to get large labor supplies for its colonies either by using the resident population or, as in the West Indies, spending funds to acquire slave labor from Africa. The exceptional case was Australia, but here again the number of migrants before 1850, free or migrant, was only a small share of the British population.

## XVI. WAR AND EMPIRE

The importance of warfare and military operations in promoting economic growth had been argued for by Werner Sombart, and subsequently criticized by John U. Nef and others<sup>57</sup>. Warfare could provide for specific types of demands and innovations that might (or might not) also have had civilian uses. Warfare also absorbed numbers of what might otherwise have been regarded as a surplus population, thus easing potential social problems, but at some cost, morally if not economically. These arguments about the benefits of war depend upon the assumptions of unutilized labor and of other resources if they are to claim a large, beneficial economic impact. Running a large military establishments requires means of control and organization that could be carried forward to business firms, particularly as they increase in size, although this externality is seldom argued for, either at the time or now. These types of «benefits» of war could be argued to occur even without winning, and getting the advantages that come from territorial acquisition, confiscation, or access to laborers. But wars can be fought without requiring an Empire for justification, and it appears that their benefits were often costly in terms of life and property.

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<sup>56</sup> See Wrigley and Schofield (1981).

<sup>57</sup> See the discussion in Nef (1950).

## XVII. CONCLUSION

The absence of any strong conclusion to the questions of the benefits and costs of the Empire should not be too surprising, given the large number of relationships that have been posited and the great difficulty of satisfactory theoretical analysis and empirical measurement. Even determining the most appropriate counterfactual to use remains uncertain. Much of the historical discussion takes the form of treating the question as either-or in regard to Empire, while many contemporaries were concerned with issues involving relatively minor changes to make the system more effective —economically and/or politically. One major suggestion for future work related to this question is an increased attention to war and to the military and human costs of Empire-building, and whether many Europeans might have done better with less Empire and more peaceful activity. A second issue concerns the full life-cycle of Empire, and the costs imposed during the dismantling, voluntary or involuntary, of Empire in the twentieth century.

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